# ACCENTRO

REAL ESTATE AG

ANNUAL REPORT 2016

# Overview Key Financial Data

| ACCENTRO Real Estate AG | 2016 | 2015 |
|---|---:|---:|
| **Income statement** | **TEUR** | **TEUR** |
| Gross profit/loss | 42,548 | 12,517 |
| EBIT | 33,936 | 6,097 |
| EBT | 28,070 | 814 |
| Consolidated income | 26,473 | 22,786 |

| ACCENTRO Real Estate AG | 31 December 2016 | 31 December 2015 |
|---|---:|---:|
| **Balance sheet ratios** | **TEUR** | **TEUR** |
| Non-current assets | 18,897 | 189,594 |
| Current assets | 259,949 | 188,462 |
| Equity | 136,836 | 109,241 |
| Equity ratio | 45.5 % | 27.6 % |
| Total assets | 300,546 | 395,205 |

ACCENTRO Real Estate AG

| **Company shares** | |
|---|---:|
| Stock market segment | Prime Standard |
| ISIN | DE000A0KFKB3 |
| German Securities Code Number (WKN) | A0KFKB |
| Number of shares on 31 December 2016 | 24,734,031 |
| Free float | 13.22 % |
| Highest price (1 January – 31 December 2016)* | EUR 8,07 |
| Lowest price (1 January – 31 December 2016)* | EUR 3,11 |
| Closing price on 30 December 2016* | EUR 7,37 |
| Market capitalisation at year-end* | EUR 182,289,808.47 |

* Closing prices in Xetra trading

The Annual Report includes the consolidated financial statements of ACCENTRO Real Estate AG and the Group management report for the 2016 financial year.

This translation of the original German version has been prepared for the convenience of our English-speaking shareholders.
The German version is authoritative.

The above-mentioned versions of the Annual Report are available as download at www.accentro.ag or may be requested free of charge by writing to:
ACCENTRO Real Estate AG, Uhlandstr. 165, 10719 Berlin, Germany.

# Content

# Reports

## Letter to the Shareholders

Dear Shareholders,
Dear Ladies and Gentlemen,

Jacopo Mingazzini

The 2016 financial year was extraordinary in several ways: Not only did we achieve a post-tax income that significantly exceeded our initial expectations (EUR 26.5 million instead of the originally projected EUR 10 million). We also managed to acquire quite a number of lucrative assets, and thereby laid the ground for future earnings. Procuring a total of 1,765 notarised residential units, an increase by roughly 58 %, is in itself a remarkable feat in a fiercely contested housing market.

Our main strategic accomplishment of 2016, however, is that we managed to sell the bulk of our proprietary portfolio and to acquire a property development of 675 flats in Berlin at the same time. The step actually helped us reach our medium-term goal ahead of time: From now on, the entire organisation can concentrate on our core business – the creation and retailing of condominiums. It is a very important milestone whose impact can hardly be overstated.

In the year now under way, we intend to keep expanding our core business. We want to speed up our growth both on our home market of Berlin and in other metro regions in Germany.

To this end, it will be of the essence to keep a close eye on political developments. The coalition agreement of Berlin's new city government – especially its stated intention to zone additional historic district protection areas – will confront us with additional challenges. On a positive note, the federal body politic has recently warmed to the idea of reintroducing homeowner subsidies. If German lawmakers were to act upon the impulse, new subsidy programs would probably have a positive effect on our business, no matter what form they might take (such as child tax credit for first-time home buyers, allowances for the real estate transfer tax, or similar).

Our outlook is in any case rather optimistic. The parameters for homeownership are very favourable. The low mortgage interest rates and the brisk rent growth in Germany's major cities have made homeownership a key topic. The survey we presented together with the IW Economic Institute in Cologne in late November clearly showed: Nationwide, owner-occupying your home is 41 % more affordable on average than renting it. The survey – which was widely covered by the media – will be updated semi-annually to keep track on the evolving situation in this sector.

Let me end by saying that we are pleased to have you aboard, and that we are very much looking forward to our shared road ahead.

The Management Board

Jacopo Mingazzini

# Report of the Supervisory Board

Dear Shareholders,
Dear Ladies and Gentlemen,

Throughout the 2016 financial year, the Supervisory Board of ACCENTRO Real Estate AG conscientiously fulfilled the tasks assigned to it by law and by the company's articles of association. Both regular meetings and one-off meetings were convened. The Supervisory Board assisted the Management Board in an advisory capacity, and monitored its activities. The Supervisory Board was always included comprehensively and promptly in important decision-making processes by the Management Board, was briefed on the business performance, the plans for expanding the business and all relevant issues concerning the company, and made the necessary decisions. In fact, the Supervisory Board was directly involved in every decision of material significance for the company.

## Changes in the Supervisory Board and the Management Board

The composition of the Supervisory Board remained unchanged during the 2016 financial year. Analogously, there were no changes to the Management Board of ACCENTRO Real Estate AG in 2016. Jacopo Mingazzini has been the sole member of the company's Management Board since 1 September 2014. In a dual role, he also serves as managing director of all entities fully consolidated in the consolidated financial statements of ACCENTRO Real Estate.

## Meetings

The Management Board reports to the Supervisory Board in joint sessions that are regularly convened.

During the reporting period, the Supervisory Board convened four meetings, specifically on 29 March, 2 June, 6 July and 30 November 2016. A continuous exchange of views between the Supervisory Board and the Management Board was maintained beyond the regularly scheduled meetings of the Supervisory Board. All decisions and actions requiring approval were discussed in depth, while resolutions were made on the basis of consultations and the resulting resolution proposals by the Management Board.

The Supervisory Board therefore fulfilled its tasks and duties in accordance with the law and the Articles of Association. All members of the Supervisory Board attended at least half of the board meetings. Conflicts of interests were neither identified nor did any materialise for members of the Management Board and of the Supervisory Board during the financial year concluded.

In addition, the Management Board briefed the Supervisory Board in the form of written quarterly reports on the company's state of affairs and course of business, its earnings, operational plans and other fundamental planning issues.

Considering the fact that it consists of only three members pursuant to the Articles of Association, the Supervisory Board has refrained from forming committees. All members of the Supervisory Board were involved in all of the functions performed by the Board.

## Corporate Governance

The Supervisory Board and the Management Board share the view that the German Corporate Governance Code (DCGK) contains standards for good and responsible governance that are recognised both nationally and internationally and are conducive to the proper management and monitoring of German listed companies.

Pursuant to Section 161, German Stock Corporation Act (AktG), the management board and supervisory board of a public company are required to issue an annual statement ("Declaration of Conformity") concerning the extent to which the company has been, and continues to be, in compliance with the recommendations issued by the Government Commission on the German Corporate Governance Code. The Declaration refers to the Code of 5 May 2015 as amended, and as published in the electronic Federal Gazette ("Bundesanzeiger") on 12 June 2015. The full-length version of the Declaration is available on the company's homepage at www.accentro.ag and reprinted in this Annual Report.

