hamborner REIT
ZUKUNFT BRAUCHT SUBSTANZ

RECIPES FOR SUCCESS

ANNUAL REPORT
2018

KEY FIGURES AT A GLANCE (IFRS)

€ thousand		2018	2017	2016
FROM THE INCOME STATEMENT				
Income from rents and leases		83,402	74,085	61,818
Net rental income		73,553	65,357	56,008
Operating result		32,832	29,362	27,655
Financial result		–15,016	–14,855	–14,309
EBITDA		69,262	62,764	54,462
EBDA		54,246	47,909	40,153
EBIT		34,416	32,538	31,730
Funds from operations (FFO)		52,662	44,733	36,078
Net profit for the year		19,400	17,683	17,421
FROM THE STATEMENT OF FINANCIAL POSITION				
Total assets		1,209,806	1,173,503	1,006,760
Non-current assets		1,200,651	1,114,033	922,819
Equity		532,426	548,159	561,311
Equity ratio	in %	44.0	46.7	55.8
REIT equity ratio	in %	56.4	59.0	67.8
Loan-to-value (LTV)	in %	42.5	39.6	30.1
ON HAMBORNER SHARES				
Number of shares outstanding		79,717,645	79,717,645	79,717,645
Basic = diluted earnings per share	in €	0.24	0.22	0.26
Funds from operations (FFO) per share	in €	0.66	0.56	0.45
Stock price per share (Xetra)	in €			
Highest share price		10.08	9.94	10.76
Lowest share price		8.40	8.77	8.36
Year-end share price		8.41	9.90	9.04
Dividend per share	in €	0.46	0.45	0.43
Dividend yield in relation to the year-end share price	in %	5.5	4.5	4.8
Price / FFO ratio		12.7	17.6	20.0
Market capitalisation		670,425	789,205	720,648
THE HAMBORNER PORTFOLIO				
Number of properties		78	74	69
Fair value of property portfolio		1,517,260	1,362,600	1,115,010
Vacancy rate (including rent guarantees)	in %	1.3	1.4	1.3
Weighted remaining term of leases in years		6.2	6.6	6.7
OTHER DATA				
Net asset value (NAV)		860,226	808,944	768,486
Net asset value per share	in €	10.79	10.15	9.64
Number of employees including Management Board		40	37	34

RECIPES

FOR SUCCESS

We continued our growth strategy in 2018 by acquiring five attractive properties. Thanks not least to these investments, HAMBORNER again achieved a first-rate result in the past year. Rental income and FFO climbed to a record level and the value of the portfolio surpassed €1.5 billion.

A key ingredient in our recipe for success is food retailers, which act as reliable core tenants of good credit standing in our large-scale retail properties. Our properties benefit from the magnetic effect that eating and drinking has on people. Good shops mean quality of life. We share the passion for pleasure, and believe that the way to success is through the stomach.

Recipes for success always have a lot of ingredients: We thank our shareholders for their trust and our team for their commitment that makes our outstanding results possible.

BREAD & BUTTER

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Everyone has to eat. And everyone enjoys it. Food retailers combine basic needs with pleasure – and they are enjoying strong growth.

Just take … appetising ideas, fresh concepts, attractive properties and a good sense of location. As core tenants, food retailers are a major draw for our retail centres. It's a recipe for success that turns out right time and time again.

ADD SOME SPICE

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From adzuki beans to zatar: Customers' eating habits can vary enormously. Innovative market concepts offer diversity and reflect trends.

THE ICING ON THE CAKE

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Good shops mean quality of life. Supermarkets are social hubs that attract people and businesses, bringing life to their surroundings.

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TO OUR
SHAREHOLDERS

* also part of the Management Report

HANS RICHARD SCHMITZ

MEMBER OF THE
MANAGEMENT BOARD
HAMBORNER REIT AG

DR RÜDIGER MROTZEK

MEMBER OF THE
MANAGEMENT BOARD
HAMBORNER REIT AG

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

Publishing our 2018 annual report today, we look back on another successful financial year for HAMBORNER REIT AG in which we systematically continued our growth and fully achieved our targets for revenue and income.

Our business activities again focused on the expansion and active optimisation of our property portfolio. Despite the continued high demand on the market for German commercial property, we were able to invest €118.6 million in a total of five modern, high-quality properties that had already gained in value by the end of the year. At the same time, the opportunities afforded by the market environment were seized on and portfolio optimisation was further advanced with the sale of a property 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 €154.6 million to a total of €1.517 billion.

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 €51.3 million to €860.2 million. NAV per share climbed accordingly by 6.3% to €10.79. Income from rents and leases climbed by 12.6% to €83.4 million in total. FFO, the key operating performance indicator, was up by as much as 17.7% year-on-year at €52.7 million. FFO per share increased €0.66, thus exceeding the previous highest value of €0.56 from the previous year.

We likewise have every confidence for the rest of the year. Even under more volatile general economic conditions, we are assuming that the good business performance will continue. The remaining scope for acquisitions of approximately €80 to €100 million available at this time allows further investment over the course of the year with additional potential for increases in rental income and FFO.

In light of the consistently positive business performance, we intend to propose to the Annual General Meeting on 7 May 2019 to increase the dividend for the 2018 financial year from 45 cents to 46 cents per share. This would mark an increase of 2.2% as against the previous year and a dividend yield of 5.5% based on the share price at the end of 2018. In the coming year as well, we intend to continue our sustainable and dependable dividend policy, and to raise our distribution by 2.2% again to 47 cents per share.

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

BÄRBEL SCHOMBERG

CHAIRWOMAN OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN,

HAMBORNER REIT AG continued its growth trajectory in the 2018 financial year, seamlessly building on the successes of the previous year. Taking into account the properties already notarised but not yet transferred, the value of the portfolio was approximately €1.6 billion at the end of 2018. Our shareholders are set to share in the higher operating earnings as we prepare to increase our dividend distribution once again.

Changes in the Supervisory Board

At its meeting on 7 March 2018, the Supervisory Board resolved to make Dr Eckart John von Freyend the Honorary Chairman of the Supervisory Board after the end of the Annual General Meeting on 26 April 2018 in honour of his many years of service to the company.

At the Annual General Meeting on 26 April 2018, at the proposal of the Supervisory Board based on a corresponding recommendation by the Nomination Committee, Mr Rolf Glessing was elected to the company's Supervisory Board in the place of Dr Eckart John von Freyend.

Monitoring management and cooperation with the Management Board

In the 2018 reporting year, the Supervisory Board also regularly advised the Management Board and monitored its work intensively and continuously. In doing so, we received detailed information on all significant business transactions and forthcoming decisions. The Management Board at all times fulfilled its duty to provide information, and 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. Furthermore, at each meeting the Supervisory Board discussed the economic situation, business development and the company's earnings and risk situation. The members of the Supervisory Board always had ample opportunity to scrutinise the reports and proposals for resolutions submitted by the Management Board in committees and Supervisory Board sessions, and to make their own suggestions.

There were four meetings of the Supervisory Board in the 2018 financial year. We also passed resolutions on four investment and divestment 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, letting activities 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 7 March 2018, 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 2017, 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. On the basis of the preceding public invitation to tender and the recommendation of the Audit Committee, we nominated the auditor for the 2018 financial year. We also adopted the agenda for the 2018 Annual General Meeting. The Management Board was again granted non-vested share commitments and a bonus in the context of performance-based remuneration.

The inaugural meeting of the Supervisory Board was held on 26 April 2018 after the Annual General Meeting. At this meeting Dr Mattner was elected as the Deputy Chairman of the Supervisory Board and I was elected as its Chairwoman. Dr Mattner was also elected as a new member of the Executive Committee. At the same time, I was elected as the Chairwoman of this committee and the other members were confirmed in office. Ms Kaufmann-Hocker, Mr Glessing and Mr Heidermann were elected as members of the Audit Committee and Mr Böge was elected as its Chairman. Mr Glessing, Dr Linssen and Dr Mattner were elected as members of the Nomination Committee and I was elected as its Chairwoman.

The meeting on 5 September 2018 addressed the status report of the Management Board on the development of the investments in the 2010 financial year. The Supervisory Board also approved the acquisition of the property in Bamberg.

The planning meeting on 13 November 2018 focused on the company's budget and medium-term planning for 2019 to 2023. The planned revenue and earnings trend was discussed extensively 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 2018 financial year. The Executive Committee met once with the Nomination Committee. The meeting on 23 January 2018 debated and resolved Management Board matters, prepared the resolution of the Supervisory Board on the dividend for the 2017 financial year and nominated a candidate for the vacancy on the Supervisory Board.

The Audit Committee met four times in the 2018 financial year with the auditor in attendance on each occasion. It discussed the 2017 annual financial statements in detail and the 2018 quarterly and half-year reports were explained by the Management Board. The Audit Committee 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 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 2018 financial year

Name	Member since	Total number of meetings (4)	Meetings of the Audit Committee (4)	Meetings of the Executive Committee (1)	Meetings of the Nomination Committee (1)
Dr Eckart John von Freyend (Chairman until 26 April 2018)	2007 to 26 April 2018	1/1	–	1/1	1/1
Bärbel Schomberg (Chairwoman from 26 April 2018)	2011	4/4	–	1/1	1/1
Dr Andreas Mattner (Deputy Chairman from 26 April 2018)	2017	4/4	2/2	–	1/1
Claus-Matthias Böge	2015	4/4	4/4	1/1	–
Rolf Glessing	26 April 2018	3/3	2/2	–	–
Christel Kaufmann-Hocker	2010	4/4	4/4	–	–
Dr Helmut Linssen	2015	3/4	–	1/1	1/1
Mechthilde Dordel	2010	4/4	–	–	–
Wolfgang Heidermann	2013	4/4	4/4	–	–
Dieter Rolke	2012	4/4	–	–	–

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 2018 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 2018. 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 2018 HGB annual financial statements (HGB) and approval of the IFRS separate financial statements

On 20 March 2019, 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 20 March 2019. The 2018 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 2018 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 26 April 2018. 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.

Duisburg, 20 March 2019

The Supervisory Board

Bärbel Schomberg
Chairwoman

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

SUPERVISORY BOARD

Dr Eckart John von Freyend, Bad Honnef
– Honorary Chairman –
(from 26 April 2018)
– Chairman – (until 26 April 2018)
Partner in Gebrüder John von Freyend Vermögens- und Beteiligungsgesellschaft m.b.H.

Bärbel Schomberg, Königstein im Taunus
– Chairwoman – (from 26 April 2018)
– Deputy Chairwoman –
(until 26 April 2018)
Managing Partner at Schomberg & Co. Real Estate Consulting GmbH

Dr Andreas Mattner, Hamburg
– Deputy Chairman – (from 26 April 2018)
Managing Director
ECE Projektmanagement G.m.b.H.

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

Rolf Glessing, Illerkirchberg (from 26 April 2018)
Managing Partner of Glessing Management und Beratung GmbH

Christel Kaufmann-Hocker, Düsseldorf
Independent management consultant

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

Mechthilde Dordel, Oberhausen*
Commercial employee of HAMBORNER REIT AG

Wolfgang Heidermann, Raesfeld*
Technical employee of HAMBORNER REIT AG

Dieter Rolke, Oberhausen*
Commercial 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" for short) 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.

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

In particular, this is done through 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 primarily use the Internet to disseminate significant information and post all important documents on our website in a timely manner.

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 on 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. We also publish information on our planned roadshows and participation in conferences 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 and its implementation were discussed at the Supervisory Board meeting on 13 November 2018. This meeting also discussed current developments in the field of corporate governance and approved the declaration of compliance for the 2018 financial year.

On 6 November 2018, the Government Commission on the German Corporate Governance Code presented a fundamentally revised draft of the Code intended to streamline and restructure its regulations with the aim of further increasing the Code's relevance and its acceptance among companies and investors. After this reform is complete and the new version of the Code is published in the electronic Federal Gazette, the Management Board and the Supervisory Board will intensively address the changes and the necessary resulting adjustments at HAMBORNER.

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. In particular, the expertise in the field of accounting and auditing required by section 100(5) AktG is fully assured by the members of the Supervisory Board Claus-Matthias Böge and Rolf Glessing. Moving ahead as well, the relevant legal provisions and the objectives formulated 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 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 Bärbel Schomberg, Dr Andreas Mattner, Claus-Matthias Böge, Rolf Glessing and Christel Kaufmann-Hocker. 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 2022. As there have been no changes or additions to Management Board recently, its gender quota is not fulfilled at this time.

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 has not yet been met. The deadline for achieving this target is still 30 June 2022.

Compliance management system

The Corporate Governance 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 way that employees think and act. 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 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 2018. 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 2018
Declaration of the Management Board and Supervisory Board
of HAMBORNER REIT AG
on the recommendations of the
Government Commission for the German Corporate Governance Code
in accordance with section 161 AktG

"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 2017, 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 2019.

Duisburg, December 2018

The Management Board The 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 2018 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 2018 financial year:

Date of transaction	Person subject to disclosure requirements	Function	Financial instrument	Price	Total volume	Type of transaction
22 Aug. 2018	Cathrin Winter-Linssen	Natural person closely related to person with management responsibilities	Shares	€9.4200	€9,420	Purchase
11 Dec. 2018	Dr Andreas Mattner	Supervisory Board	Shares	€8.6200	€9,999	Purchase
20 Dec. 2018	Hans Richard Schmitz	Management Board	Shares	€8.6000	€17,200	Purchase
27 Dec. 2018	Doris Weihermann	Natural person closely related to person with management responsibilities	Shares	€8.3356	€41,678	Purchase
28 Dec. 2018	Dr Rüdiger Mrotzek	Management Board	Shares	€8.4828	€19,510	Purchase

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 2018.

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 118/119 and related party information can be found on page 116.

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 2018 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 7 March 2018. 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 that 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. Since the 2015 financial year, the responsible audit partners involved in the audit have been Mr Künemann and Mr Neu, who was also the responsible auditor.

The auditor is appointed for one year only. At the recommendation of the Supervisory Board following a prior invitation to tender, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed as the auditor for the eleventh time at the 2018 Annual General Meeting.

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 €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 €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 €1,020 thousand in each case.

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 2018 financial year broke down as follows:

€ thousand	Dr Rüdiger Mrotzek				Hans Richard Schmitz			
	2018	**2018 (min.)**	**2018 (max.)**	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**	**2017**
Fixed remuneration	269	269	269	240	276	276	276	240
Benefits	32	32	32	30	21	21	21	21
Total	**301**	**301**	**301**	**270**	**297**	**297**	**297**	**261**
Short-term variable remuneration	***125**	**0**	**300**	***125**	***125**	**0**	**300**	***125**
Long-term variable remuneration	**150**	**0**	**720**	**130**	**150**	**0**	**720**	**130**
LTI 1 (2017) Plan ending 2020	–	–	–	65	–	–	–	65
LTI 2 (2017) Plan ending 2020	–	–	–	65	–	–	–	65
LTI 1 (2018) Plan ending 2021	75	0	360	–	75	0	360	–
LTI 2 (2018) Plan ending 2021	75	0	360	–	75	0	360	–
Total	**576**	**301**	**1,321**	**525**	**572**	**297**	**1,317**	**516**
Pension cost	30	30	30	30	30	30	30	30
Total remuneration under GCGC	**606**	**331**	**1,351**	**555**	**602**	**327**	**1,347**	**546**
Performance-based adjustment of the short-term variable remuneration	70	0	0	74	70	0	0	74
Total remuneration	**676**	**331**	**1,351**	**629**	**672**	**327**	**1,347**	**620**

* based on 100% attainment of goals

16,130 virtual share commitments were approved for the Management Board for the 2018 financial year. They are subject to a retention period. Their fair value as at the grant date was €150 thousand.

The table below shows the remuneration allocated for the 2018 financial year:

€ thousand	Dr Rüdiger Mrotzek		Hans Richard Schmitz	
	2018	**2017**	**2018**	**2017**
Fixed remuneration	269	240	276	240
Benefits	32	30	21	21
Total	**301**	**270**	**297**	**261**
Short-term variable remuneration	195	199	195	199
Long-term variable remuneration	124	150	124	150
Other	–	–	–	–
Total	**620**	**619**	**616**	**610**
Pension cost	30	30	30	30
Total remuneration	**650**	**649**	**646**	**640**

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 €323 thousand in the 2018 financial year. The pension provisions recognised for this group of people amount to €3,866 thousand in accordance with IFRS (€3,176 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, her 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 2018 financial year is as follows:

€ thousand	2018			2017		
	Fixed remuneration	Attendance fees	Total	Fixed remuneration	Attendance fees	Total
Dr Eckart John von Freyend	19.1	0.5	19.6	60.0	2.5	62.5
Bärbel Schomberg	54.2	2.0	56.2	39.2	2.5	41.7
Rolf Glessing	20.5	1.5	22.0	0.0	0.0	0.0
Claus-Matthias Böge	37.5	2.0	39.5	38.4	2.5	40.9
Christel Kaufmann-Hocker	27.5	2.0	29.5	27.5	2.5	30.0
Dr Helmut Linssen	30.0	1.5	31.5	30.0	2.5	32.5
Dr Andreas Mattner	37.8	2.0	39.8	19.4	1.5	20.9
Mechthilde Dordel	22.5	2.0	24.5	22.5	2.5	25.0
Wolfgang Heidermann	27.5	2.0	29.5	27.5	2.5	30.0
Dieter Rolke	22.5	2.0	24.5	22.5	2.5	25.0
Total	**299.1**	**17.5**	**316.6**	**287.0**	**21.5**	**308.5**

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.

SUSTAINABILITY AT HAMBORNER

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

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

STRATEGIC SUSTAINABILITY CONCEPT

As an SDAX company, HAMBORNER REIT AG is 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 has positioned itself as an asset manager of commercial properties. Not least on account of our long-term planning and investment horizon, sustainable management is a core element of our corporate governance.