Moreover, the Declaration of Conformity is published, together with the annual account and the management report as well as other required disclosures, in the Federal Gazette and has been filed with the business register.

## Separate and Consolidated Financial Statements

The Annual General Meeting elected the auditing firm Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, as auditor for the 2015 financial year beginning 1 January and ending 31 December 2016.

The auditor reviewed the company's annual financial statements submitted by the Management Board and the consolidated financial statements including the management report and the Group management report for the 2016 financial year, and issued an unqualified audit certificate for these.

The separate financial statements, consolidated financial statements, including management report and Group management report, and the audit reports on the audit of the separate and consolidated financial statements, along with the Management Board's proposed appropriation of net retained profits were submitted to the Supervisory Board in good time. At its balance sheet meeting on 2 March 2017, the Supervisory Board deliberated and discussed the documents underlying the financial statements and reports with the Management Board at length.

The auditor briefed the meeting on the essential findings of the audits, and was on hand to answer additional questions raised by the Supervisory Board. Based on its independent review of the annual financial statements, the consolidated financial statements, the management report and the group management report for the company and the Group, the Supervisory Board approved the auditor's audit findings, and declared that, based on the conclusive findings of its examinations, it had no objections to raise. Through its resolution of 2 March 2017, the Supervisory Board acknowledged the annual financial statements and approved the consolidated financial statements.

## Dependency Report 2016

The Supervisory Board examined and approved the dependent company report compiled by the Management Board pursuant to Section 312, AktG. Having concluded its examination, the Supervisory Board raised no objections to the statement by the Management Board at the end of its report pursuant to Section 312, AktG.

The auditor, which is the auditing firm Ebner Stolz GmbH & Co KG in Hamburg, raised no objections in its audit of this report. The audit findings are consistent with the conclusions of the Supervisory Board. The auditor issued an unqualified auditor’s opinion in this respect:

“On completion of our review and assessment in accordance with professional standards, we confirm that

1. the actual disclosures contained in the report are accurate, and
2. the consideration paid by the company for the legal transactions detailed in the report was not unreasonably high.”

## Members of the Supervisory Board

Pursuant to Section 96, AktG, the Supervisory Board is composed of shareholder representatives.

The Supervisory Board would like to thank the entire staff of ACCENTRO Real Estate AG for their services, their deep commitment, and their loyalty.

Berlin, 2 March 2017

Axel Harloff
Chairman of the Supervisory Board

# Corporate Governance Report

## Declaration of Conformity 2017

Pursuant to Section 161, German Stock Corporation Act (AktG), the management board and supervisory board of a public company are required to issue an annual statement ("Declaration of Conformity") concerning the extent to which the company has been, and continues to be, in compliance with the recommendations issued by the Government Commission on the German Corporate Governance Code. The subsequent Declaration refers to the Code of 5 May 2015 as amended, and as published in the electronic Federal Gazette ("Bundesanzeiger") on 12 June 2015. For the full-length version of the Declaration, please go to the company's homepage at www.accentro.ag.

**The Management Board and Supervisory Board of ACCENTRO Real Estate AG hereby declare:**

"Since the last declaration of conformity was issued in March 2016, ACCENTRO Real Estate AG has complied with the recommendations of the German Corporate Governance Code as amended, with exceptions detailed below, and intends to continue to comply with the Code recommendations in the coming year, with exceptions detailed below:

**Code Sections 2.3.1 and 2.3.2 (Postal Vote)**
The company does not currently intend to conduct postal votes before or during its annual general meeting in addition to proxy voting by persons authorised to act as voting representatives, particularly since the company's Articles of Association do not provide for this as required by Section 118 (2), AktG. In the company's opinion, the introduction of postal voting in addition to the option already available of contributing indirectly to the votes taken in the Annual General Meeting in the form of a proxy vote by a representative appointed by the company would simply increase the outlay required for the annual general meeting without adding tangible benefits to the shareholder decision-making process. Neither was this option offered at the previous Annual General Meeting.

**Code Section 2.3.3 (Transmission over the Internet)**
The company did not transmit the Annual General Meetings convened in 2016, nor does it intend to transmit the Annual General Meeting in 2017 through modern communication media.

**Code Section 3.8 (D&O Insurance)**
The D&O insurance taken out as a group contract does not currently provide any deductible for members of the Supervisory Board. The company believes that a deductible of this type is not required to motivate the members of the Supervisory Board to properly perform their monitoring duties.

**Code Section 4.1.5 (Diversity)**
The Management Board of ACCENTRO Real Estate AG is committed to the promotion of female employees and the increased recruitment of female executives. However, the Management Board believes that the diversity aspect, which includes equal opportunity for women, should not be the decisive criterion for executive appointments. Rather, leadership and management skills as well as professional competence in the respective business divisions and spheres of ownership along with demonstrable professional experience should be prioritised in the best interest of the company.

**Code Section 4.2.1 (Composition of the Management Board)**
In deviation of Code Section 4.2.1, the Management Board of ACCENTRO Real Estate AG currently consists of one person only. Both the Supervisory Board and the Management Board believe that the size of the company justifies the arrangement. Nonetheless, the Management Board and the Supervisory Board periodically check whether the development of the company warrants an expansion of the Management Board.

**Code Section 4.2.3 (Compensation)**
The total compensation of the Management Board currently consists of fixed and variable components, but no remuneration components marked by long-term incentives and risk elements. Moreover, the recommendation that negative developments should be taken into account when determining the variable components of total compensation was and is not complied with. According to the Supervisory Board, neither of these aspects is necessary to ensure the loyalty of the Management Board and its commitment to the company. Neither a cap on the amount of compensation nor a severance pay cap for former members of the Management Board have currently been agreed, as the Supervisory Board does not deem these necessary.

**Code Section 5.1.2 (Composition of the Management Board, Age Limit, and Succession Planning)**
Due to the age structure of the Management Board, no age limit or long-term succession planning is currently in place.

The Supervisory Board and Management Board expressly welcome all endeavours to counteract gender-based or any other form of discrimination, and to promote diversity in appropriate ways. When appointing members to the Management Board, the Supervisory Board places emphasis solely on the competence, qualifications and experience of eligible candidates, while other characteristics such as gender and nationality have been, and continue to be, without any significance for this kind of decision.

**Code Sections 5.3.1, 5.3.2 and 5.3.3 (Committees)**
The Supervisory Board has refrained from forming committees so far. Specifically, it has not formed, nor will it form, an audit committee or a nomination committee as it considers three Supervisory Board members a sufficient number to function effectively in joint representation. Given the size of the Supervisory Board, it would moreover seem unreasonable to form committees, which must include at least two people or, for a quorum, at least three people.

**Code Section 5.4.1 (Composition of the Supervisory Board)**
The company does not yet comply with the code's recommendation to formulate specific targets for the composition of the Supervisory Board, and to publish these in the Corporate Governance Report, which targets specifically include the adequate representation of women. The legal provisions governing compliance with the mandated minimum representation of women will be complied with in the next elections of the Supervisory Board. The Supervisory Board believes that neither an age limit nor a maximum length of tenure is required to ensure the effectiveness and success of the Supervisory Board's efforts. The Supervisory Board will seek to determine to what extent these recommendations may be complied with in the future.

**Code Section 5.4.2 (Composition of the Supervisory Board)**
One current member of the Supervisory Board, Dr. Dirk Hoffmann, is also chairman of the supervisory board of Adler Real Estate AG, Berlin, chairman of the supervisory board of Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, member of the advisory board of conwert Immobilien Invest SE, Vienna/Austria, member of the supervisory board of Dexia Kommunal-

bank Deutschland AG, Berlin (until 30/06/2016), deputy chairman of the supervisory board of Bremer Kreditbank AG, Bremen (until 31/03/2016), and until 21/12/2016 served as chairman of the supervisory board of Aggregate Holding SA, Luxembourg. Axel Harloff is deputy chairman of the supervisory board of Westgrund AG, Berlin Carsten Wolff is a member of the supervisory board of Westgrund AG, Berlin

Since mid-2012, the Supervisory Board is supposed to exclude members who serve in supervisory bodies of key competitors. This could have been the case with all three of the Supervisory Board members. However, there have been no signs of material conflicts of interest.

**Code Section 7.1.2 (Discussion of Interim Reports by the Supervisory Board and Publication of Interim Reports)**
At present, the company's quarterly reports are not discussed with the Supervisory Board prior to publication. Once a quarter, the Management Board briefs the Supervisory Board in writing about the company's state of affairs and the course of its business.

ACCENTRO Real Estate AG principally publishes its interim reports 45 days after the end of the reporting period. In exceptional circumstances there may be a slight delay due to special organisational processes. The legal requirements set out in Section 37w, Securities Trading Act (WpHG), are complied with in all cases.

Berlin, in March 2017

Management Board and Supervisory Board
ACCENTRO Real Estate AG

## ACCENTRO Real Estate AG Stock Performance

At the start of the year 2016, influencing factors like the slowing pace of the Chinese economy, the debate surrounding the migrant crisis and the massive fluctuations in exchange rates as well as in the prices of petroleum and other commodities inspired unease on financial markets. In February, Germany's DAX 30 stock index dropped to what turned out to be the year's lowest level at 8,752.87 points. But while the unexpected outcome of the popular referendum on the exit of the United Kingdom from the European Union sent the stock market on a nose dive in June 2016, the equally unexpected election of Donald Trump as next U.S. president last November triggered little more than a short dip in share prices.

Meanwhile, the accommodative monetary policy of the European Central Bank benefited both the real estate market and real estate stocks. The lack of investment opportunities necessitated alternatives, and the real estate sector is certainly one of the options because it benefits from the low-interest policy in the form of low financing costs.

The positive trend was mirrored in the upward trust of the ACCENTRO stock.

The ACCENTRO share price, which was quoted at EUR 3.59 on the first trading day of 2016 (Xetra), gained 105 % as the year progressed. The closing price on the last trading day of 2016 was EUR 7.37, representing a market capitalisation of EUR 182.29 million.

The average daily trading volume (Xetra) of ACCENTRO stock was 8,112 units during the 2016 financial year. Overall, 2.07 million shares of ACCENTRO Real Estate AG were traded in the Xetra trading system between 4 January and 30 December 2016. The relatively low trading volume is mainly due to the fact that the company's free float is relatively low at 13.22 %.

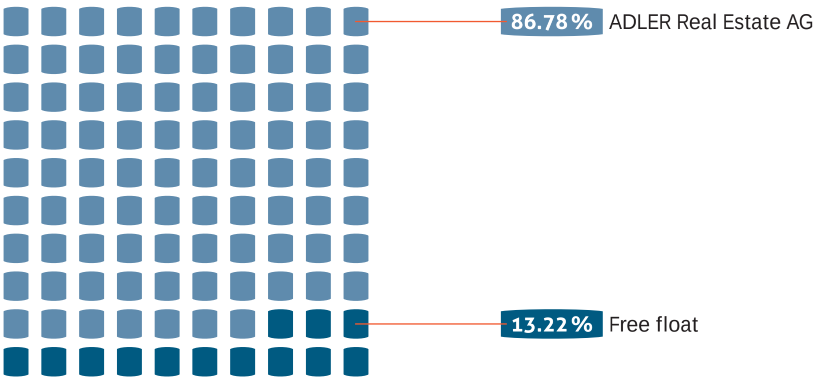
Aside from the largely favourable conditions on the overall market, the share performance of the ACCENTRO stock also benefited from the fact that the 2015 Annual Report, published in March 2016, was able to report the most successful year in the company's history. Other events that boosted the share performance was the company's report in August that it had doubled its original forecast for the year, and the announcement that it would propose the distribution of a first-time dividend to the Annual General Meeting.


ACCENTRO share price development in the financial year 2016

## Shareholder Structure

By the end of the financial year on 31 December 2016, the subscribed capital of ACCENTRO Real Estate AG totalled EUR 24.73 million. It broke down into 24,734,031 no-par value bearer shares. This is up from 24,678,200 shares and a share capital of EUR 24,678,200 at the start of the financial year on 1 January 2016.

Current shareholding structure:




Shareholder structure on 31 December 2016 (information according to last notification from investors)

## ACCENTRO Shares at a Glance

ACCENTRO Real Estate AG

| Share | |
|---|---|
| Stock market segment | Prime Standard |
| ISIN | DE000A0KFKB3 |
| German Securities Code Number (WKN) | A0KFKB |
| Number of shares on 31 December 2016 | 24,734,031 |
| Free float | 13.22 % |
| Highest price (1 January – 31 December 2016)* | EUR 8,07 |
| Lowest price (1 January – 31 December 2016)* | EUR 3,11 |
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| Market capitalisation at year-end* | EUR 182,289,808.47 |

* Closing prices in Xetra trading

## Investor Relations Activities

As in previous years, regular disclosures and the dialogue with the capital market had a key priority in the 2016 financial year.