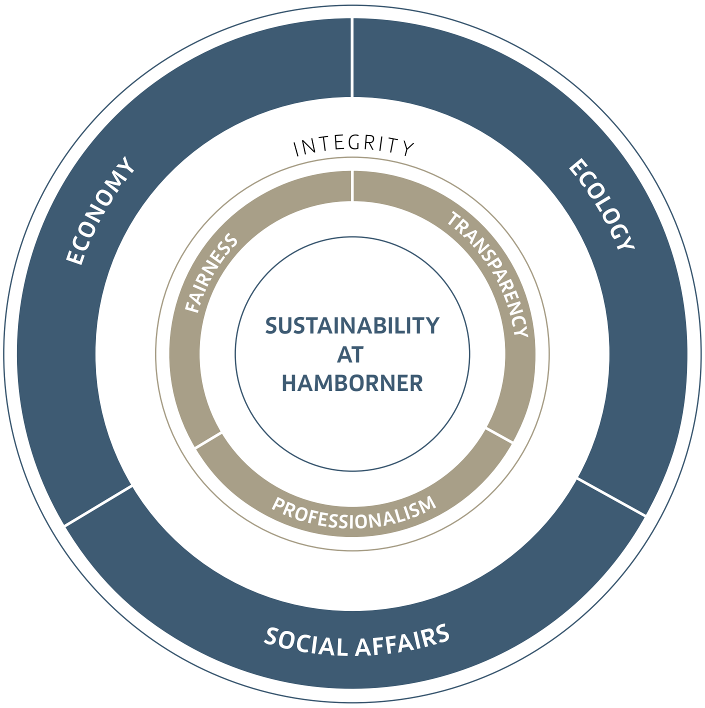
The core element of HAMBORNER's business activities is generating sustainable rental income for distribution to our shareholders in the form of continually higher dividends. Our strategy therefore takes into account all measures and efforts that contribute to generating appropriate and attractive distributions in the long term. The basis for generating sustainable cash flows is a high-quality property portfolio that, even in line with ecological considerations, can be managed cost-effectively and satisfy tenant requirements. Our shareholders, financiers and stakeholders alike value the consideration given to ecological and social aspects in our business activities. Long-term corporate success can be ensured only if, in addition to economic aspects, ecological and social aspects are also implemented in corporate strategy and all business processes.

At HAMBORNER, aspects relevant to sustainability play a key role not just internally, but within the entire value chain as well. We carefully select our business partners and review them with regard to sustainability aspects and compliance with legal provisions and environmental, safety and social standards.

Close ties and intensive dialogues with our stakeholders (shareholders, tenants, suppliers, authorities and employees) form an important basis for our business decisions. Regular active communication makes it possible to take the individual needs of different stakeholders into account, and to identify short- and long-term trends and thereby to adjust corporate and sustainability strategy accordingly.

Our sustainability strategy is formulated and evolved at management level under the direct responsibility of the Management Board. The issues relevant to sustainability and the related processes implemented in the individual divisions and staff offices. We pursue the goal of permanently anchoring and gradually optimising the sustainability approach in corporate strategy.

The following diagram illustrates our concept of sustainability:



The 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.

HAMBORNER bases its implementation of sustainable management on the specifications and guidelines of the German Property Federation (ZIA) and the Global Reporting Initiative (GRI) 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.

SUSTAINABILITY REPORTING

The ZIA and GRI standards form the basis not just for our strategic sustainability concept, but also for our annual sustainability reporting. Our latest sustainability report was prepared in accordance with the revised GRI effective since mid-2018. Our disclosure of sustainability information is therefore still based on current and internationally recognised standards. In line with GRI reporting, there is a stronger focus on – and comprehensive analysis of – the key aspects and indicators relevant to sustainability at HAMBORNER.

SPECIAL ISSUES IN 2018

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 just briefly describe the most important aspects in sustainability in the 2018 financial year.

ECONOMY: Portfolio development and enhancing property quality

We continued to systematically optimise and modernise our portfolio in 2018 as well. In expanding our portfolio, we strictly adhered to economic, ecological and social criteria that were applied to both the acquisition of new buildings and existing properties. All the properties acquired in 2018 were selected taking into account aspects relevant to sustainability and satisfy modern building and energy standards. In addition to the targeted expansion of its property portfolio, HAMBORNER is continuously investing in its existing portfolio to maintain its high-quality standards in the long term and to satisfy its tenants' growing needs. We stepped up our modernisation and maintenance expenditure again in 2018 and invested around €7.4 million in total in our buildings (previous year: €7.2 million). Over the course of the year, as part of planned maintenance work, a number of our portfolio properties were modernised in line with the latest energy standards to ensure the continued rental potential of the buildings in the long term. Maintenance expenses amounted to €5.5 million (previous year: €4.3 million) and capex to €1.9 million (previous year: €2.9 million).

ECOLOGY: Switching to green electricity

In 2018, the course was set for further reducing emissions of greenhouse gas by our portfolio properties, and there was an invitation to tender to supply our properties with shared electricity moving ahead. After the tendering process was completed in spring 2018, we contractually agreed that all existing properties in which HAMBORNER is responsible for providing common areas will be supplied with shared electricity from renewable sources by 2020.

SOCIAL AFFAIRS: Employee development

In the past year, we once again paid special attention to both the quantitative and qualitative development of our staff in the area of social sustainability. To continue our growth trajectory and ensure the company's future success, we need a sufficient number of qualified and dedicated employees at every level of the operation and in every department. In order to bring such employees to HAMBORNER and ensure their loyalty in the long term, we want to position ourselves as an attractive and reliable employer that offers its employees intriguing development prospects. It is therefore important to us that all employees are supported and actively trained in line with their individual ideas and their respective professional requirements. For this reason, we have steadily increased the average hours of continuing professional development in recent years. This is also true for the number of our employees. As we intend to continue our growth, we will also regularly review our personnel capacity in future, actively recruiting for individual divisions and departments as necessary.

HAMBORNER SHARES

General situation on the stock market

The stock market of 2018 will be remembered by investors as volatile and highly political. After six positive years and a promising start to the year, prices slumped on national markets, whilst international markets fell – at times significantly so. After the DAX had ended 2017 at 12,918 points, the index continued its positive development and rose to a new all-time high of 13,597 points by the end of January. In the wake of growing geopolitical and economic uncertainty, in particular in relation to escalating global trade disputes and political and monetary developments in Europe, the DAX repeatedly fell below 12,000 points over the course of the year. In the second half of the year, the markets were further stymied by falling growth forecasts for the global and national economies. After a weak final quarter rocked by intensive fluctuations, the DAX ended 2018 at 10,559 points – a loss of 18.3% and its worst performance since the financial crisis of 2008. The indexes that follow the DAX, the MDAX and the SDAX, also reported significant losses of 17.6% and 20.0% respectively in the past year.

10,559 points
DAX as at 31 December 2018

9,509 points
SDAX as at 31 December 2018

In recent years, property shares have benefited from the positive influence of low interest rates and the search for viable investment options. Despite negative developments on the stock markets and growing uncertainty over ongoing interest rate developments in the euro area, there were some minor price increases in the German property sector. The DIMAX property index compiled by the bank Ellwanger & Geiger, which tracks 55 listed property stocks, climbed by 2.6% in 2018 (previous year: 25.1%). This increase was thanks in particular to the positive performance of residential property shares. However, property shares suffered losses at the European level. The FTSE EPRA / NAREIT Europe ex UK Index, which is published by the European Public Real Estate Association in Brussels, posted a loss of 8.7% in 2018 (previous year: gain of 11.5%).

HAMBORNER REIT AG Shares

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

The company has commissioned HSBC Trinkaus & Burkhardt AG, Düsseldorf, and Oddo Seydler Bank AG, Frankfurt, as its designated sponsors. They ensure that HAMBORNER shares can be traded at all times on the basis of ongoing bid and ask prices. At 30.5 million, the trading volume of our shares was significantly lower than the previous year's level in the 2018 financial year (44.7 million). Accordingly, the average trading volume climbed to around 121 thousand shares per day (previous year: around 176 thousand).

HAMBORNER shares at a glance

		2018	2017	2016
Issued capital	€ million	79.7	79.7	79.7
Market capitalisation*	€ million	670.4	789.2	720.6
Year-end share price	€	8.41	9.90	9.04
Highest share price	€	10.08	9.94	10.76
Lowest share price	€	8.40	8.77	8.36
Dividend per share	€	0.46	0.45	0.43
Total dividend	€ million	36.7	35.9	34.3
Dividend yield*	%	5.5	4.5	4.8
Price / FFO ratio*		12.7	17.6	20.0

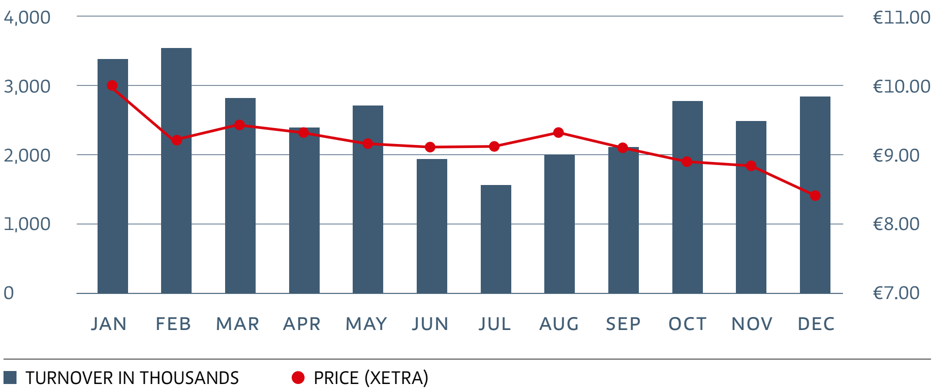
* Basis: Xetra year-end share price

Price performance of HAMBORNER shares in 2018

Like the general performance of the stock market, HAMBORNER's shares were unable to build on the positive development of the previous year. After ending 2017 at €9.90 and reaching their high for the year of €10.08 at the end of January 2018, the share price was impacted by the resurgence in political and monetary uncertainty in line with the general market and industry trend. Between February and September, the price fluctuated between €9.00 and €9.60, putting it below NAV which was €10.00 at the end of the first half of the year. HAMBORNER's shares were unable to break away from the downward market trend that began at the start of the third quarter of 2018, and ended 2018 close to its lowest point for the year at €8.41.

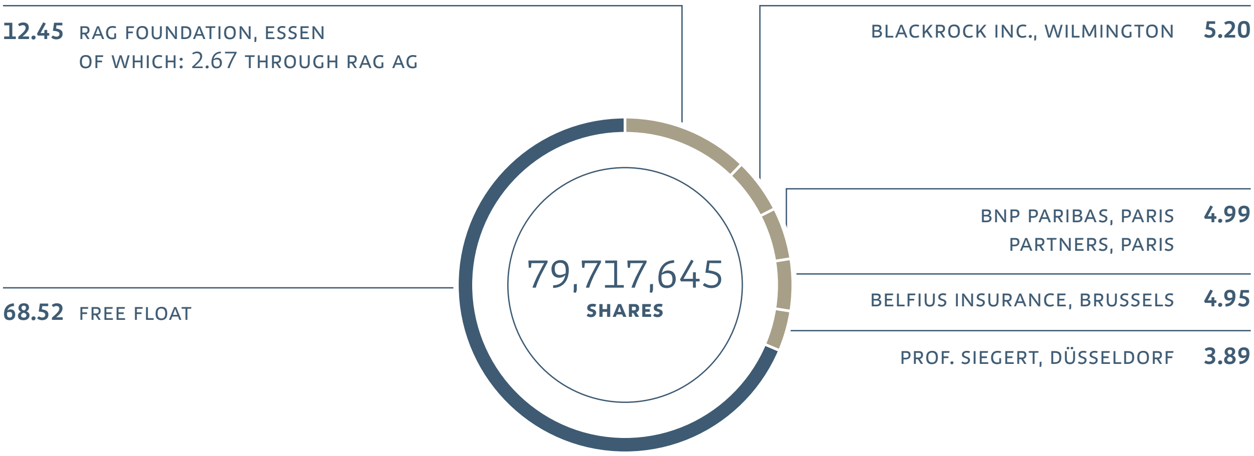
Market capitalisation as at the end of the year was €670.4 million (previous year: €789.2 million).

Development of HAMBORNER shares



Shareholder structure as at 31 December 2018

[in %]



Dividend development at HAMBORNER

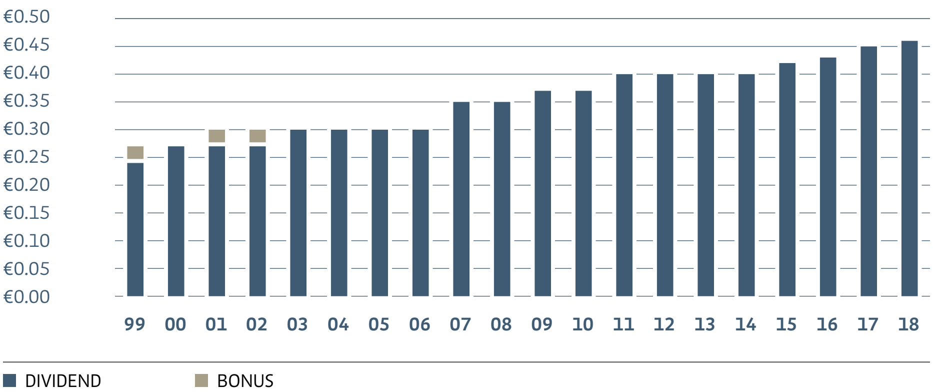
A dividend of €0.46 per share (2.2% higher) will be proposed to the Annual General Meeting on 7 May 2019 for the 2018 financial year. Based on the share price at the end of 2018, this represents a dividend yield of 5.5%.

HAMBORNER has steadily increased its dividend in past years. If the company's situation permits, we also intend to maintain high distribution ratios in future.

5.5 %
dividend yield

46 cents per share
dividend proposal to the 2019 Annual General Meeting

Dividend development



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 regularly report on strategy, current business developments and our company's prospects for the future. Our goal is to give you, our investors, a reliable, transparent impression of our company, enable a fair company valuation and shore up confidence in the company.

In 2018, we held roadshows in Germany, at other European financial centres and in the United States, and regularly attended 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 2018. 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.

Visit our website at www.hamborner.de

Investors, analysts and other capital market participants 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.

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 and the situation of the company 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 2019 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. 2018	31 Dec. 2017
EPRA NAV	860,226	808,944
EPRA NNNAV	835,888	783,159
EPRA earnings	52,662	44,733
EPRA net initial yield	4.6%	4.8%
EPRA topped-up net initial yield	4.6%	4.8%
EPRA vacancy rate	2.3%	1.7%
EPRA cost ratio (including direct vacancy costs)	19.1%	20.1%
EPRA cost ratio (not including direct vacancy costs)	18.8%	19.9%

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. 2018	31 Dec. 2017
	NAV*	**860,226**	**808,944**
–	Derivative financial instruments	–1,642	–2,515
–	Hidden reserves on financial liabilities	–22,696	–23,270
	NNNAV	**835,888**	**783,159**
	NAV per share in €	**10.79**	**10.15**
	NNNAV per share in €	**10.49**	**9.82**

* See page 65 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. 64).

	€ thousand	31 Dec. 2018	31 Dec. 2017
	Earnings per IFRS income statement	**19,400**	**17,683**
+	Changes in value of investment property*	34,846	30,226
–	Profit or losses on disposal of investment properties	– 1,584	– 3,176
	EPRA earnings = FFO	**52,662**	**44,733**
	EPRA earnings per share in € = FFO per share in €	**0.66**	**0.56**

* 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. 2018	31 Dec. 2017
	Fair value of investment property portfolio (net)	1,517,260	1,362,600
+	Incidental costs of acquisition	111,490	98,750
	Fair value of investment property portfolio (gross)	**1,628,750**	**1,461,350**
	Annualised rental income	84,035	77,897
–	Non-transferable property costs	– 9,307	– 7,946
	Annualised net rental income	**74,728**	**69,951**
+	Adjustments for rental incentives	0	11
	Topped-up annualised rental income	**74,728**	**69,962**
	Net initial yield	**4.6%**	**4.8%**
	Topped-up net initial yield	**4.6%**	**4.8%**

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. 2018	31 Dec. 2017
Annualised standard market rent for vacant space	1,944	1,354
Annualised standard market rent for portfolio as a whole	84,328	77,939
Vacancy rate	**2.3%**	**1.7%**

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	2018	2017
	Administrative / operating expenses per IFRS income statement	47,035	41,311
+	Net service charge costs / fees	4,688	4,653
–	Other operating income / recharges intended to cover overhead expenses less any related profits	– 411	– 266
–	Investment property depreciation	– 34,846	– 30,226
–	Ground rent costs	– 612	– 608
	EPRA costs (including direct vacancy costs)	**15,854**	**14,864**
–	Direct vacancy costs	– 240	– 152
	EPRA costs (excluding direct vacancy costs)	**15,614**	**14,712**
	Gross rental income less ground rent costs	**83,198**	**73,881**
	EPRA cost ratio (including direct vacancy costs)	**19.1%**	**20.1%**
	EPRA cost ratio (excluding direct vacancy costs)	**18.8%**	**19.9%**

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.


BREAD


&
BUTTER

SENSE & SENSIBILITY

JUST FILLING UP?

Once upon a time. The joy of food is back: trying new things and enjoying them responsibly – good food adds sense and sensibility to our day-to-day lives. Especially when simple things are enjoyable, everyday eating becomes part of quality of life. This is a lesson that has been learned by both high-end supermarkets and the discount stores, and they are responding with fitting concepts.

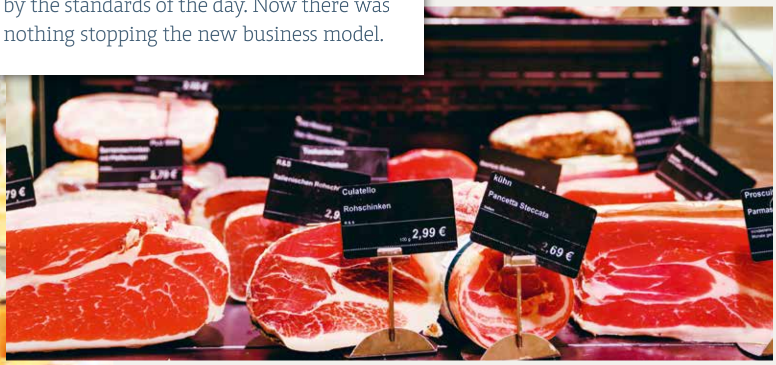
Cooking and eating are a feast for the senses. Appetisingly presented produce on fruit and vegetable stands make our mouths water and stoke our anticipation. Food retailers today go to great lengths to both tempt and inspire us. And figures show that they are succeeding: The industry is benefiting from a rising propensity to spend more on high-quality food.

Compared to the retail industry as a whole in cities and retail centres, strong growth being enjoyed by food retailers sets them apart. Above all, food retailers are benefiting from the considerable shifts taking place within the overall retail scene. While more and more non-foods are being bought online, the food sector has been proving largely resistant to date.