For instance, ACCENTRO Real Estate AG engaged the capital market with a presentation and one-to-one meetings at the Oddo Seydler Small & Mid Cap Conference in Frankfurt am Main in February 2016. The corporate development of ACCENTRO Real Estate AG is continuously monitored by analysts. The latest analyst assessments returned the following ratings for the ACCENTRO stock:

- 22 August 2016: SMC Research, stock rating: "Buy", upside target EUR 8.30
- 23 May 2016: SMC Research, stock rating: "Buy", upside target EUR 6.70
- 12 April 2016: SMC Research, stock rating: "Hold", upside target EUR 5.50

# Management Report

# Preliminary Remarks

The consolidated financial statements of ACCENTRO Real Estate AG on which this report is based have been prepared in accordance with the International Financial Reporting Standards (IFRS) the way they are to be applied in the European Union.

All monetary figures in this report are stated in euro (EUR). Both individual and total figures represent the value with the smallest rounding difference. Accordingly, adding the values of the individual line items may result in slight differences compared to the sum totals posted.

# 1 Basic Structure of the Group

## 1.1 Group Business Model, Objectives and Strategies

The ACCENTRO Group is a listed property company focusing on residential real estate in Germany. Its business activities are limited, geographically speaking, to real estate in Germany, particularly in economically attractive locations and here primarily in so-called Class B and Class C cities and the city of Berlin. Since the disposal of its proprietary portfolio, the business activities of ACCENTRO have focused on the trading of residential property within the framework of apartment retailing. Also part of its business activities is the management of these residential property holdings. Following the disposal of the proprietary portfolio, reports to the management have ceased to make the distinction by business segments.

The business activities of the ACCENTRO Group include the buying and selling of residential properties and individual apartments, especially the retailing of apartments to owner-occupiers and buy-to-let investors within the framework of retail privatisations of housing portfolios. The business focus is on tenant-sensitive housing privatisations. That being said, the ACCENTRO Group is not averse to exploiting opportunities in the form of block sales of residential units to institutional investors (portfolio sales). The privatisation services provided by the ACCENTRO Group involve both the retailing of apartments from the proprietary property stock of the ACCENTRO Group and the provision of privatisation services on behalf of third parties.

## 1.2 Group Structure and Control System

ACCENTRO AG is the parent company of the ACCENTRO Group. ACCENTRO AG acts as an operationally active holding company for a number of member companies in which the housing stock is concentrated plus one service company focused on the business area of housing privatisation. For companies in which it holds a controlling interest, ACCENTRO AG assumes the top-down responsibilities of corporate controlling, funding, and administration within the ACCENTRO Group.

ACCENTRO AG's sphere of ownership includes core divisions such as Legal, Accounting, Controlling, Risk Management, Funding, Purchasing, Asset Management and IT.

The ACCENTRO Group includes the subgroup ACCENTRO Gehrensee GmbH, which pools a large-scale property development of 675 flats in Berlin, as well as several property holding companies directly managed by ACCENTRO AG that own the property holdings of ACCENTRO Group. The subgroup and all of the property vehicles are consolidated in the consolidated financial statements of ACCENTRO AG. For a list of the individual subsidiaries and associates of ACCENTRO AG, please see the notes to the consolidated financial statements.

Unlike in previous years, the ACCENTRO Group is no longer divided into segments. With the bulk of the portfolio property sold off by 31 December 2016, and with the remaining portfolio property recognised as assets held for sale, there is no longer a need to distinguish between the segments "Trading" and "Portfolio." Instead, these consolidated financial statements distinguish between continuing and discontinued operations in analogy to the segment representation used in the balance sheet, income statement, and cash flow statement.

ACCENTRO Real Estate AG uses EBIT as financial performance indicator for corporate controlling purposes. Here, the key control variable is the sales performance of the properties, with definitive factors such as the number of condominium reservations placed by potential buyers, among others, and the actual sales prices realised. The latter is aggregated both as number of flats involved and as sales total. Among the other factors that the control system takes into account are the operating results of each sub-portfolio or of each property. In addition, control variables such as the number of new clients, viewings, and reservations serve as early indicators for the company's performance.

Factors aggregated on the level of the parent Group include prompt and regular updates on the liquidity position. The liquidity planning for the next 12 months is conducted on a rolling basis. This centrally controlled responsibility helps to monitor the financial stability of the corporate group. Continuously measuring the liquidity flows on the level of each company is an integral part of this control.

### 1.3 Research and Development

With its activities concentrated in the areas of residential property letting and of property trading, the ACCENTRO Group has no need to conduct research and development activities, nor is it dependent on licenses and patents.

## 2 Economic Report

### 2.1 Macro-economic Development

Stock market upheavals in China, the Brexit referendum in the United Kingdom, the election of Donald Trump as President of the United States, and the government crisis in Italy caused considerable unease on the capital markets during the 2016 financial year.

Yet within the currently difficult international environment, Germany's economy has remained remarkably stable. Since 2014, the country's macroeconomic growth has maintained a constant rate upward of 1.5 % The ongoing boom cycle is driven mainly by rising building expenditures and increased domestic consumption, as well as by high levels of employment and, not least, increased government spending to address the migrant crisis.

The European Central Bank (ECB) has continued to pursue its clearly accommodative monetary policy. In early December, ECB president Mario Draghi announced plans to buy up another EUR 540 billion worth of government bonds by year-end 2017. This will bring the sum total spent on bond buy-backs to raise inflation and to bolster the economic stability of Europe up to c. EUR 2.3 trillion.

Rather, the German real estate markets benefit from the favourable economic parameters. Residential real estate companies like ACCENTRO Real Estate AG that rely heavily on gearing to finance their acquisitions benefited more than others from the ECB's low-interest policy.

## 2.2 Development of the German Housing Market

The robust situation on the German investment market for residential real estate remains in place. Transactions in 2016 added up to a total volume of EUR 13.2 billion in residential property deals. While this obviously falls short of the roughly EUR 25 billion grossed during the banner year of 2015, the main reason for the set-back is the lack of big-ticket portfolio transactions. Only two deals transacted in 2016 topped the mark of EUR 1 billion, one being the takeover of Conwert by Vonovia, the other the sale of the BGP portfolio to the China Investment Corporation (CIC) and Morgan Stanley Real Estate.

Going forward, the transaction volume is expected to keep declining in 2017 even though investor interest remains as high as ever. The key reason for this is the projected shortage in tradable assets, and continued price growth. But despite the rising price level, real estate in German metro regions, with the notable exception of Munich, remains relatively affordable compared to other countries.

The performance of Germany's real estate markets in 2016 was bolstered by the robust economic situation, just as it had been the previous year. Low financing charges, the auspicious situation on the labour market, and shifts in investor portfolio allocations in favour of real estate all had a clearly positive impact.

Compared to the prior-year period, asking rents for apartments in German metropolises continued to go up in 2016. Berlin, the most important market for ACCENTRO Real Estate AG, experienced a rent hike of 7.0 % year on year.