The feel, the smells, appealing presentation and opportunities to try are big motivating factors for going to the supermarket and building trust. Quality-minded consumers especially prefer to witness the freshness and condition of food for themselves. This works best when shops are *on the way to, or close to, where customers live or work.*

The economic miracle made it possible: Choosing from a lavish range became an everyday occurrence.

Help yourself! Self-service changed everything. This crucial principle that makes supermarkets what they are was developed in the United States: In 1930, King Kullen opened the first large store without shop assistants but with a wide variety of goods at reasonable prices. The chain was a huge success and imitators soon sprang up. Retail in central Europe gradually shifted to self-service as prosperity began to grow after the war. Smaller shops were the first. Then, in 1957, the first supermarket based on the US model was opened in Cologne – its 2,000 square metres made it a gigantic temple to consumerism by the standards of the day. Now there was nothing stopping the new business model.



RECIPE

Rye bread with thyme butter

INGREDIENTS FOR BREAD

400 G	WHOLE RYE FLOUR
250 G	STRONG WHITE FLOUR
1 PKG	FRESH YEAST
1 PKG	SOURDOUGH EXTRACT
1 TSP	HONEY
2 TSP	SALT
100 G	SUNFLOWER SEEDS OR COARSELY CHOPPED WALNUTS

INGREDIENTS FOR BUTTER

125 G	BUTTER (SOFT)
1/2	BUNCH OF THYME
1	ORGANIC LEMON
1	CLOVE OF GARLIC
	SALT AND PEPPER

TO PREPARE BREAD:

Knead all ingredients into a dough with 400 ml lukewarm water. Cover and allow to rise around 45 minutes. Knead well and let rise another 45 minutes. Bake for 50 to 60 minutes at 200 °C.

TO PREPARE BUTTER:

Beat butter until creamy. Remove leaves from sprigs of thyme and chop finely. Finely zest lemon peel and crush garlic in a garlic press. Combine thyme, lemon zest and garlic with the butter and season to taste with salt, pepper and lemon juice. Place in a small bowl or form into a roll, then chill. Serve with coarse salt.

3 questions for ...

Dr Rüdiger Mrotzek,
Member of the Management Board
of HAMBORNER REIT AG

Why invest in retail properties with food shops? Large-scale shopping properties and retail centres are a stable asset class characterised by a good risk / return profile. Having food retailers of good credit standing as core tenants on long-term leases means having stable and dependable rental income that forms the basis for our dividend distributions. There is still a demand for local shops, and they have been posting sales growth for years. Spending on basic needs and daily necessities is largely unaffected by periods of economic weakness, while private consumer spending shares in the growth during high times. This benefits our tenants and ultimately us as well as the properties' owner.

What part to location and setting play in an investment decision? A comprehensive location analysis is indispensable when it comes to identifying interesting shopping properties with attractive and sustainable returns. In addition to accessibility and the transport infrastructure, in particular the location's competitive situation and its socioeconomic and sociodemographic framework play an important role. Studies show that accessible locations close to residential areas will always be preferred by consumers. Our investment activities therefore focus on established shopping properties in stable or growing catchment areas with high centrality and positive purchasing power.

In which cities and regions do you anticipate further growth potential? As part of a detailed location analysis, we have identified a number of cities in Germany that are considered highly attractive in terms of centrality, purchasing power, demographic development and future prospects. These are not just the major cities, but also prosperous up-and-coming and university towns, which are primarily in the west, south and southwest of Germany. We intend to augment the regional diversification of our property portfolio moving ahead, predominantly investing in such locations.

FOOD RETAIL: FACTS & FIGURES*

37,700
shops

36.2 million m²
of shop floor

FOOD RETAIL IN GERMANY

generates revenue of around

€160 billion

serves

41 million households

WHAT CONSUMERS EXPECT FROM FOOD RETAILERS

77%	REGIONAL PRODUCTS
64.2%	GMO-FREE PRODUCTS
60.3%	FAIR TRADE PRODUCTS
55.5%	ORGANIC PRODUCTS

AVERAGE NUMBER OF ITEMS STOCKED

DISCOUNT STORES — 1,860

SUPERMARKETS — 10,770

CONSUMER MARKETS — 20,550

HYPERMARKETS — 24,125

* German Retail Federation – Food Retail Report 2018

MANAGEMENT REPORT

BASIC INFORMATION ON THE COMPANY

BUSINESS MODEL OF THE COMPANY

Concentration on the asset classes large-scale retail, commercial 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 essentially consists 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 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, commercial 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, commercial properties in good central locations in cities with high purchasing power and high-quality office buildings. The aspect of sustainability is becoming increasingly important for office properties in particular.

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 excess of €10 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.

>€10 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 commercial 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. 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%.

The company'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 grew for the ninth year in a row in 2018, with gross domestic product rising by 1.5%. However, growth has become less dynamic lately. In particular, factors contributing to this include persistent international risks, such as the smouldering trade conflict between China and the US. Thus, growth stimulus in the past calendar year came mainly from investment, and from private and government domestic consumption, though this growth was also significantly lower than in previous years.

According to the German Federal Statistical Office, consumer prices rose by 1.9% on average in 2018. In turn, the increase was due largely to significantly higher energy prices (up 4.9%). Even adjusting for energy products, the rate of inflation would have been 1.6%. The German labour market continued to develop very well in 2018 against the backdrop of the good economic situation. At 44.8 million, the number of people in employment was 0.6 million higher than the previous year's level. An average of 2.3 million people were unemployed over the year according to the German Federal Employment Agency. This corresponds to an average unemployment rate of 5.2% (previous year: 5.7%).

SITUATION ON THE PROPERTY MARKET IN GERMANY

Retail property market

According to the Federal Statistical Office, (January to November) retail companies in Germany in 2018 generated sales of between 1.4% and 1.5% in real terms and nominally between 3.1% and 3.3% higher than in 2017. Sales in the Internet and mail order segment grew very strongly (up 5.9% in real terms). Food retailers saw a real increase of approximately 1.5%. Textiles, clothing, footwear and leather goods retail declined by 2.1% in real terms.

The rising share of online commerce in combination with declining foot traffic in some areas is impacting German retail.

Retailers that predominantly serve periodic requirements (food, personal and household goods, etc.) have so far proved largely resistant to online incursion, with stable rents and rent revenues. According to studies by various market research companies, so far only around 1% to 2% of food purchases are made online. While online retailers can provide fresh produce, many consumers do not want to have products such as fruit, meat and vegetables delivered, preferring instead to see and choose for themselves before buying. Another problem is the delivery costs for online orders. Many consumers are not willing to pay these costs. Some food retailers have therefore already discontinued delivery services.

Retail rents in Germany's pedestrianised zones are undergoing recalibration, which also entails a significant change in inner-city areas with new concepts and other forms of use. While city centres used to be largely dominated by the fashion industry, a number of other concepts, sectors and users are now pushing their way into more central areas. In particular, large-scale clothing flagships are noticeably coming under pressure. Tenant demand for large areas upwards of around 1,000 m² or for vertical areas over three or more levels is somewhere between stagnation and decline. This is particularly true for the traditional core city centre segment of fashion. Established fashion retailers are now largely only optimising their networks. Retailers for periodic requirements (various metro food outlets, household and personal goods stores) and food concepts are forcing their way into city centres. Two to three years ago, there were usually several potential tenants to choose from when letting good, new inner-city retail space. Now new lettings are proving much more difficult.

According to an analysis by the brokerage agency COMFORT, rents in 2018 were down year-on-year in more than two out of three of the 132 cities surveyed in total. In 67 cities, they were even down by more than 5%. Rent decreases were between 0% and 5% for around 18% of cities. Nevertheless, 28% of cities were still reporting constant prime rents. According to a study by BNP Paribas Real Estate, take-up in the pedestrianised zones of 240 cities surveyed was down by around 8% as against the previous year in 2018.

Including specialist stores, the retail rental market tracked sideways overall while there was a rising trend on the retail investment market in 2018. In this specific situation 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

In the face of rising employee numbers, demand for office space is high among companies. According to JLL, take-up at the big seven German office locations (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart) amounted to around 4.0 million m² in 2018, putting it in all-time second place after 2017. The decline was moderate at 6.5%. 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.

According to JLL, six of the big seven reported a decline in take-up in 2018. Düsseldorf was the only one in the group to post an increase as against 2017 (up 6%). However, Munich and Berlin were the take-up frontrunners again in 2018. The Bavarian capital fell just short of a million again in 2018 at 975,000 m². The decline as against 2017 was relatively mild at 2%. Meanwhile, the drop in take-up in Berlin was slightly more severe, down 11% as against 2017 with approximately 840,000 m² now registered. The biggest contraction in percentage terms was in Stuttgart, at almost 16%.

According to JLL, the average vacancy rate in the big seven at the end of 2018 was 3.6%, 1.1 percentage points lower than at the end of 2017. The vacancy volume fell by a double-digit percentage in each of the big seven over a 12-month period, with the most significant declines in Berlin and Cologne. The Berlin vacancy rate at the end of 2018 was just 2%, and that in Stuttgart was only marginally higher at 2.2%. Meanwhile, vacancies in Munich have slipped below 3% and the figure in Hamburg is less than 4%. 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 in Berlin and downtown Stuttgart have vacancy rates with a one before the decimal point.

According to JLL statistics, approximately 930,000 m² of new office space was built in the whole of 2018. While the volume of construction has risen by around 8% as against the previous year, it remains at a low level.

The disparity between supply and demand for space that has persisted for some time in the form of a high excess demand has seen rents continue to rise in the big seven since 2010. According to JLL, the average increase across all the big seven was 6.4% in 2018. All seven of Germany's leading property markets reported growth, with Berlin and Cologne taking the lead over the twelve-month period with 13% and 7% respectively.

German property investment market

The high on the investment market continued in 2018, and the transaction volume has grown steadily since 2010. 2018 was a record year for commercial property, with this class accounting for around €60 billion. It has therefore tripled since 2010 and grown by more than 6% compared to 2017. Including the "Living" class (residential portfolios, micro-living and care homes), the total transaction volume was around €80 billion, just shy of the top figure reported for 2015 (€80.3 billion).

Investors are clearly focused on the big seven. Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart accounted for substantially more than half the total transaction volume in 2018. Their dominance in the office property asset class is particularly significant. On average since 2012, around 80% has been invested in big seven properties.

Office properties continue to be the most popular asset class, according to JLL, accounting for roughly 37% (around €29 billion) of the total transaction volume. Second place goes to residential property at around 27%. After office and residential properties, retail properties, which accounted for around 13% in 2018, rank third in terms of investor interest. While retail was virtually head-to-head with office properties just a few years ago, the transaction volume is still declining in 2018 at €10.5 billion (a drop of 9% compared 2017). What 2018 was lacking was major shopping centre transactions. Investors were extremely cautious in this segment. Specialist stores and retail parks have emerged as new "investor darlings". They now account for more than 40% of the transaction volume within the retail asset class.

According to JLL, around 42% of the transaction volume related to international sources of capital in 2018, a slight decrease as compared to 2017.

On average for the big seven, prime yields for office properties fell again by 16 basis points as against the end of 2017 to 3.1%. Despite the ongoing debate over online retail, commercial buildings in the top shopping locations of major cities remain a popular albeit very rare investment product. Against this backdrop, yields dropped slightly to around 2.9% across the big seven. 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 to 4.5%. The first segment in which the prime yields are rising again for the first time since the end of 2010 is shopping centres. As at the end of 2018, returns are 4.1% and therefore 20 basis points higher than the low of the last four quarters. Individual consulting firms have calculated that prime yields for retail parks are already lower than those for shopping centres. Logistics properties offered up the strongest decline in yields according to JLL. Prime yields here decreased by 60 basis points over the course of 2018, to currently only 4.1%.

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. Accordingly, in terms of purchase prices, €118.6 million was invested for the acquisition of five properties in Berlin, Bonn, Darmstadt, Düsseldorf and Cologne. At the same time, the company disposed of one property no longer consistent with strategy in 2018. 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 3.0%), the fair value of the property portfolio rose by €154.7 million to €1,517.3 million as at 31 December 2018. Furthermore, in the financial year the company signed three purchase agreements to acquire properties in Aachen, Bamberg and Bonn with a total purchase price of €66.1 million. Ownership had not yet been transferred as at the end of the reporting period.

HAMBORNER's rental volume was 72,817 m² in total in 2018, with new rentals accounting for 12,646 m² and follow-up leases or renewals with existing tenants for 60,171 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)

Income from rents and leases amounted to €83.4 million in the reporting year and has therefore increased by €9.3 million or 12.6% as against 2017 due to new investments in particular. On a like-for-like basis – i.e. comparing the properties that were held in the portfolio throughout 2017 and 2018 – income from rents and leases was up by €366 thousand or 0.6% year-on-year overall at €66.1 million. Uncollectible receivables and individual value adjustments amounted to around €72 thousand in the reporting year (previous year: €248 thousand).

12.6%
rise in income from rents and leases

The economic vacancy rate including agreed rent guarantees was 1.3% (previous year: 1.4%), and therefore still at an extremely low level. Not including rent guarantees, the vacancy rate was 1.8% (previous year: 1.6%).

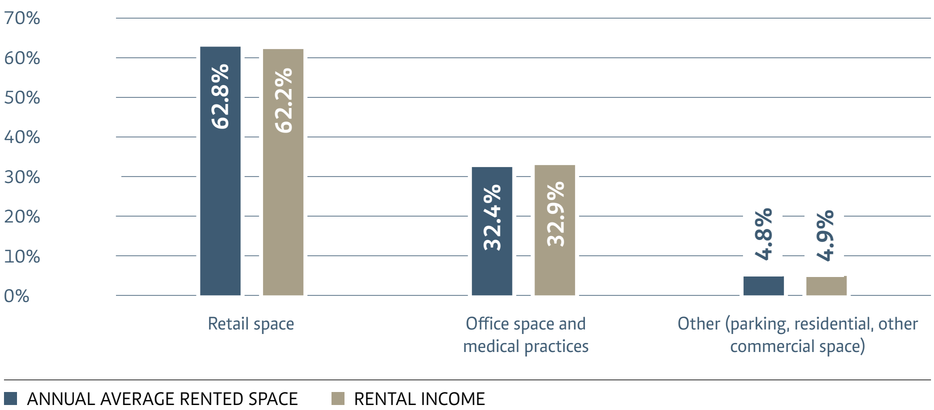
The following table provides an overview of the company's ten biggest tenants:

Company	Rental income in %*
EDEKA Group	11.6
Kaufland Group	6.8
REWE Group	5.6
real,- SB Warenhaus GmbH	5.5
OBI AG	5.1
German Federal Employment Agency, job centre	3.3
NETCOLOGNE Gesellschaft für Telekommunikation mbH	2.1
GLOBUS Fachmärkte GmbH & Co. KG	2.0
Telefonica O² Group	1.7
C & A Mode GmbH & Co. KG	1.6
Total	**45.3**

* according to share of annualised rents

We generate most of our rental income from retail space. The 2018 portfolio breaks down by types of use and contributions to rental income as follows:

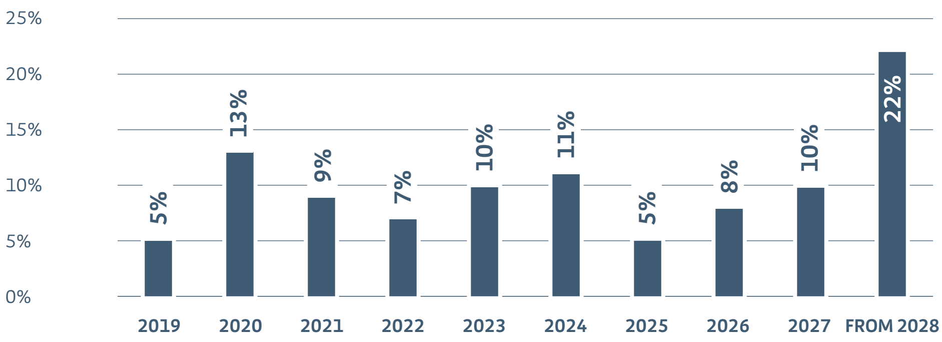
Rental income by asset class



MANAGEMENT REPORT

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

Share of leases expiring



6.2 years
is the average remaining term of our leases.

The remaining term of our commercial rental agreements weighted according to rental income is 6.2 years in total.

Total ***maintenance expenses*** amounted to around €5.5 million in the financial year (previous year: €4.3 million). There were also measures eligible for capitalisation of around €1.9 million (previous year: €2.9 million).

As in the past, extensive work was done in individual projects in the 2018 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 2018:

Biggest maintenance project in 2018: Tenant conversion for Aldi in Hallstadt.

The largest individual measures in the 2018 reporting year related to the conversion of retail space in the centre in Hallstadt acquired in 2017. The renovations had begun in 2017 when the space was let to the new tenant Aldi. This work was completed and the space handed over to the tenant in March 2018. The costs eligible for capitalisation, which were taken into account in the purchase agreement negotiations, amounted to around €1.9 million, with €1.0 million of this relating to the reporting year. 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.

Space was also converted at the Haerder Center in Lübeck. By relocating the customer WC facilities to space that had previously been used for storage on the second floor, we were able to combine the space freed up in the basement with an existing vacancy to create a shop space of 750 m². Work began in November 2018, and the handover to the new tenant KiK is lined up for spring 2019. Total costs eligible for capitalisation of €0.6 million were incurred for this project, €0.4 million of which in the reporting year.

In our office building at Königswall 36 in Dortmund, we carried out renovation work on the ground floor and fourth floor as part of the renewal of the lease for the existing tenant ver.di. This resulted in maintenance expenses of €0.3 million in the reporting year.

At the site of our medical practice in Regensburg, we were able to satisfy the additional space requirements of an existing tenant by converting an area previously used as a bistro into practice space. The costs of renovation work amounted to €0.3 million. In return, the tenant renewed its lease for all rented space until 31 December 2031.

12.5%
increase in net rental income

As a result of a rise in income from rents and leases, ***net rental income*** increased by 12.5% and amounted to €73.6 million (previous year: €65.4 million).

The ***operating result*** was €32.8 million after €29.4 million in the previous year. This rise of 11.8% is due in particular to the higher net rental income. ***Administrative and personnel expenses*** were stable year-on-year at €5.8 million in total (previous year: €5.7 million). The operating cost ratio relative to income from rents and leases was therefore 6.9% (previous year: 7.7%). ***Depreciation and amortisation*** were up 15.3% 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 €33.5 million in the reporting year as against €29.1 million in the previous year. Furthermore, there was an impairment loss of €1.3 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 €1.6 million (previous year: €3.2 million). Details of this can be found on page 58.