Asking prices for condominiums and multi-family dwellings also followed a brisk upward trend in 2016 when compared to previous years. Condominium prices rose by 9.6 % across market segments between 2015 and 2016. In fact, the market segment defined by square-metre prices between EUR 1,500 and EUR 2,300, which is highly relevant for ACCENTRO Real Estate AG, reported a price hike by 14.5 %. Multi-family dwellings in Berlin registered a similarly robust trend as their prices rose by an average of 15.7 % year on year.

Our assessment for Berlin is that the market environment in the privatisation segment will remain very auspicious. The assessment is based on the sound dynamic of Berlin's economy, which has driven a remarkable employment growth lately. For the first time in 25 years, the unemployment rate dropped below the mark of 10 %, while the number of housing benefit recipients dropped by 21 % year on year to a citywide rate of 0.9 %, well below the national average of 1.1 %.

The brisk rise in rent rates in Berlin, paired with the city's amazingly low homeownership rate of 15.6 % (according to the 2011 census), which compares to more than 20 % in other German metropolises and a rate of 45.9 % nationwide, will encourage many tenants to escape the upward rent spiral by becoming homeowners in their own right. This is where ACCENTRO Real Estate AG comes in with its broad supply of attractive condominium. For exhaustive details on the current performance of Germany's real estate markets, please see our ACCENTRO Homeownership Report and our ACCENTRO-IW Housing Cost Report.

Not wishing to limit our product spectrum to the city of Berlin, we will continue the efforts we initiated in 2016 to expand into other German metropolises and swarm cities.

## 2.3 Business Performance

### Key Events During the 2016 Financial Year

The overwhelmingly positive business performance of the ACCENTRO Group in the 2016 financial year took place in a generally rather favourable market environment that, in Germany's metro regions, was marked by keen demand for residential property. A robust boom cycle informs both the situation on the letting end of the market and the demand for condominiums generated by owner-occupiers or buy-to-let investors.

By the end of the year, ACCENTRO Group had once again increased its profit for the year, achieving the highest consolidated income in its history. The forecasts for the parent Group were revised upward twice in the course of the financial year.

In addition to the superb net income, the 2016 financial year was characterised by the exchange of a material share of the proprietary property portfolio and the associated deconsolidation of most portfolio properties. During 2016 and the first quarter of 2017, the ACCENTRO Group divested itself of virtually the entire property stock previously held in the "Portfolio" segment. Although the effect on earnings from the discontinued operation was rather insignificant at barely EUR 1.6 million, the deconsolidation and the planned elimination of the "Portfolio" segment have radically changed the way the statement of financial position, income statement, and statement of cash flows present themselves compared to prior periods.

By acquiring 1,870 units during the 2016 financial year, the company laid the ground for continued stable revenues in its privatisation business.

## 2.4 Earnings, Financial Position and Assets

### Preliminary Remarks – Representation of the Portfolio Business Unit in the Consolidated Financial Statements, and the Asset Swap between ADLER Real Estate AG and ACCENTRO Real Estate AG

In December 2016, ACCENTRO Real Estate AG and its parent ADLER Real Estate AG mutually transferred real estate portfolios by way of an asset swap. ADLER Real Estate AG acquired a 53.08 % interest in the assets and liabilities of the Magnus-Relda Holding Vier property portfolio of ACCENTRO AG. Conversely, ACCENTRO AG took over all assets and liabilities of the Magnus-Sieben portfolio from the ADLER AG group. The Magnus-Relda Holding Vier real estate portfolio includes a total of 133 rental assets with a combined lettable building area of 213,700 m². The properties, which are mainly located in North Rhine-Westphalia, are held by nine subsidiaries of the company Magnus-Relda Holding Vier GmbH. The Magnus-Sieben portfolio consists of several, currently vacant prefab tower blocks in Berlin-Lichtenberg that are held through five subsidiaries of Magnus-Siebte Immobilienbesitz und Verwaltungs GmbH based in Hamburg. It is planned to upgrade the housing stock through a complete redevelopment that will deliver a total of 675 flats on a combined lettable area of 40,200 m², and to retail the flats as condominiums. The exchange ratio was determined by a major international accounting firm that was jointly commissioned by the management boards of ADLER Real Estate AG and ACCENTRO AG. On the level of ACCENTRO AG, the transfer of more than 50 % of the voting rights resulted in the deconsolidation of the Magnus-Relda Holding Vier portfolio.

Due to the deconsolidation of the subgroup Magnus-Relda Holding Vier GmbH as of 31 December 2016 and the reclassification of the remaining portfolio properties as assets held for sale, the provisions of IFRS 5 on so-called discontinued operations must be applied to the entire former "Portfolio" segment for the 2016 financial year.

Under the rules of IFRS 5, the contribution to operating income made by the discontinued operation "Portfolio" should be represented on balance in a summarising line above the consolidated income. The relevant line items of the income statement have been adjusted by the earnings and expenses concerning the discontinued operation and no longer include them. Accordingly, the structure and contents of the items from the income statement as recognised in last year's consolidated financial statements for 2015 cannot be directly compared to the income statement for the same financial year of 2015 as recognised in the 2016 consolidated financial statements. The line items if the income statement (e.g. net rental income, EBIT, net interest result, etc.) represent exclusively the earnings and expenses of the Continuing Operation.

By contrast, the line items "Cash flow from operating activities," "Cash flow from investment activities" and "Cash flow from financing activities" continue to represent both business units. Here, the latter are differentiated in accordance with IFRS 5 by breaking the item down into "thereof notes" for either unit.

Not all of the assets associated with the "Portfolio" segment had been disposed off yet by 31 December 2016. In addition to the minority interests in the Magnus-Relda Holding Vier subgroup that remain with the ACCENTRO Group, these involve mainly properties whose disposal is already agreed, but whose rights and duties are expected to be transferred in 2017. Since the disposal is anticipated for the near future, the assets and their associated debt are recognised in separate balance sheet items below the "Current assets" or "Current liabilities," as the case may be, as "Assets held for sale" or "Liabilities associated with assets held for sale," respectively.

**Earnings Position**

The ACCENTRO Group's key revenue and earnings figures developed as follows during the 2016 financial year:

| | 2016 financial year | 2015 financial year |
|---|---|---|
| | EUR million | EUR million |
| Revenues | 125.1 | 39.5 |
| EBIT | 33.9 | 6.1 |
| Consolidated income from continuing operation | 20.7 | –0.7 |
| Consolidated income from discontinued operation | 5.8 | 23.5 |
| Consolidated income | 26.5 | 22.8 |

The consolidated revenues generated by the continuing operation rose by EUR 85.6 million or 216.7 % between the 2015 and the 2016 financial years, up to a total of EUR 125.1 million. Three portfolio sales contributed significantly to this outstanding result. The number of condominiums sold through retailing was raised to 271 (based on transfers of rights and duties in 2016) in 2016 (previous year: 182). The net rental income experienced modest growth as a result of the progressive portfolio expansion. The net service income declined sharply, which can be traced back to the expiration of a certain service contract.

The other operating income in an amount of EUR 1.0 million represents a modest dip year on year, and includes no material individual items.

The other operating expenses of the Continuing Operation in the amount of EUR 4.6 million (reference period: EUR 3.2 million) include, inter alia, advisory costs for general advisory services, particularly in the areas of taxes, legal, and general strategic issues. Also recognised in this item are rental expenses for the company's business premises, acquisition costs, as well as information, advertising and entertaining expenses.

The total payroll and benefit costs added up to EUR 3.0 million by the end of the reporting period, which implies a one-year increase by EUR 0.7 million (2015 financial year: EUR 2.3 million). The increase is explained, on the one hand, by the expansion of the workforce, which grew by another three employees as of 31/12/2016, and, on the other hand, by salary adjustments and employee participation in the employee profit-sharing plan.

The net interest result of the Continuing Operation equalled EUR –6.4 million for the 2016 financial year, after EUR –5.9 million for the previous year 2015. The elevated interest load is definitively attributable to the continued expansion of the inventory assets which was to some extent debt funded.

The earnings before taxes in the Continuing Operation equalled EUR 28.1 million, up from EUR 0.8 million during the 2015 financial year. The income tax payable for the Continuing Operation equalled EUR 7.4 million in the reporting period, after EUR 1.5 million for the 2015 financial year. The fact that the income tax rate applied to the 2016 financial year was significantly lower at 26.3 % (previous year: –187.9 %) is definitively attributable to the profit and loss transfer agreement that was signed between ACCENTRO AG and its subsidiary ACCENTRO Wohneigentum GmbH in November 2016, and to the associable use of loss carryforwards by ACCENTRO AG, which lowered the income tax burden by c. EUR 2.5 million in 2016. Earnings from deferred tax effects were down to c. EUR 0.6 million.

With a contribution to operating income in the amount of EUR 5.8 million (21.9 %) in 2016 (previous year: EUR 23.5 million or 103.1 %), the Discontinued Operation contributed EUR 26.5 million (previous year: 22.8 million) to the total consolidated income. The significant share that the Discontinued Operation had in the prior-year result is owing to the sale of a property portfolio in Berlin-Hohenschönhausen that used to be part of the "Portfolio" segment and is therefore grouped with the Discontinued Operation for the adjusted reference period in 2015.

For more details on the composition and amount of the income and expenses, please see the notes to the consolidated financial statement, section 6.16.

## Financial Position

**Key Figures from the Cash Flow Statement**

| | 2016 financial year EUR million | 2015 financial year EUR million |
|---|---|---|
| Cash flow from operating activities | | |
| Continuing Operation | 20.3 | –69.0 |
| Discontinued Operation | 1.4 | –5.6 |
| Cash flow from investment activities | | |
| Continuing Operation | 1.2 | –0.1 |
| Discontinued Operation | 20.9 | 68.9 |
| Cash flow from financing activities | | |
| Continuing Operation | –5.9 | 48.1 |
| Discontinued Operation | –24.8 | –42.4 |
| Net change in cash and cash equivalents | 13.2 | –0.1 |
| Decrease in cash and cash equivalents from the disposal of fully consolidated companies (Discontinued Operation) | –5.1 | –0.6 |
| Cash and cash equivalents at the beginning of the period | 7.0 | 7.7 |
| Cash and cash equivalents at the end of the period | 15.1 | 7.0 |

The exchange of shares in the real estate portfolios Magnus Relda Holding Vier and Magnus Sieben that was transacted toward the end of the 2016 financial year between ACCENTRO AG and its parent ADLER AG had no cash effect, and impacted only the item "Decrease in cash and cash equivalents from the disposal of fully consolidated companies" in the statement of cash flows. This line item lists the difference in liquid assets held by the Magnus-Relda Holding Vier subgroup and by the Magnus Sieben subgroup, respectively.

The high cash inflow from the disposal of inventory properties was used during to 2016 financial year to keep expanding the trading portfolio.

The cash flow from operating activities came to EUR 21.7 million during the 2016 financial year (2015 financial year: EUR –74.6 million). Out of this total, the Continuing Operation accounts for EUR 20.3 million, and the Discontinued Operation for EUR 1.4 million. The net cash flow from operating activities in the Continuing Operation breaks down into the cash profit for the period and net changes in current working capital.

A positive impact on the cash flow from operating activities is generated by rent payments and the amounts deposited in return for inventory properties sold. The operating cash flow is burdened by the sum total of operating expenditures, including the income tax payments and payments toward the expansion of the inventory real estate assets. Earnings from unrealised increases in the value of real estate inventories were also eliminated from the operating cash flow of the Discontinued Operation as non-cash items. For details, please see section 6.21 in the notes to the consolidated financial statement.

Particularly the disposal of portfolio properties and of non-current assets held for sale, which also includes portfolio properties held for sale, and the receipt of payments for real estate subsidiaries already sold in late 2014, produced a robust cash flow from investment activities in the Discontinued Operation in the amount of EUR 20.9 million (2015 financial year: EUR 68.9 million). The positive cash flow from investment activities in the Continuing Operation in the amount of EUR 1.2 million (reference period: EUR –0.1 million) is attributable almost exclusively to distributions from corporate investments consolidated at equity, which contributed a cash inflow of EUR 1.3 million.

The clearly negative cash flow from financing activities in the amount of EUR –30.7 million (2015 financial year: EUR 5.7 million) was generated by payments of interest and principal in the 2016 financial year, which far exceeded the borrowing volume. On balance, the cash flow breaks down into cash outflows toward payments of interest and principal in the Continuing Operation in an amount of EUR –5.8 million (reference period 2015: EUR 48.1 million) and cash outflows from payments of interest and principal in an amount of EUR –24.8 million (2015 reference period: EUR –42.4 million) in the Discontinued Operation.

### Structure of Assets and Capital

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | EUR million | % | EUR million | % |
| **Assets** | **300.5** | **100.0 %** | **395.2** | **100.0 %** |
| Non-current assets | 18.9 | 6.3 % | 189.6 | 48.0 % |
| Current assets less liquid assets* | 266.5 | 88.7 % | 198.7 | 50.3 % |
| Cash and cash equivalents | 15.1 | 5.0 % | 6.9 | 1.8 % |
| **Debt and equity** | **300.5** | **100 %** | **395.2** | **100.0 %** |
| Equity | 136.8 | 45.5 % | 109.2 | 27.6 % |
| Non-current liabilities | 65.2 | 21.7 % | 186.0 | 47.1 % |
| Current liabilities* | 98.5 | 32.8 % | 100.0 | 25.3 % |

* Including assets and liabilities held for sale

Due to the deconsolidation of almost the entire inventory of properties that had been recognised as non-current real estate assets the previous year, and due moreover to the recognition of the remaining portfolio as current assets held for sale, the balance sheet for the 2016 financial year of the ACCENTRO Group presents a radically shifted picture.