EBIT increased accordingly by €2.0 million to €34.5 million after €32.5 million in the previous year.

The ***financial result*** is €– 15.0 million in the year under review as against €– 14.9 million in the previous year. €– 14.8 million of this (previous year: €– 14.6 million) relates to interest expenses for loan finance. While interest expenses from borrowing additional loans for the pro rata debt financing of properties increased by €2.2 million, the like-for-like interest expense on the loans fell by €2.0 million or 15.5%. In particular, this was as a result of significantly lower interest rates on renewed or refinanced loans. After deducting the financial result from EBIT, the ***net profit for the year*** amounted to €19.4 million (previous year: €17.7 million).

Net asset situation (IFRS)

Properties account for around 99 % of our assets.

The **total assets** of the company increased by €36.3 million to €1,209.8 million (previous year: €1,173.5 million) as at 31 December 2018. Around 99% of assets are accounted for by our properties. The total property assets recognised at depreciated cost had a carrying amount of €1,195.6 million as at 31 December 2018 (previous year: €1,109.2 million) and break down as follows:

€ thousand	31 Dec. 2018	31 Dec. 2017
INVESTMENT PROPERTY		
Developed property assets	1,191,340	1,104,882
Incidental costs of pending acquisitions	4,008	3,951
Undeveloped land holdings	224	402
TOTAL REPORTED PROPERTY ASSETS	**1,195,572**	**1,109,235**

Unless stated otherwise, we use the term ***"property portfolio"*** below to refer to our developed property assets, which are reported under ***"Investment property"*** in the statement of financial position.

Performance of the property portfolio

Third-party valuation of our property portfolio by JLL

Our property portfolio was again valued by a third-party expert as at the end of 2018. 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).

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 – 2019 to 2028. 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 4.00% and 8.25% and take into account the respective risks specific to the property.

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 €1,517.3 million, an increase of €154.7 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 €125.8 million, fair value disposals of €11.1 million due to sales and a year-on-year increase in fair value due to the remeasurement of the portfolio of €40.0 million. This corresponds to a like-for-like increase in portfolio value of 3.0%, €18.2 million which of which is attributable to NuOffice in Munich, the office property on EUREF Campus in Berlin and the mixed-use office and retail property in Karlsruhe. The remeasurement and appreciation of the properties as at 31 December 2018 highlights the high quality of HAMBORNER 's property portfolio.

Around €1.5 billion: value of our portfolio as at 31 December 2018

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 €1.3 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. 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, commercial properties and offices while at the same time maintaining regional diversification. In line with this strategy, there were new investments in the 2018 financial year, not including incidental costs of acquisition, of €118.6 million (previous year: €214.5 million). In keeping with strategy, the new investments focused on the asset classes described above. The fair value of the properties added in 2018 amounts to €124.0 million in total as at 31 December 2018, and therefore €5.4 million more than the purchase prices. Specifically, the following five properties were transferred to our portfolio in the reporting year:

€119 million investment volume for acquisition of five properties

City	Address	Building use	Area in m²	Rental income p. a. in € thou.	Purchase price in € m
Berlin	Landsberger Allee 360–362	DIY store	16,390	1,708	32.1
Bonn	Basketsring 3	Food retail	4,934	758	13.8
Darmstadt	Leydhecker Str. 16	Office and retail property	19,414	2,484	42.8
Düsseldorf	Harffstr. 53	Food retail	5,343	552	9.7
Cologne	Unter Linden 280–286	Retail centre	6,533	1,027	20.2
			52,614	**6,529**	**118.6**

Furthermore, three further purchase agreements were notarised in 2018 for properties in Aachen, Bamberg and Bonn with a total purchase price volume of €66.1 million, ownership of which had not yet been transferred as at the end of the reporting period. The properties in Aachen and Bonn are project developments for which the properties have yet to be built by the seller.

City	Address	Building use	Expected rental income p. a. in € thou	Purchase price in € m	Expected transfer of ownership
Aachen	Grüner Weg	Office property	1,464	28.3	End of 2019
Bamberg	Starkenfeldstr. 21/ Pödeldorfer Str. 138	Office and retail property	824	15.0	Mid-2019
Bonn	Am Krähenhorst 1	Office property	1,209	22.8	End of 2019
			3,497	**66.1**	

Portfolio disposals
After having already sold various properties no longer consistent with strategy in the previous years, we streamlined our portfolio further with one disposal in 2018. This was a property in Brunnthal that is used by the sole tenant for production and administrative purposes. The sale price is €11.2 million with a residual carrying amount of €10.2 million. The annual rental income amounted to €1.0 million.

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.

78 properties at
60 locations

Property portfolio as at 31 December 2018
After the changes described above, the property portfolio comprised 78 properties as at the end of the year under review. The properties are predominantly in large and medium-sized cities at 60 locations in Germany and have a total usable area of 609,436 m², almost all 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.


KIEL
SCHLESWIG-HOLSTEIN
LÜBECK
MECKLENBURG-WESTERN POMERANIA
HAMBURG
HAMBURG
OLDENBURG
BREMEN
BREMEN
LÜNEBURG
BERLIN
MEPPEN
LOWER SAXONY
BERLIN
CELLE
OSNABRÜCK
RHEINE
SAXONY-ANHALT
BRANDEN-BURG
MÜNSTER
HERFORD
LEMGO
NORTH RHINE-WESTPHALIA
GÜTERSLOH
GELDERN
OBERHAUSEN
DORTMUND
KREFELD
RATINGEN
DÜSSELDORF
HILDEN
SOLINGEN
LÜDENSCHEID
LEIPZIG
LANGENFELD
LEVERKUSEN
THURINGIA
SAXONY
COLOGNE
FREITAL
AACHEN
BONN
SIEGEN
HESSE
GIESSEN
NEUWIED
KOBLENZ
BAD HOMBURG
HANAU
FRANKFURT
WIESBADEN
RHINELAND-PALATINATE
NEU-ISENBURG
HALLSTADT
BAMBERG
BAYREUTH
DARMSTADT
MANNHEIM
SAAR-LAND
KAISERSLAUTERN
ERLANGEN
MOSBACH
FÜRTH
BAVARIA
KARLSRUHE
REGENSBURG
DITZINGEN
STUTTGART
INGOLSTADT
PASSAU
TÜBINGEN
OFFENBURG
BADEN-WÜRTTEMBERG
AUGSBURG
MUNICH
VILLINGEN-SCHWENNINGEN
FREIBURG
PORTFOLIO
TRANSFER OF POSSESSION IN 2018
NOTARISED, TRANSFER OF POSSESSION AFTER 31 DECEMBER 2018

LIST OF PROPERTIES (AS AT 31 DECEMBER 2018)

Year of acquisition	Property		Building use	Property size in m²	Useable area m²
1976	Solingen	Friedenstr. 64	Supermarket	27,344	7,933
1981	Cologne	Von-Bodelschwingh-Str. 6	Supermarket	7,890	3,050
1983	Wiesbaden	Kirchgasse 21	High street	461	1,203
1984	Frankfurt / Main	Steinweg 8	High street	167	594
1986	Frankfurt / Main	Königsteiner Str. 69a, 73–77	Supermarket	6,203	2,639
1987	Oberhausen	Marktstr. 69	High street	358	523
1987	Lüdenscheid	Wilhelmstr. 9	High street	136	499
1988	Dortmund	Westfalendamm 84–86	Office property	1,674	2,684
1991	Dortmund	Königswall 36	Office property	1,344	2,990
1997	Augsburg	Bahnhofstr. 2	High street	680	1,445
1999	Kaiserslautern	Fackelstr. 12–14, Jägerstr. 15	High street	853	1,444
2000	Gütersloh	Berliner Str. 29–31	High street	633	1,292
2001	Hamburg	An der Alster 6	Office property	401	1,323
2002	Osnabrück	Grosse Str. 82 / 83	High street	322	750
2003	Leverkusen	Wiesdorfer Platz 33	High street	809	675
2004	Oldenburg	Achternstr. 47 / 48	High street	413	847
2006	Krefeld	Hochstr. 123–131	High street	1,164	3,668
2007	Münster	Johann-Krane-Weg 21–27	Office property	10,787	9,540
2007	Neuwied	Allensteiner Str. 61 / 61a	Retail centre	8,188	3,501
2007	Freital	Wilsdruffer Str. 52	Supermarket	15,555	7,940
2007	Geldern	Bahnhofstr. 8	Supermarket	12,391	8,749
2007	Lüneburg	Am Alten Eisenwerk 2	Supermarket	13,319	4,611
2007	Meppen	Am Neuen Markt 1	Supermarket	13,111	10,205
2007	Mosbach	Hauptstr. 96	Supermarket	5,565	6,493
2007	Villingen-Schwenningen	Auf der Steig 10	Supermarket	20,943	7,270
2008	Rheine	Emsstr. 10–12	High street	909	2,308
2008	Bremen	Hermann-Köhl-Str. 3	Office property	9,994	7,154
2008	Osnabrück	Sutthauser Str. 285–287	Office property	3,701	3,831
2008	Bremen	Linzer Str. 7–9a	Office property	9,276	10,269
2008	Herford	Bäckerstr. 24–28	High street	1,054	1,787
2008	Freiburg	Robert-Bunsen-Str. 9a	Supermarket	26,926	9,253
2009	Münster	Martin-Luther-King-Weg 18–28	Office property	17,379	13,792
2009	Hamburg	Fuhlsbüttler Str. 107–109	Office and retail property	1,494	3,028
2010	Erlangen	Wetterkreuz 15	Office property	6,256	7,343
2010	Hilden	Westring 5	DIY store	29,663	10,845
2010	Stuttgart	Stammheimer Str. 10	Supermarket	6,853	6,395
2010	Ingolstadt	Despagstr. 3	Office property	7,050	5,623
2010	Lemgo	Mittelstr. 24–28	High street	2,449	4,759
2011	Bad Homburg	Louisenstr. 53–57	High street	1,847	3,169
2011	Leipzig	Brandenburger Str. 21	DIY store	33,916	11,139
2011	Regensburg	Hildegard-von-Bingen-Str. 1	Medical practice	3,622	8,945
2011	Langenfeld	Solinger Str. 5–11	High street	4,419	6,142

Rent in 2018 (incl. rent guarantees) in €	Weighted remaining term of leases in months	Fair value in €*	Discount rate in %	Capitalisation rate in %	Other comments
1,522,852	16	17,710,000	6.35	5.80	Leasehold property
435,402	96	8,140,000	5.45	4.75	
618,023	54	13,750,000	4.90	4.20	
385,249	65	9,740,000	4.00	3.50	
348,702	58	6,250,000	5.70	4.90	
48,000	13	810,000	8.10	7.25	
33,600	30	460,000	7.50	7.00	
221,244	132	3,650,000	6.30	5.60	
368,931	89	6,770,000	5.60	5.00	
486,321	53	9,010,000	5.10	4.60	
305,558	22	4,790,000	6.50	5.70	
380,703	19	3,280,000	6.75	5.50	Leasehold property
272,238	31	5,250,000	5.25	4.65	
306,000	40	6,330,000	5.75	5.00	
66,482	51	1,390,000	7.00	6.10	
263,069	51	5,130,000	6.00	5.10	
491,735	42	9,170,000	6.10	5.30	
1,181,444	19	20,570,000	6.10	5.45	
398,267	70	5,510,000	7.95	6.50	
783,647	34	10,890,000	7.10	6.25	
863,387	21	11,680,000	6.25	5.40	
455,031	34	6,870,000	6.60	5.75	
1,007,121	21	14,280,000	6.20	5.50	
640,763	10	4,000,000	8.25	6.25	
250,000	84	2,930,000	6.70	6.25	
272,470	40	3,770,000	7.50	6.60	
634,762	8	10,150,000	6.90	6.20	
503,034	34	7,810,000	6.75	6.10	
1,123,229	22	17,750,000	7.35	6.10	
219,140	42	3,280,000	6.50	5.65	
1,152,915	126	14,100,000	6.20	5.50	Leasehold property
1,690,001	61	27,880,000	6.10	5.40	
496,119	70	8,930,000	5.75	5.00	
1,246,756	21	18,070,000	6.30	5.65	
899,883	63	12,550,000	6.85	6.25	
1,200,000	114	21,910,000	5.25	4.75	
886,456	29	15,830,000	5.90	5.30	
504,641	23	7,320,000	7.15	6.10	
810,351	53	16,600,000	5.90	5.00	
889,528	70	14,010,000	6.10	5.65	
1,467,050	70	26,560,000	6.00	5.25	
1,144,062	31	18,110,000	6.10	5.50	

LIST OF PROPERTIES (AS AT 31 DECEMBER 2018)

Year of acquisition	Property		Building use	Property size in m²	Useable area m²
2011	Erlangen	Allee am Röthelheimpark 11–15	Office and retail property	10,710	11,639
2011	Offenburg	Hauptstr. 72/74	High street	1,162	5,150
2011	Freiburg	Lörracher Str. 8	Supermarket	8,511	4,127
2012	Aachen	Debyestr./Trierer Str.	DIY store	36,177	11,431
2012	Tübingen	Eugenstr. 72–74	Supermarket	16,035	13,000
2012	Karlsruhe	Mendelssohnplatz 1/Rüppurrerstr. 1	Office and retail property	10,839	15,152
2013	Munich	Domagkstr. 10	Office property	5,553	12,257
2013	Berlin	Torgauer Str. 12–15	Office property	3,100	12,642
2013	Bayreuth	Spinnereistr. 5a, 5b, 6–8	Office property	8,297	9,036
2013	Hamburg	Kurt-A.-Körber-Chaussee 9	DIY store	20,330	10,408
2014	Bad Homburg	Louisenstr. 66	High street	1,447	3,240
2014	Koblenz	Löhrstr. 40	High street	1,386	3,314
2014	Siegen	Bahnhofstr. 8	High street	1,419	7,112
2015	Aachen	Gut-Dämme-Str. 14/Krefelder Str. 216	Office property	3,968	10,059
2015	Celle	An der Hasenbahn 3	Retail centre	56,699	25,772
2015	Gießen	Gottlieb-Daimler-Str. 27	Retail centre	46,467	18,016
2015	Fürth	Gabelsbergerstr. 1	Retail centre	7,273	11,507
2015	Berlin	Tempelhofer Damm 198–200	Office and retail property	6,444	6,270
2015	Neu-Isenburg	Schleussnerstr. 100–102	Office and retail property	9,080	4,249
2016	Lübeck	Königstr. 84–96	High street	4,412	13,402
2016	Ditzingen	Dieselstr. 18	DIY store	22,095	10,036
2016	Mannheim	Spreewaldallee 44–50	Retail centre	103,386	28,381
2016	Münster	Martin-Luther-King-Weg 30/30a	Office property	4,986	3,317
2016	Dortmund	Ostenhellweg 32–34	High street	2,908	9,210
2017	Cologne	Am Coloneum 9/Adolf-Grimme-Allee 3	Office property	15,461	26,517
2017	Hallstadt	Michelinstr. 142	Retail centre	41,829	21,711
2017	Berlin	Märkische Allee 166–172	Other large-scale retail	17,264	6,529
2017	Ratingen	Balcke-Dürr-Allee 7	Office property	4,476	10,508
2017	Hanau	Otto-Hahn-Str. 18	Retail centre	37,527	14,151
2017	Kiel	Kaistr. 90	Office property	2,049	6,738
2017	Passau	Steinbachstr. 60–62	Retail centre	7,002	4,292
2018	Bonn	Basketsring 3	Supermarket	10,823	4,934
2018	Düsseldorf	Harffstr. 53	Supermarket	10,360	5,343
2018	Cologne	Unter Linden 280–286	Retail centre	21,873	6,533
2018	Darmstadt	Leydhecker Str. 16	Office and retail property	35,460	19,414
2018	Berlin	Landsberger Allee 360–362	DIY store	37,968	16,390
				952,295	**609,436**

* As per JLL appraisal as at 31 December 2018
** Pro rata temporis rents from transfer of ownership

Rent in 2018 (incl. rent guarantees) in €	Weighted remaining term of leases in months	Fair value in €*	Discount rate in %	Capitalisation rate in %	Other comments
1,865,602	47	33,170,000	5.90	5.40	
557,944	74	9,410,000	5.80	5.25	
860,000	130	16,450,000	5.25	4.70	
1,236,000	99	19,480,000	6.40	5.80	
1,600,000	132	29,280,000	5.80	5.40	
2,467,312	38	45,390,000	5.50	4.75	
2,462,185	56	63,500,000	4.50	4.00	
2,258,259	61	58,110,000	4.90	4.15	
1,408,930	47	22,650,000	6.05	5.50	
1,248,272	119	20,280,000	6.15	5.60	
626,184	24	10,530,000	6.10	5.35	
705,559	25	11,000,000	6.00	5.40	
856,380	96	15,360,000	6.00	5.50	
1,720,509	132	31,540,000	6.00	5.45	
2,322,301	118	44,160,000	5.25	4.65	
2,348,999	62	31,940,000	6.80	5.90	
1,786,843	114	30,000,000	5.40	4.90	
1,307,467	105	25,790,000	5.00	4.50	
798,357	147	15,240,000	5.40	4.85	
3,197,168	59	53,050,000	6.00	5.15	
929,040	207	16,070,000	6.75	6.00	
4,119,551	72	82,930,000	5.00	4.50	
437,253	63	7,550,000	5.95	5.25	
1,691,902	62	33,510,000	5.15	4.70	
2,772,050	57	53,400,000	5.90	5.00	
2,446,955	77	46,500,000	5.25	4.65	
911,110	82	18,100,000	5.10	4.40	
1,939,801	82	36,200,000	5.60	5.00	
2,038,030	162	40,530,000	5.00	4.50	
1,227,962	105	23,170,000	5.75	5.20	
873,901	125	16,010,000	5.70	5.00	
756,249 **	108	14,400,000	5.20	4.65	
550,516 **	108	10,500,000	5.25	4.5	
1,030,046 **	90	21,160,000	4.85	4.25	
1,650,572 **	77	45,580,000	5.85	4.85	
147,078 **	138	32,330,000	5.35	5.10	
82,430,445		**1,517,260,000**			

Financial position (IFRS)

The company's financial situation is very comfortable. ***Cash and cash equivalents*** amounted to €7.8 million as at the end of the reporting period after €58.1 million as at 31 December 2017. In particular, the cash inflows in the financial year resulted from operating activities (€67.2 million; previous year: €59.5 million) and the borrowing of loans (€96.4 million). Payments essentially relate to investments in the property portfolio (€132.7 million), dividend payments for the 2017 financial year (€35.9 million) and interest and principal payments (€57.3 million).

In particular, the funding requirements for the 2019 financial year are secured by the forecast proceeds from operating activities. The company also had unutilised loans of €70.6 million at its disposal as at 31 December 2018. For a period of ten years, these loans will incur interest at around 1.6%.

44.0%
reported equity ratio

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 €532.4 million after €548.2 million in the previous year. The company therefore has an accounting equity ratio of 44.0% (previous year: 46.7%). ***Financial liabilities and derivative financial instruments*** amount to €651.5 million, up €53.3 million on the previous year's figure (€598.2 million). In particular, the rise is due to the loans of €96.4 million borrowed in the reporting year for the pro rata debt financing of property acquisitions. €75.0 million of this relates to promissory note loans issued with terms of five and seven years. A further €18.0 million related to borrowing from the refinancing of loans. Furthermore, loans of €5.0 million were utilised in connection with the financing of property acquisitions. The new borrowing was offset by scheduled repayments of €18.2 million and loan repayments of €23.7 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 €646.2 million (previous year: €541.7 million). Comparing net financial liabilities to portfolio fair value, the company has an LTV ratio of 42.5% (previous year: 39.6%).

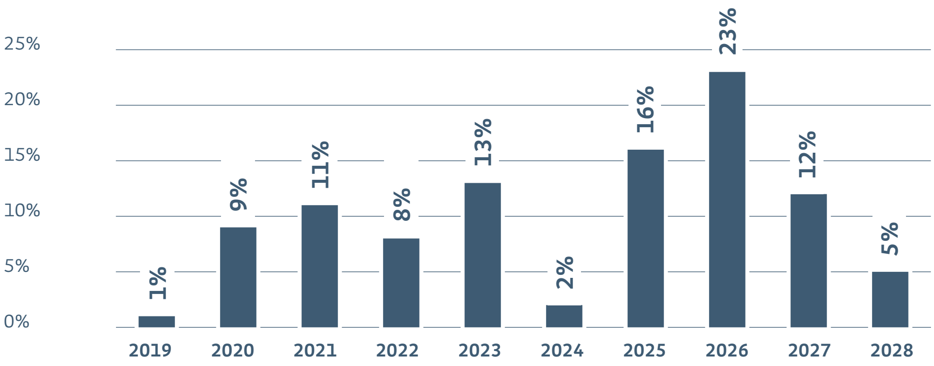
The development of interest rates is highly significant to the company in terms of its financial position. In order not to be subject to short-term interest rate risks, as far as possible we have arranged fixed, long-term conditions for the financing of our investments. We have interest swap agreements in place to fully hedge against interest rate fluctuations on our floating rate loans secured by property liens (nominal value: €15.9 million). Unsecured promissory note loans with a volume of €41.0 million are also financed at floating rates. Given the short term of these loans of five years, it was decided after weighing the risks and opportunities not to use interest rate hedges.

6.0 years:
average remaining term of our loans

The average interest rate of our loans, including loans concluded but not yet utilised, was 2.1% as at the end of the reporting period (previous year: 2.4%). Taking into account other loans agreed to partially finance properties acquisitions pending as at the end of the reporting period in Aachen, Bonn and Bamberg, 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 6.0 years as at the end of the reporting period (previous year: 6.5 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



Obligation to comply with certain financial covenants
In connection with the €75.0 million promissory note loan of 2018, the company has given the creditors assurances that it will comply with the following conditions at the end of each financial year during the term of the loan:

- a ratio of net financial liabilities to the fair value of the property portfolio of not more than 60%;

- EBITDA to net interest income of at least 1.8.

Non-compliance with these conditions would entitle the creditors to cancel the loan agreement.

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 €0.4 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 €1.3 million for the property in Mosbach was €0.2 million lower under HGB at €1.1 million.

- ***Land and land rights:*** The carrying amount of properties in the HGB annual financial statements is €1,197.4 million, and therefore €1.8 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 €1.5 million higher on account of different regulations. However, different capitalisation provisions increased the IFRS carrying amount by €2.4 million.

- ***Equity:*** The HGB equity was €533.2 million as at the end of the reporting period, €0.8 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 €5.7 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 44.1% is 0.1 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 €651.1 million. Under IFRS, however, financial liabilities and derivative financial instruments are reported in the amount of €651.5 million. €1.6 million of the deviation of €0.4 million results 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). This is offset in the amount of €1.2 million by the recognition of financial liabilities including transaction costs and the associated subsequent measurement using the effective interest method in the IFRS financial statements.

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 €96.9 million in the reporting year (previous year: €85.3 million). The ***costs of the management of our properties*** amounted to €23.7 million (previous year: €20.3 million). The increases in both income and management costs are essentially due 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 19.1% year-on-year at €34.6 million (€29.1 million). As a result of lower carrying amounts from the sale of properties in particular, ***other operating income*** declined by €2.0 million as against the previous year to €2.8 million (previous year: €4.8 million). This increased the ***operating result*** by €0.3 million as against the previous year to €33.6 million (previous year: €33.4 million).

As a result of the loans borrowed in the reporting year and the previous year, the ***financial result*** increased by €0.2 million to €– 15.3 million (previous year: €– 15.1 million). The company closed the 2018 financial year with a ***net profit*** of €18.3 million (previous year: €18.3 million).

Including the ***withdrawal from other revenue reserves*** (€18.4 million), the ***net retained profits*** amounted to €36.7 million (previous year: €35.9 million).

Net asset situation and financial position (HGB)

The ***total assets*** of the company increased by €36.2 million as against the previous year to €1,209.1 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 €86.3 million at €1,198.3 million. ***Current assets*** including prepaid expenses were down by €50.1 million at €10.7 million. ***Equity*** was €533.2 million after €550.8 million in the previous year. ***Liabilities to banks*** rose by a net amount of €54.4 million to €651.1 million. Equity and medium- and long-term debt capital, including the loans not yet utilised (€70.6 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, including the loans not yet utilised, the company's high cash funds 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	**2018**	**2017**
	Net rental income	73,553	65,357
–	Administrative expenses	– 1,312	– 1,301
–	Personnel expenses	– 4,440	– 4,414
+	Other operating income	1,153	1,241
–	Other operating expenses	– 1,276	– 1,295
+	Interest income	181	81
–	Interest expenses	– 15,197	– 14,936
	FFO	**52,662**	**44,733**
–	Capitalised expenditure	– 1,865	– 2,927
	AFFO	**50,797**	**41,806**
	FFO per share in € *	**0.66**	**0.56**
	AFFO per share in € *	**0.64**	**0.52**

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

HAMBORNER generated an FFO of €52.7 million in the 2018 financial year (previous year: €44.7 million). This corresponds to FFO per share of €0.66 (previous year: €0.56). As forecast in the previous year's annual financial statements, FFO rose significantly by 17.7% as against the previous year. The increase is due in particular to 12.6% higher income from rents and leases as a result of property acquisitions in 2017 and 2018. In particular, the forecast published in the previous year's annual financial statements for the development in income from rents and leases (up by between 8% and 10%) was exceeded as a result of new acquisitions after the forecast was prepared.

17.7 %
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. 2018	31 Dec. 2017
	Non-current assets	1,200,651	1,114,033
+	Current assets	9,155	59,470
–	Non-current liabilities and provisions	– 638,282	– 563,611
–	Current liabilities*	– 37,456	– 59,218
	Reported NAV	**534,068**	**550,674**
+	Hidden reserves in "Investment property"	326,158	258,270
	NAV	**860,226**	**808,944**
	NAV per share in €	**10.79**	**10.15**

* Not including derivative financial instruments

The growth in absolute NAV of €51.3 million to €860.3 million is as a result of the appreciation of the property portfolio in particular. NAV per share is 6.3% higher compared to the previous year at €10.79 (€10.15). In this forecast we had assumed that the value of the portfolio would remain largely stable with a slight increase in NAV per share, whereas the value of the like-for-like portfolio increased by 3.0% in the year-end remeasurement, thereby resulting in a correspondingly more significant rise in NAV per share.

€10.79
NAV per share.
Increase of 6.3% compared to previous year

PROPOSAL FOR THE APPROPRIATION OF PROFITS

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 €18,275 thousand. Taking into account the withdrawal from other retained earnings of €18,395 thousand, net retained profits amounted to €36,670 thousand.

46 cents per share
dividend to be distributed per share for shareholders in 2018.

The Management Board will propose using the unappropriated surplus for the 2018 financial year of €36,670 thousand to distribute a dividend of €0.46 per share.

REPORT ON RISKS AND OPPORTUNITIES

REPORT ON RISKS AND OPPORTUNITIES

Principles of our risk policy

As a property company operating across Germany, HAMBORNER is exposed to 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 2018. 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.

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. In principle, the risk areas to which HAMBORNER is exposed can be divided into general market risks, operational risks, financial risks and other risks specific to HAMBORNER.

General market risks

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. Considerable risks to HAMBORNER from future general economic developments are possible at least in the medium term, but rather unlikely.

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 take these risks and changes seriously. We are attempting to counteract them 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.

Operational risks

Letting risks

Even though bricks and mortar retail is facing increasing competition from online shopping, we expect satisfactory demand for commercial properties in the current financial year. 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. We generally consider the occurrence of letting risks to be probable.

Through the 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 1.3% in the 2018 financial year (previous year: 1.4%), 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 also consider risks of a loss of rent to be possible and probable. However, 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 €72 thousand in the 2018 financial year (previous year: €248 thousand). An increase in uncollectible receivables cannot be ruled out for the current financial year either, 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 11.6% 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 2018. Detailed information on the valuation of our property portfolio can be found in the section "Performance of the property portfolio". We also think it possible that the valuation of properties can 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, though such risks are limited on account of our well diversified property portfolio.

Financial risks

Risks of interest rate developments and risks arising from financial instruments

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, as far as possible we have arranged fixed, long-term conditions for the financing of our investments. We have interest swap agreements to hedge against interest rate fluctuations on floating rate loans with a nominal value of €15.9 million. Further information on interest rate hedges using financial instruments can be found in the notes on accounting policies and under note (16). Only individual tranches of €41.0 million of our promissory note loan from March 2018 bear interest at floating rates without interest rate hedging. We consider interest rate risks to be probable, but not significant to HAMBORNER in the medium term given its financing structure.

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 these unlikely risks of default exist, they are taken into account by means of value adjustments.

We consider liquidity risks to be unlikely. In particular, they 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.

As explained, 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.

There are risks of a breach of financial covenants in relation to the promissory note loans issued in 2018. In a worst-case scenario, the creditors have the right to terminate the loan agreement and call the loan due if these covenants are breached. As the limits set for the two defined key figures (see page 65) are currently clearly complied with, the occurrence of a breach of financial covenants is currently considered possible but unlikely.

Other risks

In addition to the general market risks, operational and financial risks, there is the risk of HAMBORNER losing its REIT status in addition to risks from legal disputes and its former mining operations. While these other risks cannot be ruled out at HAMBORNER, they are unlikely or economically insignificant now and in the near future.

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 56.4% as at 31 December 2018 was considerably higher than the required minimum equity ratio of 45%.

Legal risks

The risk of being involved in legal proceedings can also not be ruled out for our company. However, HAMBORNER is not currently involved in any significant court cases or threatened legal disputes in the context of its business activities.

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: €2.5 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

The risk management system forms the basis for the assessment of overall risk by the Management Board. Risk reporting takes place regularly vis-à-vis the Management Board and Supervisory Board.

Risks at HAMBORNER have not changed significantly in the 2018 financial year compared with the previous year. According to our assessment of overall risk, there are currently no risks to HAMBORNER as a going concern or that could have a significant effect on its net asset situation, financial position and result of operations.

REPORT ON OPPORTUNITIES

The current low-interest environment means opportunities for the company. The average interest rate on the loans as at the end of the reporting period is 2.1% with a weighted remaining term on fixed interest agreements of 6.0 years. Assuming a scenario that we consider quite likely, namely of a slight increase in interest rates but at a consistently low level, there is a chance 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 2018, we were represented at 60 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 also lead to further price increases and thus to higher market values for portfolio properties. This would likewise have a positive effect on the company's NAV. However, given the increases in property prices in recent years, we think that stabilisation at a high level is more likely than further increases.

Our company's rental income benefits from long-term leases with an average remaining term of 6.2 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

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.

Excellently positioned among the competition and well equipped for further growth

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. In particular, this relates to older, mainly smaller properties no longer consistent with strategy.

EXPECTED ECONOMIC ENVIRONMENT

According to Deutsche Bundesbank, the German economy suffered a significant setback in the summer, mainly on account of the problems in its automotive industry. Even with the economy expanding noticeably again in the final quarter of the year, Deutsche Bundesbank's monthly report for December 2018 only describes the general economic trend as modestly upward at this time. However, the construction industry is still booming, according to the same report. The labour market and income prospects for employees are still also considered excellent, though corporate sentiment has become more muted recently.

Deutsche Bundesbank anticipates that the German economy will remain on an upward trajectory in the next two years as well, though demographic developments will prove an obstacle to further growth in employment, thereby contributing to increasing bottlenecks on the labour market. Thanks to private consumer spending, Deutsche Bundesbank anticipates brisk domestic demand in the next few years, buoyed by rising wages and an expansive financial policy in 2019 as well. Against this backdrop, the German economy could increase its real gross domestic product (GDP) by 1.6% in both 2019 and 2020. Deutsche Bundesbank expects that inflation will be slightly lower than in 2018 at 1.4% in 2019, before returning to the 2018 level of 1.8% in 2020. Deutsche Bundesbank is forecasting that the unemployment rate will fall further in the next two years to 4.8% in 2019 and 4.5% in 2020.

FUTURE SITUATION IN THE INDUSTRY

Letting market

A further decline in office space take-up is likely in 2019, primarily on account of a lack of availability. However, we assume that take-up will remain at a historically high level until the end of 2019. According to JLL, the growth in prime rents for office space should continue at a reduced rate (around 3.5%) in 2019.

We anticipate stable lettings and rents for retail centres. We are also forecasting decreases in rent revenues on average in pedestrianised zones in the coming years, with occasional significant outliers in either direction. 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 and personal goods stores and food concepts are performing well, non-foods (especially textiles) are under pressure and losing sales, demand is swelling for larger cities, and online retail is still gaining market share in some product categories.

Investment market

Despite the current geopolitical uncertainty, demand for property will likely remain high in 2019 as well. According to JLL, a commercial property transaction volume of up to €55 billion appears possible in 2019. The primary limiting factor is still the supply of products eligible for investment.

We expect prime yields for office and retail properties to track sideways in 2018.

ANTICIPATED BUSINESS DEVELOPMENT

The targets and forecasts for the financial year were met or exceeded in some cases. Rental income increased by 12.6% over the previous year in 2018, coming in above the original forecast of between 8% and 10%. This is essentially due to the addition of the retail and office property acquired in Darmstadt in April 2018, which was not yet definite at the time the forecast was prepared. As forecast, operating result (FFO) increased significantly by 17.7% as a result of the growth in rental income while administrative, personnel, interest and other operating expenses hardly increased at all. FFO per share climbed accordingly from 56 cents to 66 cents. NAV per share climbed from €10.15 to €10.79. In particular, the basis for this was again the positive development of 3.0% in the value of our property portfolio on a like-for-like basis in 2018.

For the current 2019 financial year, we are assuming that the good business performance will continue with a significant increase in operating result (FFO) comparable to that of the previous year. With the same number of shares, FFO per share would also be in line with the high prior-year level. The main factor influencing FFO, our central control parameter, is still rental income, which is estimated to rise by 1% to 2% year-on-year in 2019 according to our current forecasts. In particular, this is due to the new acquisitions transferred to us in 2018 on the disposal of the property in Brunnthal and the purchase in Bamberg already notarised but not to be transferred until the middle of 2019. This forecast does not take into account other acquisitions or disposals not yet specified further. The acquisitions of the two office properties yet to be built in Aachen and Bonn will not have a significant impact until 2020.

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 availability of profitable properties is limited with fierce competition, and this competition is unlikely to lessen in 2019. 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 at an extremely low, virtually rock bottom level in 2018 at 1.3%. We are anticipating a high occupancy rate in 2019 as well, though with a slightly higher vacancy rate than in the previous year on account of the reletting period needed for leases that are expiring of have been cancelled. 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.

In terms of cash expenses, there will be a significant increase in real estate operating expenses and personnel expenses in 2019 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).

On the basis of our earnings forecasts, we are assuming that an attractive distribution of around 1 cent more per share will be possible for 2019 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 2019.

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

Composition of issued capital

79.7 million
shares outstanding
as at 31 December 2018

As at 31 December 2018, 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.

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 I) 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 26 April 2018, 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 €450,000,000 until 25 April 2023, 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 €31,887,058 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 €31,887,058, divided into up to 31,887,058 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 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

In the event of a change of control following a takeover bid, the lenders are entitled to demand early repayment of the existing promissory note loan together with the interest incurred up to the day of the early repayment.