The debt-to-equity ratio (debt/total capital) improved to 55.5 % (prior-year period: 72.4 %), particularly because of the significantly increased equity capital (EUR +27.6 million) and because of the reduction of total assets by the deconsolidation of the Magnus-Relda Holding Vier property portfolios (EUR –94.7 million). As far as liabilities go, the share of current liabilities rose from 25.3 % to 32.8 %, a trend in keeping with the nature of the housing privatisation line of business. The properties itemised among the inventory assets are largely financed on loans whose terms and conditions mandate the repayment of a contractually agreed amount upon disposal of a given apartment or house. Accordingly, these liabilities are recognised as current liabilities because their repayment is projected for the subsequent year 2017, based on the current sales planning. The reduction of non-current financial liabilities is mainly attributable to the deconsolidation of the portfolio property segment and the disposal of the non-current liabilities associable with it. The non-current liabilities of the continuing operation include, in addition to the corporate bonds of ACCENTRO Real Estate AG, liabilities to banks because the current sales planning status makes it unlikely that they will be repaid in the course of the 2017 financial year.

At 5.0 %, the ratio of cash and cash equivalents to total assets significantly exceeded the level registered by the prior year balance sheet date (1.8 %). The Group's cash ratio (cash and cash equivalents/current liabilities) improved from 7.0 % to 15.4 %.

The Group was able to meet its financial obligations at all times. A rolling cash plan enables us to recognise liquidity bottlenecks well ahead of time, and to seize the necessary countermeasures, as the case may be.

The financing schemes of ACCENTRO Real Estate AG rest on several mainstays. In addition to bank loans collateralised by land charges, the company employed capital-market-based financing arrangements in the form of convertible bonds and corporate bonds. In addition, the majority shareholder ADLER Real Estate AG has made a credit line facility in the amount of EUR 30.0 million available to the ACCENTRO Group. By the balance sheet date, nothing had been drawn down from this credit line (prior period: EUR 2.8 million).

In the course of the 2016 financial year, non-current liabilities to banks decreased from EUR 154.6 million to EUR 42.7 million. The reason underlying this decrease was essentially the deconsolidation of the proprietary property portfolio, and of the financing arrangements associated with it, by year-end 2016.

As of 31 December 2016, the current liabilities to banks with a maturity of less than one year amounted to EUR 64.8 million or EUR 71.0 million when including the debt associated with assets held for sale (prior-year period: EUR 63.8 million and EUR 78.2 million).

The convertible bonds and corporate bonds issued in prior years increased slightly through the dissolution of deferred issuance costs, and inversely through the conversion into shareholders' equity, from EUR 21.5 million as of 31 December 2015 to EUR 21.8 million as of 31 December 2016.

Cash and cash equivalents amounted to EUR 15.1 million as of 31 December 2016, compared to EUR 7.0 million by 31 December 2015. ACCENTRO Real Estate AG assumes that all of the loans to be renegotiated during the 2017 financial year will be renewed in turn. Assuming that market interest rates will remain low, the company perceives this as an opportunity to keep optimising its interest expense. No financing in foreign currency was taken out by ACCENTRO Real Estate AG.

The high consolidated net income of 2016 and the balance of the net retained profits of 2015 carried forward to new account resulted in a further increase in shareholders' equity from EUR 109.2 million at year-end 2015 to EUR 136.8 million by 31 December 2016. Considering the reduced total assets, the equity ratio improved significantly from 27.6 % to 45.5 %.

For more details on the amount and composition of the Group's cash flows, please see the consolidated cash flow statement and the Group notes, section 6.21.

## Asset Position

Total assets declined significantly by EUR 94.7 million to EUR 300.5 million (31 December 2015: EUR 395.2 million). The decrease is owing to the disposal of the investment properties that were deconsolidated, along with associated liabilities, from the consolidated financial statements of ACCENTRO Real Estate AG as of 31/12/2016. Material changes to each balance sheet item are detailed in the summary below, and are subsequently elaborated.

| | 31 December 2016 | 31 December 2015 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| **Non-current assets** | **18.9** | **189.6** | **–170.7** |
| Investment property | 0 | 168.3 | –168.3 |
| Other non-current assets | 18.9 | 21.3 | –2.4 |
| **Current assets** | **259.9** | **188.5** | **71.4** |
| Inventories | 223.6 | 156.1 | 67.5 |
| Trade receivables | 2.0 | 10.4 | –8.4 |
| Other current assets | 34.4 | 22.0 | 12.4 |
| **Assets held for sale** | **21.7** | **17.1** | **4.6** |
| **Equity** | **136.8** | **109.2** | **27.6** |
| **Non-current liabilities** | **65.2** | **186.0** | **–120.8** |
| Financial liabilities | 42.7 | 154.6 | –111.9 |
| Shareholder loans | 0 | 2.8 | –2.8 |
| Other non-current liabilities and bonds | 22.5 | 28.6 | –6.1 |
| **Current liabilities** | **92.3** | **85.5** | **6.8** |
| Current financial liabilities | 64.8 | 63.8 | 1.0 |
| Other current liabilities and accrued expenses | 27.5 | 21.7 | 5.8 |
| **Liabilities associated with assets held for sale** | **6.2** | **14.4** | **–8.2** |

The non-current assets include essentially a non-depreciable goodwill in the amount of EUR 17.8 million. The significant drop in non-current assets by EUR 170.7 million is primarily explained by the disposal of the investment properties and their reclassification as assets held for sale (EUR 168.3 million).

Current assets increased by EUR 71.4 million to EUR 259.9 million (prior period: EUR 188.5 million), and represent primarily the trading portfolio properties recognised in inventories. During the 2016 financial year, roughly EUR 128.4 million was spent on the acquisition of 1,470 residential units. Sale and purchase agreements for another 419 assets with a selling price of EUR 65.8 million have been signed, but the transfer of possession, benefits and burdens was to take place in 2017. At the same time, 976 residential units worth EUR 80.5 million in initial costs were sold, so that the inventory assets, taking into account the refurbishment measures completed in the course of the year, increased by EUR 67.5 million.

Trade accounts receivable declined from EUR 10.4 million to EUR 2.0 million, mainly due to purchase price payments collected in return for investment properties sold by year-end 2014, and moreover due to the deconsolidation of the bulk of the portfolio properties along with their associated receivables and payables, and finally due to the settlement of outstanding service invoices.