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 20 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

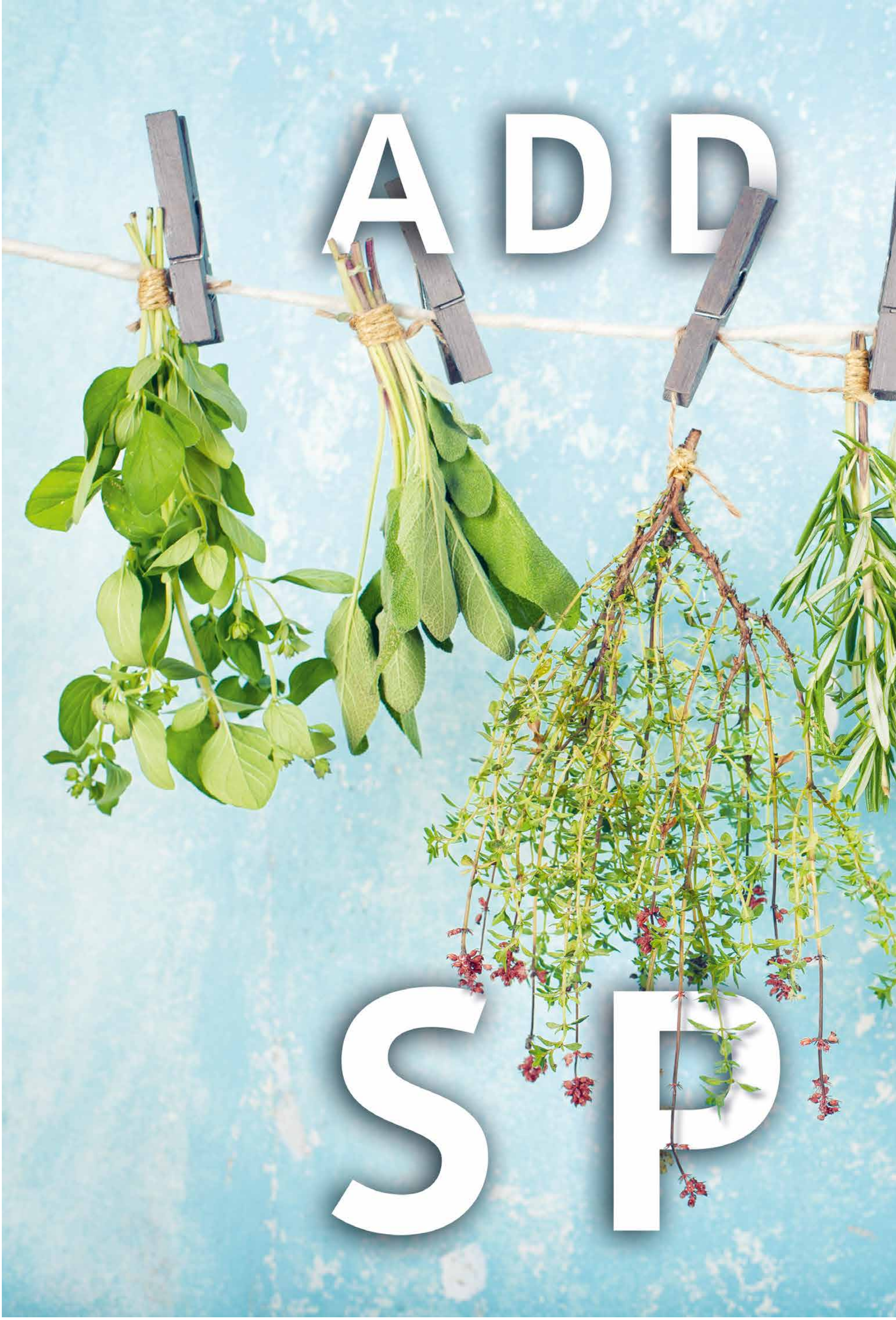
Detailed information on the remuneration system and the remuneration of the Management Board and the Supervisory Board can be found in our corporate governance report from page 14 onwards. The statements found there are part of the management report.

Duisburg, 28 February 2019

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.


ADD
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SOME
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ADD SOME SPICE

FOOD & LIFESTYLE

SHOPPING COMES OF AGE

Everyone loves food: Consumers have never thought so much about what lands on their dining tables, and the product range has never been as broad or as deep. Food retailers provide everything to inspire and encourage a passion for good food. In return, they are rewarded with consumers' trust. Retailers are highly optimistic about their future: Consumers clearly have an appetite for their strategies.

Few industries are as deeply rooted in society as food retail. It's like a seismograph for vital currents, trends and desires. Food retailers pick up on what consumers want and add a certain spice to the shopping experience with their concepts.

A vivid example of this is the growing awareness of regional production. Traders are responding to this with a great deal of flexibility: with new brands, cooperations with local producers and domestic products. They air emotional campaigns to show us how they come to us from just around the corner, and introduce us to the people responsible. They are disclosing their supply chain – consumers see themselves as part of a transparent economic cycle.

This creates trusts, and not to mention quality: Between 2012 and 2016, the number of young households that value *quality as a key purchase criterion rose by 8.7%.* Various certificates have been introduced to highlight the quality of products. Transparency of ingredients also plays an important role: Alongside especially healthy ingredients, many labels also tells us about the unhealthy ingredients they don't contain, be they preservatives, sugar, or gluten. It's worth it: Products labelled "free from ..." are on trend – even though they cost around 30% to 50% more.

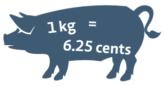
Food retailers' efforts to cater to consumers' needs are seemingly being rewarded by greater loyalty. *Online sales account for only around 1% of food revenues*, an increase of just 0.6 percentage points in the last five years. So it seems that regional production, top quality and the anticipation of pleasure yet to come are best enjoyed in your neighbourhood shops.

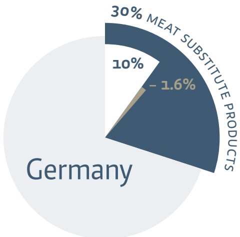
Retailers can score points with consumers with good taste and freshness.

Food retail trends in figures

+ €600 million

Paid by food retailers to the "Tierwohl" animal welfare initiative. Participating companies pay 6.25 cents to the initiative for every kilo of pork and poultry sold. This money helps livestock farmers to ensure animal welfare.





Sales of meat substitute products rose by 30% in 2016. 10% of the residents in Germany are vegetarians, a relevant target group. And 1.6% now follow a vegan diet.

Integrated culinary offerings in more than 25,000 shops generate sales of more than

€5 billion

Concepts extend from convenience food to integrated restaurant islands.

RECIPE

Burgers with sautéed apple, thyme and red onion rings

INGREDIENTS

4 BURGER BUNS

PATTIES
- 500 G FRESH MINCED BEEF
- SALT
- WORCESTER SAUCE
- PEPPER

SAUTÉED APPLE
- 1 LARGE APPLE, E.G. AN ELSTAR
- 4 SPRIGS OF FRESH THYME
- KNOB OF BUTTER
- SALT
- PINCH OF SUGAR

SAUTÉED ONIONS
- 2 LARGE RED ONIONS
- KNOB OF BUTTER

GARLIC MAYONNAISE (AIOLI)
TABASCO SAUCE TO TASTE

TO PREPARE BURGER PATTIES:

Place meat in a bowl and season with salt, pepper and Worcester sauce. Divide mixture into four equal amounts and form into patties. Grease frying pan. When the pan is very hot, add patties and cook well on both sides. Season with fresh pepper, keep warm.

TO PREPARE APPLE SLICES:

Peel and core apple, then cut into four slices about 1.5 cm thick. Melt butter in a small pan and sauté apple slices with thyme over medium heat. Season with salt and sugar, keep warm.

Spread aioli on the bottom half of the bun and add a dash of Tabasco to taste. Top with a slice of apple and a hamburger patty. Add sautéed onions and a large dollop of aioli. Finish with the other half of the bun on top and enjoy.

Customer voices

»During the week, I shop near where I live, but at the weekend I want something special, like specialty cheeses or fish. I'll gladly drive to find that.«

Mareike K., 43 years old

»If you've ever waited at the check-out with three small children, you'd probably love to have child care at the shopping centre. We were delighted to see it at our supermarket and we're happy to use it.«

Karina and Markus S., 35 and 38 years old

»I can get everything here and I don't have to drive anywhere else. That's handy for me.«

Robert S., 54 years old

»Organic, fair, regional – that's important to me. And I like that I can find these things in the big supermarkets now as well.«

Elisabeth K., 61 years old

»As a vegan, I like to see the largest possible selection. That's what I love most about a big supermarket.«

Mark B., 22 years old

YOU ARE WHAT YOU EAT

Trendy today, gone tomorrow? That's not the case, at least when it comes to the way we eat: Many food trends that began as niche phenomena are still going strong and making a lasting impression on our eating habits.

ORGANIC

Organic production was once seen as a fad for "hippies". These days, "organic" is not just something people can agree on, it is also widely available. Conventional food retailers accounted for 58% of sales of "organic" products in 2016.

58%

of organic products are sold by conventional food retailers

LOW CARB

Around the start of the millennium, a new culprit was found for those extra pounds: Low fat gave way to low carb. Followers of these trends can now find high-protein bread and red lentil pasta at their grocery stores.

EXOTIC AROMAS

In Germany in the 1950s, it all started with ham, cheese and pineapple on a slice of white bread: "Toast Hawaii". In the '70s, we all discovered pizza and pasta, and we have loved sushi and wok dishes from the Far East since the '90s. More and more new super foods are hitting supermarket shelves and flying off them again. What will be next?

SEPARATE FINANCIAL STATEMENTS (IFRS)

** also part of the Notes*

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

€ thousand	Note	2018	2017
Income from rents and leases		83,402	74,085
Income from passed-on incidental costs to tenants		13,469	11,200
Real estate operating expenses		– 17,818	– 15,581
Property and building maintenance		– 5,500	– 4,347
Net rental income	(1)	**73,553**	**65,357**
Administrative expenses	(2)	– 1,312	– 1,301
Personnel expenses	(3)	– 4,440	– 4,414
Amortisation of intangible assets, depreciation of property, plant and equipment and investment property	(4)	– 34,846	– 30,226
Other operating income	(5)	1,153	1,241
Other operating expenses	(6)	– 1,276	– 1,295
		– 40,721	**– 35,995**
Operating result		**32,832**	**29,362**
Result from the sale of investment property	(7)	1,584	3,176
Earnings before interest and taxes (EBIT)		**34,416**	**32,538**
Interest income		181	81
Interest expenses		– 15,197	– 14,936
Financial result	(8)	**– 15,016**	**– 14,855**
Net profit for the year		**19,400**	**17,683**
Earnings per share (€)	(9)	0.24	0.22

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

€ thousand	Note	2018	2017
Net profit for the year as per income statement		**19,400**	**17,683**
Items reclassified to profit or loss in future if certain conditions are met:			
Unrealised gains / losses (–) on the revaluation of derivative financial instruments	(16)	873	2,998
Items not subsequently reclassified to profit or loss in future:			
Actuarial gains / losses (–) on defined benefit obligations	(18)	– 133	446
Other comprehensive income		**740**	**3,444**
Total comprehensive income		**20,140**	**21,127**

STATEMENT OF FINANCIAL POSITION – ASSETS

€ thousand	Note	31 Dec. 2018	31 Dec. 2017
NON-CURRENT ASSETS			
Intangible assets	(10)	600	507
Property, plant and equipment	(10)	3,103	3,156
Investment property	(11)	1,195,572	1,109,235
Financial assets	(12)	1,177	926
Other assets	(13)	199	209
		1,200,651	**1,114,033**
CURRENT ASSETS			
Trade receivables and other assets	(13)	1,372	1,365
Cash and cash equivalents	(14)	7,783	58,105
		9,155	**59,470**
Total assets		**1,209,806**	**1,173,503**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

€ thousand	Note	31 Dec. 2018	31 Dec. 2017
EQUITY	(15)		
Issued capital		79,718	79,718
Capital reserves		391,194	391,194
Retained earnings		61,514	77,247
		532,426	**548,159**
NON-CURRENT LIABILITIES AND PROVISIONS			
Financial liabilities	(16)	627,260	552,979
Derivative financial instruments	(16)	1,642	2,109
Trade payables and other liabilities	(17)	1,595	1,716
Pension provisions	(18)	6,352	6,578
Other provisions	(19)	3,075	2,338
		639,924	**565,720**
CURRENT LIABILITIES AND PROVISIONS			
Financial liabilities	(16)	22,560	42,682
Derivative financial instruments	(16)	0	406
Trade payables and other liabilities	(17)	13,421	14,230
Other provisions	(19)	1,475	2,306
		37,456	**59,624**
Total equity, liabilities and provisions		**1,209,806**	**1,173,503**

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

€ thousand	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES	(23)		
Net profit for the year		19,400	17,683
Financial result		15,016	14,855
Depreciation, amortisation and impairment (+) / write-ups (–)		34,846	30,226
Change in provisions		– 603	– 483
Gains (–) / losses (+) (net) on the disposal of property, plant and equipment and investment property		– 1,591	– 3,184
Change in receivables and other assets not attributable to investing or financing activities		2	43
Change in liabilities not attributable to investing or financing activities		95	332
		67,165	**59,472**
CASH FLOW FROM INVESTING ACTIVITIES	(24)		
Investments in intangible assets, property, plant and equipment and investment property		– 132,717	– 223,302
Proceeds from disposals of property, plant and equipment and investment property		11,997	14,297
Proceeds from disposals of financial assets		5	12
Proceeds from the short-term financial management of cash investments		0	50,000
Interest received		0	107
		– 120,715	**– 158,886**
CASH FLOW FROM FINANCING ACTIVITIES	(25)		
Dividends paid		– 35,873	– 34,279
Proceeds from borrowings of financial liabilities		96,389	202,380
Repayments of borrowings		– 41,914	– 21,094
Payments for cash collateral for financial liabilities		0	– 4,191
Interest payments		– 15,374	– 14,823
		3,228	**127,993**
Changes in cash funds		**– 50,322**	**28,579**
Cash funds on 1 January		**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 1 January		**58,105**	**75,335**
Cash and cash equivalents on 31 December		**3,592**	**53,914**
Cash and cash equivalents (with a remaining term of up to three months)		3,592	53,914
Restricted cash and cash equivalents		4,191	4,191
Cash and cash equivalents on 31 December		**7,783**	**58,105**

STATEMENT OF CHANGES IN EQUITY

€ thousand	Issued capital	Capital reserves	Retained earnings			Total equity
			Cash flow hedge reserve	Reserve for IAS 19 pension provisions	Other retained earnings	
As at 1 January 2017	**79,718**	**391,194**	**–5,513**	**–4,337**	**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			2,998	446		3,444
Total comprehensive income 1 Jan. – 31 Dec. 2017			**2,998**	**446**	**17,683**	**21,127**
As at 31 December 2017	**79,718**	**391,194**	**–2,515**	**–3,891**	**83,653**	**548,159**
Distribution of profit for 2017 (€0.45 per share)					–35,873	–35,873
Net profit for the year 1 Jan. – 31 Dec. 2018					19,400	19,400
Other comprehensive income 1 Jan. – 31 Dec. 2018			873	–133		740
Total comprehensive income 1 Jan. – 31 Dec. 2018			**873**	**–133**	**19,400**	**20,140**
As at 31 December 2018	**79,718**	**391,194**	**–1,642**	**–4,024**	**67,180**	**532,426**

STATEMENT OF CHANGES IN NON-CURRENT ASSETS*

€ thousand	Cost			
	As at 1 Jan. 2018	Additions	Disposals	As at 31 Dec. 2018
Intangible assets	707	134	0	841
Property, plant and equipment	4,022	109	29	4,102
Investment property	1,264,978	131,386	12,862	1,383,502
Total	**1,269,707**	**131,629**	**12,891**	**1,388,445**

€ 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**

* also part of the Notes

	Depreciation / amortisation / write-ups				Carrying amounts	
	As at 1 Jan. 2018	Additions (depreciation / amortisation for the financial year)	Disposals	As at 31 Dec. 2018	As at 31 Dec. 2017	As at 31 Dec. 2018
	200	41	0	241	507	600
	866	162	29	999	3,156	3,103
	155,743	34,643	2,456	187,930	1,109,235	1,195,572
	156,809	**34,846**	**2,485**	**189,170**	**1,112,898**	**1,199,275**

	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**

NOTES

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, it has also been 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 is exempt from both corporation tax and trade tax.

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 German Federal Gazette.

The separate financial statements as at 31 December 2018 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 2018 and the management report for 2018 on 28 February 2019 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 2018 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 2018 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 2017, 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
IFRS 2	Share-Based Payment	Accounting for cash-settled share-based payment transactions; in particular clarification of the calculation of fair value of certain items
IFRS 4	Insurance Contracts	Reduction of effects of different first-time adoption dates for IFRS 9 and the successor standard to IFRS 4
IFRS 9	Financial Instruments	New standard; replaces IAS 39 as currently amended
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.
IAS 40	Investment Property	Clarification of the reclassification of property to or from " investment property" in the event of a change in use
Various	Annual IFRS improvement project (2014 – 2016)	Amendments essentially relate to IFRS 1, IFRS 12, IAS 28
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

Barring the amendments arising from IFRS 9 and IFRS 15 explained in more detail below, the new or revised standards and interpretations had no material influence on the financial statements of HAMBORNER.

IFRS 9 Financial Instruments

HAMBORNER applied the classification and measurement requirements of IFRS 9 for the first time as at 1 January 2018.

The financial instruments assigned to the IAS 39 category loans and receivables and financial liabilities and measured at amortised cost are classified as at amortised cost under IFRS 9. They are held with the aim of collecting the resulting contractual cash flows, which represent solely payments of principal and interest. As at 1 January 2018, the carrying amount of the loans and receivables category in accordance with IAS 39 was €607.9 million – equal to the carrying amount of the financial instruments measured at amortised cost in accordance with IFRS 9.

The derivatives (interest rate swaps) recognised at fair value through profit or loss are still designated as hedging instruments in accordance with IFRS 9. Thus, the provisions for derivatives held to hedge cash flows still apply, whereby the effective portion of the hedge is recognised directly in other comprehensive income. In accordance with both IAS 39 and IFRS 9, the carrying amount of these derivatives was €2.5 million as at 1 January 2018.

In accordance with IFRS 9, impairment must be recognised for expected credit losses on financial assets at amortised cost using the expected credit loss model. Impairment was previously recognised on the basis of the incurred loss model. Overall, the first-time adoption of the new provisions for impairment had no material impact on the impairment amounts recognised.

The modified retrospective method was applied in adopting the new IFRS 9 provisions, and therefore the restatement of prior-year figures was not required.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was effective for the first time as at 1 January 2018. The new Standard has superseded the previously applicable IAS 11 and IAS 18 and covers the recognition of revenue from contracts with customers.

At HAMBORNER, income from ordinary activities is essentially generated from rents and leases and from service costs charged to tenants.

Income from rents and leases is not affected by IFRS 15 as it falls within the scope of IAS 17 or, from 1 January 2019, IFRS 16 for accounting for leases.

For income from service costs charged to tenants, the pro rata income from service charges for land tax and insurance expenses is also not affected by IFRS 15 as it does not represent an independent performance obligation with a distinct benefit for the tenant. In this regard, this income also represents consideration in connection with the letting of the properties, and thus also falls within the scope of IAS 17 / IFRS 16. The other service costs charged to tenants reported under this item are independent performance obligations and are therefore not lease components. Thus, this revenue must be accounted for in accordance with IFRS 15. HAMBORNER is the principal in these contracts, hence the consideration, i.e. prepayments of service costs and excess charges, must be reported as revenue. As HAMBORNER has already reported prepayments and excess charges as revenue in the past, this does not give rise to any changes in the separate financial statements.

Overall, the first-time adoption of IFRS 15 has no material impact on HAMBORNER's financial statements.

The modified retrospective method was applied in adopting IFRS 15, and therefore the restatement of prior-year figures was not required.

The following standards and interpretations already passed, amended, or issued by the IASB were not yet effective for the 2018 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 3	Business Combinations	Clarification for assessing whether a business or merely a group of assets was acquired	1 January 2020	None
IFRS 9	Financial Instruments	Amendments to IFRS 9 regarding the classification of certain financial assets with prepayment features and modifications of financial liabilities	1 January 2019	None
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 1 and 8	Presentation of Financial Statements / Accounting Policies	Definition of material	1 January 2020	None
IAS 19	Employee Benefits	Clarification of accounting regulations for defined benefit plan amendments, curtailments or settlements		
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
Various	Annual IFRS improvement project (2015 – 2017)	Amendments essentially relate to IFRS 3, IFRS 11, IAS 12, IAS 23	1 January 2019	None
IFRIC 23	Uncertainty over Income Tax Treatments	New interpretation to clarify uncertainty over Income Tax Treatments	1 January 2019	None

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. Beyond this, HAMBORNER is only a lessee in leases for small quantities of operating and office equipment. The increase in total assets resulting from the first-time adoption of IFRS 16 is €8.9 million as at 1 January 2019. The modified retrospective method will be applied on first-time adoption.

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 2018. 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 (2019 to 2028), 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 3.50% and 7.25% (previous year: 3.60% and 7.25%) were used to calculate residual values. Cash flows and residual values were discounted using risk-adjusted interest rates of between 4.00% and 8.25% (previous year: 4.05% and 8.35%). 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 €2.68 per m² in 2018 (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.

Trade receivables and other assets

Trade receivables are initially measured at the transaction price. All other financial assets are initially measured at fair value less any transaction costs.

Depending on the classification of the financial assets, subsequent measurement is at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

All financial assets are classified as at amortised cost at HAMBORNER.

Any discernible specific risks concerning trade receivables are appropriately taken into account by way of write-downs.

Cash and cash equivalents

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

They are measured at amortised cost.

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 2018 G Heubeck mortality tables (previous year: 2005 G Heubeck mortality tables).

The following parameters were applied:

Parameter p. a. in %	2018	2017
Interest rate	1.8	1.6
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 retained earnings 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.

Derivative financial instruments (hedging 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 retained earnings in equity and hedge effectiveness is documented. At the same time, the profit or loss from the effective portion of the hedging instrument determined is recognised in other comprehensive income. 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.

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	2018	2017
INCOME FROM RENTS AND LEASES		
Retail	51,864	45,920
Office space and medical practices	27,463	24,457
Garages / car parking spaces	1,005	955
Residential	146	146
Other	2,924	2,607
Total	**83,402**	**74,085**
Income from passed-on incidental costs to tenants	13,469	11,200
Total	**96,871**	**85,285**
Real estate operating expenses	– 17,818	– 15,581
Property and building maintenance	– 5,500	– 4,347
Net rental income	**73,553**	**65,357**

Income from rents and leases for properties recognised in accordance with IAS 40 increased by €9,317 thousand to €83,402 thousand in the reporting year. The change was due to rent increases due to property additions in the reporting year and the previous year (€9,357 thousand), rent losses as a result of property disposals (€– 406 thousand) and increases in rents (like-for-like) of €366 thousand.

At €9.7 million (previous year: €7.8 million), HAMBORNER generated more than 10% of its rental income with the EDEKA Group in the 2018 financial year (11.7%; previous year: 10.5%).

The categorisation of income from rents and leases in terms of the allocation of space to the corresponding type of use was partially redefined in the reporting year. Accordingly, the prior-year figures have been marginally restated compared to the figures shown in the previous year's financial statements.

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 €2,269 thousand in the reporting year. €1,422 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 €847 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 €2,237 thousand to €17,818 thousand as a result of changes in the property portfolio.

€ thousand	2018	2017
REAL ESTATE OPERATING EXPENSES		
Energy, water, etc.	6,355	6,289
Property / centre management, caretakers	4,603	3,120
Land taxes	2,952	2,661
Other property charges	1,313	1,140
Advertising costs	754	606
Insurance premiums	722	614
Ground rent costs	612	608
Non-deductible input tax	310	269
Miscellaneous	197	274
Total	**17,818**	**15,581**

The expenses for property and building maintenance amounted to €5,500 thousand compared to €4,347 thousand in the previous year. €2,850 thousand of these expenses relate to unplanned and ongoing maintenance, €1,361 thousand to planned maintenance and €1,289 thousand to leasehold improvements.

The direct operating expenses for our leased property were €23,318 thousand in the reporting year (previous year: €19,928 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.

As in the previous year, the fees for auditors included in administrative expenses (€109 thousand; previous year: €109 thousand) relate exclusively to audits of financial statements.

(3) Personnel expenses

Personnel expenses were stable year-on-year at €4,440 thousand (€4,414 thousand). The increase results from general pay adjustments and a slightly higher headcount than in the previous year. In particular, this was offset by lower provisions for long-term, share-based Management Board remuneration on account of HAMBORNER's lower share price compared to the previous year as at 31 December 2018.

€ thousand	2018	2017
Wages and salaries	3,948	3,938
Social security contributions and related expenses	419	403
Retirement benefit expenses / pension expenses	73	73
Total	**4,440**	**4,414**

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

The depreciation and amortisation expense was up €4,620 thousand on the previous year at €34,846 thousand. €34,643 thousand of this increase relates to investment property (previous year: €30,031 thousand). This contains an impairment loss of €1,319 thousand on our property in Mosbach as the current tenant will not renew the lease when it expires and a new tenant has not yet been found. The property was written down to its recoverable amount of €4,280 thousand, which is also its value in use. A discount rate of 8.25% (previous year: 8.35%) and a capitalisation rate of 6.25% (previous year: 6.80%) were used to discount the contractual cash flows and the residual value after ten years.

(5) Other operating income

Other operating income breaks down as follows:

€ thousand	2018	2017
Compensation for early lease termination	501	550
Other compensation and reimbursement	185	80
Charges passed on to tenants and leaseholders	156	163
Compensation in connection with section 15a UStG	101	104
Reversal of provisions and accruals	99	77
Miscellaneous	111	267
Total	**1,153**	**1,241**

(6) Other operating expenses

Other operating expenses decreased by €19 thousand to €1,276 thousand. In the reporting year this item includes legal and consulting costs of €316 thousand (previous year: €236 thousand) and costs of public relations work of €179 thousand (previous year: €171 thousand). 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 €296 thousand (previous year: €307 thousand) predominantly passed on to tenants 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 €1,584 thousand after €3,176 thousand in the previous year. This resulted from the disposal of our property in Brunnthal and the sale of around 200 thousand m² of undeveloped land.

(8) Financial result

The financial result consists solely of interest income and expenses. Interest income amounts to €181 thousand (previous year: €81 thousand) and, in the reporting year, relates almost exclusively to remeasurement effects in connection with the discounting of provisions for mining damage.

Interest expenses increased by €261 thousand to €15,197 thousand, €15,073 thousand (previous year: €14,751 thousand) of which relates to financial liabilities. At €14,835 thousand (previous year: €14,594 thousand), this is almost entirely attributable to interest on property financing.

Interest expenses from interest rate hedges amount to €1,033 thousand (previous year: €2,945 thousand) and correspond to payments made quarterly on the basis of agreed interest rates.

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 16.

(9) Earnings per share

The net profit for the year amounted to €19,400 thousand, up €1,717 thousand on the figure for the previous year.

Earnings per share amounted to €0.24 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.

		2018	2017
Weighted average number of shares outstanding	Thousands	79,718	79,718
Net earnings / net profit for the year	€ thou.	19,400	17,683
Earnings per share	€	0.24	0.22

NOTES TO THE STATEMENT OF FINANCIAL POSITION

(10) Intangible assets and property, plant and equipment

At €412 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 €2,783 thousand (previous year: €2,794 thousand) as at the end of the reporting period.

(11) Investment property / advance payments

Additions to investment property amounted to €131,386 thousand in the financial year. €125,514 thousand of this amount relates to property acquired in the reporting year and previous years, €4,007 thousand to incidental acquisition costs for property not yet transferred to the company and €1,865 thousand to costs subsequently added in the portfolio.

Investment property developed as follows in the reporting year:

€ thousand		2018	2017
As at 1 January		**1,109,235**	**916,249**
+	Additions due to acquisition	125,514	218,111
+	Addition due to reclassification from advance payments	0	2,000
+	Additions to incidental costs of pending acquisitions	4,007	3,899
+	Additions due to costs subsequently added	1,865	2,927
		131,386	**226,937**
–	Disposals due to sales	–10,406	–3,920
		–10,406	**–3,920**
–	Depreciation for the financial year	–33,324	–28,875
–	Impairment losses for the financial year	–1,319	–1,156
		–34,643	**–30,031**
		1,195,572	**1,109,235**

SEPARATE FINANCIAL STATEMENTS (IFRS)

Taking into account the additions and disposals in the reporting year, the fair value of investment property was €1,521,728 thousand as at 31 December 2018 (previous year: €1,367,504 thousand).

The fair value of investment property breaks down as follows:

€ thousand	2018	2017
Developed property portfolio	1,517,260	1,362,600
Incidental costs of pending acquisitions	4,007	3,950
Undeveloped land holdings	461	954
Total	**1,521,728**	**1,367,504**

(12) Financial assets

At €1,174 thousand (previous year: €918 thousand) financial assets essentially relate to cash security deposits by tenants.

(13) Trade receivables and other assets

Trade receivables and other current assets break down as follows:

€ thousand	2018	2017
TRADE RECEIVABLES		
from rent in arrears and billed incidental costs	770	914
Write-downs on trade receivables	– 184	– 313
from deferred receivables from future incidental cost invoices (contract asset)	450	343
Miscellaneous	27	29
	1,063	**973**
OTHER ASSETS		
Financial assets	139	260
Miscellaneous	170	132
	309	**392**
Total	**1,372**	**1,365**

At €159 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	2018	2017
Bank balances	7,782	58,100
Cash balances	1	5
Total	**7,783**	**58,105**

Bank balances include €597 thousand (previous year: €16,895 thousand) in demand deposits.

Bank balances of €4,191 million are in a restricted bank account 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 2017. The lender is entitled to realise the collateral if the debtor is in default on the payment of principal or interest. The bank account has been pledged until at least the end of the loan agreement on 30 July 2019, unless the loan agreement is renewed.

(15) Equity

The development of equity from 1 January 2017 to 31 December 2018 is shown in the statement of changes in equity. As at 31 December 2018, 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 2018:

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

Furthermore, on 26 April 2018, 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 €450,000 thousand until 25 April 2023, 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 €31,887 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 €31,887 thousand, divided into up to 31,887 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.

Retained earnings amount to €61,514 thousand as at 31 December 2018 (previous year: €77,247 thousand). The distribution of a dividend of €36,670 thousand for the 2018 financial year will be proposed at the Annual General Meeting. This corresponds to a dividend of €0.46 per share. The dividend proposal is based on net retained profits for the company under German commercial law of the same amount.

The "Reserve for IAS 19 pension provisions" included in retained earnings of € – 4,024 thousand (previous year: €– 3,891 thousand) relates to cumulative actuarial losses from defined benefit pension commitments. The cash flow hedge reserve of €– 1,642 thousand (previous year: €– 2,515 thousand) contains the negative fair values of hedging derivatives.

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	**2018**	**2017**	**Change**
Equity	532,426	548,159	– 2.9%
Total assets	1,209,806	1,173,503	+ 3.1%
Reported equity ratio	**44.0%**	**46.7%**	**– 2.7 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 56.4% as at 31 December 2018 (previous year: 59.0%).

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 42.5% as at 31 December 2018 (previous year: 39.6%).

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.

(16) Financial liabilities and derivative financial instruments

Financial liabilities increased by a net amount of €53,286 thousand to €651,462 thousand as a result of further borrowing for property financing. The fair value of derivative financial instruments rose by €873 thousand essentially as a result of the shorter remaining term by one year and is €– 1,642 thousand. Moreover, three further swap agreements ended in the reporting year, hence only one derivative is still held at the end of the reporting period. 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 of property finance secured by property liens with floating interest rates was eliminated in full by interest rate swaps. Under these swap agreements, HAMBORNER receives EURIBOR and pays a constant fixed rate of interest over the entire term of the swap. By contrast, for the portion of the unsecured promissory note loans with a volume of €41.0 million financed at floating rate and with an initial term of five years, after weighing the risks and opportunities it was decided not to use interest rate hedges.

At the end of the reporting period, the nominal hedge volume of the interest rate swaps was €15.9 million. The derivative matures in 2021 in line with the term of the underlying credit transaction. The change in the fair values of interest rate derivatives recognised in equity of €0.9 million resulted in a rise in market value changes in derivatives in the cash flow hedge reserve to €– 1.6 million. There are no further derivative financial instruments other than the interest rate swaps shown above.

			31 Dec. 2018		31 Dec. 2017	
No.	Type	Maturity	Nominal value in € thousand	Fair value in € thousand	Nominal value in € thousand	Fair value in € thousand
1	Interest rate swap	April 2018	–	–	11,677	– 147
2	Interest rate swap	April 2018	–	–	8,472	– 107
3	Interest rate swap	December 2018	–	–	3,588	– 152
4	Interest rate swap	November 2021	15,859	– 1,642	16,173	– 2,109
Total			**15,859**	**– 1,642**	**39,910**	**– 2,515**

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

€ thousand	31 Dec. 2018			31 Dec. 2017		
	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	22,560	299,064	328,196	42,682	231,849	321,130
Derivative financial instruments	0	1,642	0	406	2,109	0
Total	**22,560**	**300,706**	**328,196**	**43,088**	**233,958**	**321,130**

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. 2018			31 Dec. 2017		
	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	34,965	335,222	341,680	53,313	268,643	336,908
Derivative financial instruments	612	1,090	0	1,130	1,710	0
Total	**35,577**	**336,312**	**341,680**	**54,443**	**270,353**	**336,908**

With the exception of the unsecured promissory note loans of €75.0 million, all loans are secured by investment property. There were land charges of €673.4 million chargeable to the company for the financial liabilities reported as at 31 December 2018. 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 1.1% and 4.7% (average interest rate: 2.2%). Including loans concluded but not yet utilised, the average interest rate is 2.1%. 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 only reported if they are measured at fair value. For financial instruments measured at amortised cost, changes in interest rates have no effect on accounting. For financial liabilities with floating interest rates, interest rate risks directly affect profit and loss if these risks are not hedged by suitable financial instruments. HAMBORNER has agreed floating interest rates for two sub-tranches (€41.0 million) of the promissory note loan for which there are no interest rate swaps. At the current interest rate level, a reduction in the interest rate would not result in any change in profit or loss as the interest rate is capped at at least 1.2%. Given an increase of 1.0 percentage points in the base interest rate, the interest expense would rise by €313 thousand per year based on the current interest rate level. For cash flow hedges used to hedge fluctuations due to interest rates, changes in market interest rates can affect the cash flow hedge reserve 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 equity in € thousand	2018	2017
Interest rate + 1%	410	605
Interest rate – 1%	– 428	– 635

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. 2018		31 Dec. 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	649,820	672,516	595,661	618,931

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 classes formed by the company in accordance with the minimum requirements of IFRS 7.

31 Dec. 2018	Carrying amount	Measurement in accordance with IFRS 9		Non-financial assets / liabilities
€ thousand		At amortised cost	Fair value, derivatives designated as hedges	
ASSETS				
Financial assets	1,177	1,177		
Current trade receivables and other assets	1,372	1,201		171
Cash and cash equivalents	7,783	7,783		
	10,332	**10,161**	**0**	**171**
EQUITY AND LIABILITIES				
Non-current financial liabilities	627,260	627,260		
Non-current derivative financial instruments	1,642		1,642	
Non-current trade payables and other liabilities	1,595	1,242		353
Current financial liabilities	22,560	22,560		
Current trade payables and other liabilities	13,421	7,735		5,686
	666,478	**658,797**	**1,642**	**6,039**

31 Dec. 2017	Carrying amount	Measurement in accordance with IFRS 9		Non-financial assets / liabilities
€ thousand		At amortised cost	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**
EQUITY AND 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**

(17) Trade payables and other liabilities

€ thousand	2018	2017
FINANCIAL LIABILITIES		
Trade payables	229	287
Outstanding invoices	3,585	3,558
Other purchase price retention	2,596	4,741
Security deposits	1,174	918
Security retention for rent guarantees	644	1,435
Supervisory Board remuneration	317	309
Audit fees	74	71
Miscellaneous	357	999
	8,976	**12,318**
OTHER LIABILITIES		
Land transfer tax liabilities	3,411	900
VAT liabilities	1,123	1,063
Rental and leasing advances	987	1,076
Deferred investment subsidies	242	329
Land tax obligations	47	46
Miscellaneous	230	214
	6,040	**3,628**
Total	**15,016**	**15,946**

€13,421 thousand (previous year: €14,230 thousand) of trade payables and other liabilities are due within one year.

The non-current financial liabilities (€1,242 thousand; previous year: €1,030 thousand) have a remaining term of less than five years.

(18) 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 2018, as in the previous year, the pension obligations are distributed among four recipients and five 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	2018	2017
Carrying amount 1 January (= present value 1 January)	6,578	7,387
Interest expenses	105	110
Actuarial gains (–) / losses recognised for the current year	133	– 446
Actuarial gains (–) / losses recognised for the current year	(+ 133)	(– 446)
(due to change in demographic assumptions)	(+ 35)	–
due to change in financial assumptions	(– 136)	(– 84)
(due to experience adjustments)	(+ 234)	(– 362)
Pension payments	– 464	– 473
Total	**6,352**	**6,578**

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)	368 (398)	– 335 (– 360)
Pension trend (+ 0.25 / – 0.25 percentage points) (previous year)	171 (170)	– 164 (– 162)
Deviation in mortality from standard (– 7.5% / + 7.5%) (previous year)	223 (228)	– 202 (– 207)

The sensitivity calculations are based on the average term of the pension obligation calculated as at 31 December 2018. 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 €452 thousand are expected in the 2019 financial year (2018: €464 thousand).

In the year under review, HAMBORNER paid contributions of €225 thousand (previous year: €215 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: €4 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.

(19) Other provisions

Other provisions break down as follows:

€ thousand	1 Jan. 2018	Utilisation	Reversals	Additions	31 Dec. 2018	Of which non-current	Of which current
PROVISIONS FOR							
Mining damage	2,606	0	18	0	2,588	2,588	0
Employee bonuses	368	368	0	398	398	0	398
Management Board bonuses (STI)	398	398	0	390	390	0	390
Management Board bonuses (LTI)	802	248	11	165	708	487	221
Reimbursements from operating costs not yet invoiced	362	139	88	214	349	0	349
Miscellaneous	108	108	0	117	117	0	117
Total	**4,644**	**1,261**	**117**	**1,284**	**4,550**	**3,075**	**1,475**

The provision for employee bonus obligations assumes that the expected bonuses for 2018 will be €30 thousand higher than in the previous year and amount to €398 thousand. In addition, there are provisions for long-term, share-based Management Board bonuses (LTI) of €708 thousand (previous year: €802 thousand), €221 thousand of which was paid out in 2019 on the basis of the value of shares as at the end of the reporting period, and for short-term remuneration (STI) of €390 thousand (previous year: €398 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 2016), 14 months (long-term, share-based commitments for 2017) and 26 months (long-term, share-based commitments for 2018).

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 nine and 16 years; previous year: between one and 17 years), interest rates of between 1.5% and 1.8% (previous year: between 0.0% and 1.7%) were assumed for discounting. The provision declined slightly by a total of €18 thousand to €2,588 thousand as at 31 December 2018 owing to interest effects (maturity adjustment: €– 3 thousand; interest rate adjustment: €– 178 thousand) and inflation-based adjustments (€163 thousand).

(20) Contingent liabilities and financial obligations

On 31 December 2018 there were obligations arising from notarised purchase agreements for three properties in Aachen, Bamberg and Bonn to pay a total purchase price of €66.1 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 2022 (plus 3 x 10-year renewal option)	291	0
31 December 2034 (plus 2 x 10-year renewal option)	204	204
31 March 2060	131	0
Total	**626**	**204**

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

(21) 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 €1,191.6 million (previous year: €1,105.3 million) was let under operating leases as at 31 December 2018.

The leases, which are essentially for office and retail space, are usually concluded for terms of between three and 15 years. Around 95% 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:

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.

€ thousand	31 Dec. 2018	31 Dec. 2017
Up to one year	80,385	74,674
Between two and five years	245,165	234,711
More than five years	184,354	195,204
Total	**509,904**	**504,589**

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 (20). 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. 2018	31 Dec. 2017
Up to one year	626	608
Between two and five years	2,360	2,431
More than five years	7,010	6,798
Total	**9,996**	**9,837**

NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows shows the development of cash flows broken down as 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 on 31 December 2018 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 (see note (14)).

Cash and cash equivalents amounted to €7.8 million as at the end of the reporting period after €53.9 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.

(22) Cash flow from operating activities

The cash flow from operating activities was €67.2 million after €59.5 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:

		2018	2017
Number of shares outstanding	Thousands	79,718	79,718
Operating cash flow	€ thou.	67,165	59,472
Operating cash flow per share	€	0.84	0.75

(23) Cash flow from investing activities

The cash flow from investing activities essentially resulted in a total cash outflow of €132.7 million (previous year: €120.7 million) due to acquisitions in the financial year (€158.9 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.

(24) Cash flow from financing activities

The cash flow from financing activities amounts to €3.2 million (previous year: €128.0 million). Cash receipts from loans borrowed in the amount of €96.4 million are offset by payments for the dividend for 2017 (€35.9 million) and interest and principal payments (€57.3 million) on the loans borrowed for the pro rata financing of our properties.

The company also has total funds not yet utilised of €70.6 million at its disposal from concluded loan agreements. These funds can be accessed at short notice.

The change in current and non-current liabilities from financing activities (financial liabilities) is as follows:

	2018	2017
As at 1 January	595,661	414,464
Addition due to borrowing of new loans	96,389	202,380
Disposal due to repayment of loans	– 41,914	– 21,094
Change in deferred transaction costs	– 61	111
Change in deferred transaction costs	– 255	– 200
As at 31 December	649,820	595,661

OTHER NOTES AND MANDATORY DISCLOSURES

Events after the End of the Reporting Period

There were no events after the end of the reporting period with a material effect on financial position or performance.

Employees

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

	2018	2017
Commercial property management	13	12
Technical property management	6	7
Administration	16	15
Total	**35**	**34**

Corporate governance

In December 2018, 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 2018 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 2018, 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 28 February 2019. 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 28 February 2019 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 2018. 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 Asset Management UK Ltd, London, UK	2,360,625		2.96	Drop below 3%	30 Jan. 2019	Yes: 2.96%
	BNP Paribas Asset Management Belgium S.A., Brussels, Belgium	2,360,625		2.96	Drop below 3%	30 Jan. 2019	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 2018 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 2018 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 €1,348 thousand in the reporting year (previous year: €1,249 thousand). In addition to current remuneration of €1,048 thousand (previous year: €989 thousand), non-current, share-based remuneration (LTI) amounts to €300 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 shall be disregarded.

Furthermore, for half of the share commitments, the pay-out 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 (€8.41; previous year: €9.90).

On the basis of the share commitments granted in 2018 and remeasurement effects, expenses of €155 thousand (previous year: €328 thousand) were recognised for share-based remuneration in the reporting year.

The number of virtual share commitments granted and still outstanding on 31 December 2018, 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 2016	9.40	2019	13,830	13,830
LTI 2017	9.19	2020	14,146	14,146
LTI 2018	9.30	2021	16,130	16,130

Virtual share commitments developed as follows:

	2018	2017
As at 1 January	**82,812**	**88,286**
Addition of virtual share commitments granted	32,260	28,292
Disposal of virtual share commitments paid out	– 26,860	– 33,766
As at 31 December	**88,212**	**82,812**

The virtual share commitments from 2015 due in 2018 (LTI 2015) resulted in a payment of €248 thousand at a share price of €9.25.

The remuneration of the members of the Supervisory Board is due in the short term and amounts to €317 thousand (previous year: €309 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 €3,866 thousand as at the end of the reporting period. Post-employment benefits under these pension commitments amounted to €323 thousand in the reporting year.

EXECUTIVE BODIES OF THE COMPANY AND THEIR MANDATES

Supervisory Board

Dr Eckart John von Freyend, Bad Honnef
Honorary Chairman (from 26 April 2018)
Chairman (until 26 April 2018)
Chairman of the Advisory Board of John von Freyend Holding GmbH
External mandates:
- Bundesanstalt für Immobilienaufgaben (BImA) **
- EUREF AG * (Chairman)
- HAHN-Immobilien-Beteiligungs AG * (Chairman)
- Litos Immobilien AG *

Bärbel Schomberg, Königstein im Taunus
Chairwoman (from 26 April 2018)
Deputy Chairwoman (until 26 April 2018)
Managing Partner at Schomberg & Co. Real Estate Consulting GmbH
External mandates:
- DeWert Deutsche Wertinvestment GmbH*

Dr Andreas Mattner, Hamburg
Deputy Chairman (from 26 April 2018)
Managing Director of Verwaltung ECE Projektmanagement G.m.b.H.
External mandates:
- EUREF AG *

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

Rolf Glessing, Illerkirchberg (from 26 April 2018)
Managing Partner of Glessing Management und Beratung GmbH
External mandates:
- FCF Fox Corporate Finance GmbH **
- Wohninvest Holding GmbH **

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

Dr Helmut Linssen, Issum
Member of the Management Board of the RAG
External mandates:
- RAG Aktiengesellschaft *
- RAG Deutsche Steinkohle AG *
- Vivawest GmbH ** (Chairman)
- Vivawest Wohnen GmbH ** (Chairman)
- Degussa Bank AG *
- Signa Prime Selection AG * (from 12 July 2018)

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

Wolfgang Heidermann ***, Raesfeld
Technical employee of HAMBORNER REIT AG

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

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

Committees of the Supervisory Board
Executive Committee
Dr Eckart John von Freyend (Chairman)
(until 26 April 2018)
Bärbel Schomberg (Chairwoman from 26 April 2018)
Claus-Matthias Böge
Dr Helmut Linssen
Dr Andreas Mattner (from 26 April 2018)

Audit Committee
Claus-Matthias Böge (Chairman)
Rolf Glessing (from 26 April 2018)
Wolfgang Heidermann
Christel Kaufmann-Hocker
Dr Andreas Mattner (until 26 April 2018)

Nomination Committee
Dr Eckart John von Freyend (Chairman)
(until 26 April 2018)
Bärbel Schomberg (Chairwoman from 26 April 2018)
Rolf Glessing (from 26 April 2018)
Dr Helmut Linssen
Dr Andreas Mattner

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, 28 February 2019

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, 28 February 2019

The Management Board

Dr Rüdiger Mrotzek   Hans Richard Schmitz

INDEPENDENT AUDIT OPINION

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 statement of financial position as at 31 December 2018 and the statement of profit and loss, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the financial year from 1 January to 31 December 2018 as well as the notes to the financial statements 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 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Section 289f (4) German Commercial Code (HGB).

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 2018 and of its financial performance for the financial year from 1 January to 31 December 2018.

- 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 statement on corporate governance referred to above.

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 Section 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 "Auditor's Responsibilities for the Audit of the Separate Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) Point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the 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 judgement, were of most significance in our audit of the separate financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the 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 key audit matter we have determined in the course of our audit:

Investment property measured at fair value

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 property measured at fair value

a) The item "Investment properties" stated in the statement of financial position comprises property in the amount of mEUR 1,195.6 (which accounts for 98.8% 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 compliance with IFRS 13 in the notes to the financial statements. 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.

   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 property at fair value is predominantly based on estimates and assumptions. Estimated values entail an increased risk of misstatements in the financial statements. The estimates of measurement parameters such as market rent as well as discount rates and rates of return on investment, 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 property 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 property and the related scope of judgement or estimation uncertainties are included in the "Accounting and Measurement Methods" section in the notes to the financial statements. The information on NAV and NAV per share are provided in the "Performance Indicators" section in the management report.

b) We assessed whether the measurement methods applied have been appropriate and reviewed the measurement results. During our audit, we examined the organisational structure and processes for their appropriateness and the effectiveness of the 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 real estate consulting experts. With the support of these experts, we evaluated the measurement models as well as the parameters used in the measurement process and the measurement results. 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 statement on corporate governance pursuant to Section 289f German Commercial Code (HGB) included in the management report,
- the executive directors' confirmation regarding the separate financial statements and the management report pursuant to Section 264 (2) Sentence 3 and Section 289 (1) Sentence 5 German Commercial Code (HGB) respectively,
- all 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 Sections 11 to 15 REIT Act and on the composition of income regarding pre-taxed income and non-taxed income pursuant to Section 19 (3) in connection with Section 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 by the EU, and the additional requirements of German commercial law pursuant to Section 325 (2a) German Commercial Code (HGB), and that the separate financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company. 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. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the 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 scepticism 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 by the EU, and the additional requirements of German commercial law pursuant to Section 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 26 April 2018. We were engaged by the supervisory board on 11 May 2018/31 May 2018. 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, 28 February 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Rolf Künemann
Wirtschaftsprüfer
(German Public Auditor)

Signed: Thomas Neu
Wirtschaftsprüfer
(German Public Auditor)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& SO CLOSE. RIGHT THERE.

CUSTOMER PROXIMITY – WHETHER CLASSIC OR VIRTUAL

A good infrastructure means that you get what you need: whether it's a frozen pizza on the way home, a snack for your lunch break, or ingredients to cook with at home. And good local shops are the cherry on top: They make the neighbourhood vibrant and worth living in. Retailers are also developing new ways of serving customers in line with demographic trends

As the natural centre of any neighbourhood, grocery stores guarantee both basic needs and daily well-being. The industry is becoming ever more passionate about this role – especially in the face of the digital competition: *shopping experience, culinary motivation and personal advice included.*

Food shops have long been a location factor. Residents, not to mention businesses, offices and service providers, value them as neighbours. Because wherever you have good local shops, you also have high local purchasing power. But food shops aren't just a place you go to: They literally bring food to their customers as well. Anyone who doesn't want to go to the supermarket can place an order online and have their shopping brought home. Or they can just come by and have their shopping waiting for them – *the Click & Collect model.* So the industry is combining the best of both worlds: A world of tangible goods in attractively designed outlets and the time-saving convenience of online shopping.

> *German food retailers are a cultural bastion. They influence people's values and how they interact with others on a daily basis.*
>
> Federal Association of German Food Retailers

The strategy is working – *the industry is moving with the times without giving up its personality.* Local shops will therefore continue to be a social hub for a long time to come, bringing in customers for businesses and companies in the heart of our towns, cities and districts.

RECIPE

Iced hazelnut cake with cream topping

INGREDIENTS

100 G	MILK CHOCOLATE
100 G	RUSKS
1 PKG	BAKING POWDER
10	EGGS
200 G	SUGAR
200 G	SOFTENED BUTTER
200 G	GROUND HAZELNUTS
275 G	BLACKCURRANT JAM
250 G	ICING SUGAR
3 – 4 TBSP	WATER
200 G	WHIPPING CREAM
1 PKG	VANILLA SUGAR

PREPARATION

Finely grate the milk chocolate. Chop rusks into breadcrumbs, mix with baking powder. Separate eggs, beat the egg whites until stiff peaks form, then chill. Beat egg yolks until light and creamy. Add sugar gradually, stirring constantly until completely dissolved. Stir softened butter into egg yolk mixture. Add ground hazelnuts, chocolate and the breadcrumb and baking powder mixture. Gently fold in the egg whites.

Pour the mixture into a springform pan lined with baking paper. Bake in a preheated oven at 180 degrees, fan oven 160 degrees, gas stage 3 for around 50 minutes. Switch off oven and allow cake to cook inside.

Cut cake once horizontally with a thread. Spread the jam on the lower layer and put the second layer back on top.

For the icing, gradually stir the icing sugar into the water in a small bowl until smooth. Pour carefully over the cake.

Whip the cream with the vanilla sugar until stiff peaks form and serve with the cake.

Tomorrow's customers: fewer, older, more diverse

While population numbers continue to fall, the share of older people will rise sharply in the years ahead. There may be more and more households, but they are also getting smaller – and they are clustering in the cities. The food industry is starting to adapt: with small package sizes, interior redesigns for greater accessibility and changes in the products available. Urban lifestyles also mean a higher employment rate. As a result, service is becoming more important; nobody's preparing food at home, so demand for convenience foods is booming. The onus is on retailers to make shopping faster and simpler for this time-conscious clientele, and they are exploring digital pathways to do so. The first models are already out there. In general, the good state of the economy is encouraging many consumers to spend more money on high-quality foods. This development can be seen at both discount stores and larger supermarkets, which are comprehensively upgrading their range and their outlets themselves to gain an edge, hoping that intensive investment in amenities and product presentation will make the shopping experience more appealing – and showing how nimbly the industry can react to customer requirements.

3 questions for ...

Hans Richard Schmitz,
Member of the Management Board
of HAMBORNER REIT AG

What criteria does an attractive retail centre need to fulfil? In addition to the property's location and setting, having the right mix of tenants plays a crucial role. Going to a retail centre should allow customers to get everything they need for the day or for the week quickly and easily.

What role do grocery stores play in this? Food retailers should be a core tenant in this type of property, thereby accounting for a significant share of their space. Experience shows that larger supermarkets and discount stores supplement each other ideally, creating a synergistic relationship that vastly outweighs the competitive aspects. In an ideal scenario, there would also be a household and personal goods outlet alongside grocery stores. Beyond this, a property's appeal can also be boosted by other tenants, such as a specialist delicatessen, organic food shops, a chemist, a discount clothing store or even cafés and restaurants.

How does e-commerce affect food retail and your tenants? Digitisation is a permanent part of how we shop today. In the non-food segment, almost a quarter of sales are now generated on the Internet. So far, this has barely affected neighbourhood shopping – which essentially consists of groceries and household and personal goods. In Germany, e-commerce currently accounts for less than 2% of such sales. This is firstly because of the dense branch network for local shopping, which allows for low-cost, day-to-day purchases, and secondly because of high price sensitivity on the part of consumers in Germany, which puts a high profitability threshold on online shopping and makes it hard to make selling food on the Internet cost-effective.

SHOPPING CENTRE COLOGNE-WIDDERSDORF

The Widdersdorf district, in the borough of Lindenthal, lies around 13 kilometres to the west of central Cologne.

Widdersdorf has undergone enormous growth in the last ten years as a result of extensive urban expansion, doubling in terms of area and number or residents. South Widdersdorf is a popular neighbourhood on the outskirts of Cologne for families with children, and benefits from high purchasing power.

The shopping centre we acquired in 2018 borders directly on the residential area. With a supermarket, a discount store, a household and personal goods store and a bank, the centre is a magnet for the people who live here. It offers valuable infrastructure right on their doorstep and thus genuine quality of life.

Immediately to the east there is also a residential and shopping complex with a chemist, a bakery and an assisted living facility. Good connections to the autobahn and a bus line mean that it can be easily reached from further afield as well.

Purchase price
€20.2 million

0%
vacancy rate

Property size
approx. 22,000 m²

5.1%
gross initial yield

365
parking spaces

Rental space
approx. 6,500 m²

Year built / opened
2009

Added to portfolio
2 January 2018

ADDITIONAL INFORMATION

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 2018:

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 2018, HAMBORNER REIT AG's free float according to the notifications of voting rights that we have received was 68.7%. We notified the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) of this by way of letter dated 7 January 2019.

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 2018 financial year, 100.2% 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 €36.7 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 6.9% 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 2018 was 56.4%.

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 €36.7 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, 28 February 2019

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 28 February 2019.

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 in 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 predominantly derived 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 (income taxes only)
EBITDA	Earnings before interest, taxes, depreciation and amortisation (income taxes only)
EPRA	European Public Real Estate Association. It represents financial analysts, investors, auditors and consultants in addition to companies.
EPRA net initial yield	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.
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	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 capitalisation	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.
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, predominantly consisting 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 70 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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Olivier Hess (p. 4, p. 8, p. 38 centre, p. 39 top left, p. 39 top right, p. 39 right centre, p. 40 left, p. 132 left)

Plainpicture (Janie Airey: p. 83 left top)

Stockfood (Peter Ress: p. 2 top, p. 36/37, p. 39 right; Melchior Till: p. 39 bottom)

Stocksy (Jose Coello: p. 38 bottom)

FINANCIAL CALENDAR 2019 / 2020

27 March 2019	Annual report 2018
2 May 2019	Quarterly financial report 31 March 2019
7 May 2019	Annual General Meeting 2019
10 May 2019	Payment of dividend for the 2018 financial year
1 August 2019	Half-year financial report 30 June 2019
7 November 2019	Quarterly financial report 30 September 2019
6 February 2020	Provisional figures for the 2019 financial year
26 March 2020	Annual report 2019
5 May 2020	Quarterly financial report 31 March 2020
7 May 2020	Annual General Meeting 2020

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