The composition of the other receivables and other assets was subject to a fundamental change in the 2016 financial year. The bank accounts that were subject to a use restriction the previous year (EUR 2.9 million) and the accounts receivable from operating costs not yet settled (EUR 9.8 million) as recognised in the previous financial statements were reduced by the disposal of the Magnus-Relda Holding Vier portfolio to EUR 0.1 million and EUR 4.3 million, respectively. Together with the sold Magnus-Relda Holding Vier portfolio, a subsidiary of ADLER Real Estate AG took over the existing loan debt of the Magnus-Relda Holding Vier companies vis-à-vis ACCENTRO AG, creating loan receivables from the aforesaid company in the amount of EUR 12.7 million as of 31 December 2016.

The item "Non-current assets held for sale" for the 2016 financial year recognises several investment properties in a total amount of EUR 12.0 million that are earmarked for sale in the course of 2017. Legally binding sale and purchase agreements are in place for two properties, with the transfer of benefits and burdens expected to take place during the first quarter of 2017. Liabilities corresponding to this item have also been separately itemised with EUR 6.2 million.

Also recognised in the line item "Non-current assets held for sale" is a minority interest worth EUR 9.5 million in a former subsidiary associated with the discontinued operation of the "Portfolio" segment. The idea is to dispose of the minority interests in the course of the 2017 financial year.

Non-current liabilities plummeted to EUR 65.2 million (previous year: EUR 186.0 million) by the balance sheet date, mainly as a result of the deconsolidation of the portfolio properties along with their associated financing arrangements.

Current liabilities increased by EUR 6.8 million to EUR 92.3 million (prior period: EUR 85.5 million). They were almost entirely generated by a significant increase in income tax liabilities in sync with the robust consolidated income.

### General Statement on the Group's Business Situation

The Group management report of the previous year included a forecast for substantial positive consolidated funds from operations in the double-digit millions but short of the consolidated income of 2015. The net income realised in the 2016 financial year, the finest in the company's history, exceeded the forecast by a wide margin. As a result, the forecast was revised upward twice in the course of the 2016 financial year.

The expectation that the contribution to operating income by the former "Trading" segment would continue to improve was impressively borne as sales proceeds grew by over 200 % while the net income from inventory property sales increased by over 500 %. It is safe to assume, however, that this pace of growth will not be matched in every financial year going forward.

The forecasts for the "Portfolio" segment have rendered obsolete by the deconsolidation as of 31 December 2016.

Against this background, the Management Board is very satisfied with the earnings performance. The prerequisites for a sustained positive financial performance of the ACCENTRO Group were put in place during the 2016 financial year through the continued expansion of the trading portfolio. With the elimination of the proprietary portfolio, the business focus has fully shifted to the residential real estate trade as of the 2017 financial year.

Meanwhile, the equity ratio was raised to 45.5 % (prior period: 27.6 %). The increase reflects the sound performance of the 2016 financial year despite the decrease in total assets.

### 2.5 Other Financial and Non-Financial Performance Indicators

The technical expertise and commitment of our employees and executives are material requirements for the business performance of ACCENTRO Group.

To help retain employee knowledge and skills, the ACCENTRO Group places a strong emphasis on attractive working conditions. These include in particular a competitive compensation system which is continuously monitored and adapted as required. Group employees also benefit from options for continued professional development as needed or whenever the opportunity presents itself.

An important non-financial success factor for ACCENTRO AG is the company's reputation, particularly the reputation of its subsidiary Accentro GmbH. Accentro GmbH has been active in the privatisation business since 1999, and is Germany's market leader in this field today.

For some years now, Accentro GmbH has concentrated on the booming market of Berlin, exploiting the highly auspicious development on that market. By setting up its own trading portfolio outside Berlin, ACCENTRO Group will keep expanding its position as attractive and reliable partner in the area of tenant-sensitive housing privatisation. The business success of ACCENTRO Group in the privatisation business is monitored by continuously keeping count of the condominiums sold, so that the trend in sales represents yet another, non-financial performance indicator.

In a bid to widen its circle of buyers beyond the German-speaking clientele, Accentro GmbH has lately started an ongoing effort to expand its international footprint by engaging new groups of leads who are interested in German real estate but do not wish to buy entire portfolios.

## 3 Forecast, Opportunity and Risk Report

### Forecast Report

The following statements on the future business performance of ACCENTRO Group and the factors considered to be crucial in terms of the development of the market, the sector and the company are based on the estimates made by the Management Board of ACCENTRO AG and the corporate planning decisions made in December 2016. In our planning efforts, we assume that the economic and social parameters will remain largely unchanged while the moderate economic growth, the low unemployment trend and the low-interest cycle will continue. All forecasts are subject to the risk that the developments predicted may not actually occur, either in terms of their extent or their general trend. The material risks to which ACCENTRO Group believes it is exposed are explained in the Opportunity and Risk Report.

With the "Portfolio" segment now eliminated, the 2017 financial year and subsequent years will focus its corporate strategy and operating activities on the privatisation of residential real estate, and on the creation of homeownership options for a broad-based population cohort. In doing so, ACCENTRO AG will focus on the privatisation of apartments from its proprietary stock as well as on behalf of third parties. This is the focus of the acquisition strategy that ACCENTRO AG pursues.

The Management Board expects to see a significant, double-digit increase in revenues in 2017 combined with a moderate growth in earnings before interest and tax (EBIT) in the singledigit percentage range somewhere between EUR 34 million and EUR 36 million. Based on the completed expansion of the trading portfolio, and given the exclusive focus on privatisation activities, there is every reason to expect a largely stable earnings performance going forward.

Despite the ongoing expansion of the trading volume by 1,470 residential units and an investment volume of more than EUR 128.4 million during the 2016 financial year, the "Continued Operation" generated a positive operating cash flow, disproving a forecast to the contrary in the 2015 statement of account. The underlying reason is the non-cash swap of portfolio properties against 675 assets earmarked for trading.

The continued expansion of the trading portfolio and the cash outflow for capital expenditures will probably push the operating cash flow into the negative range because these investments are grouped with the operational division.

The equity ratio was raised as projected, and equalled 45.5 % by the end of the financial year. Based on its positive earnings guidance, the Management Board expects the equity ratio to keep improving in the course of 2017. If, however, the planned expansion of the business activities in the "Trading" segment was to generate a disproportionate growth in total assets by seizing market opportunities, the equity ratio could actually decline despite an absolute increase in equity.

In regard to the main non-financial performance indicators, we have reason to believe that the sales figures in the trading business will increase sharply, and continue to strengthen the brand name ACCENTRO in the process. In terms of employee retention, our plans for 2017 seek to continue the current strategy of trying to retain our employees long-term and to keep the churn rate to a minimum. A modest expansion of staff is to be expected to adapt to the company's ongoing growth.

## Opportunity and Risk Report

### Risk Management

The ACCENTRO Group's risk management system is meant to secure the value add potential of the Group's commercial activities and to permit their exploitation in such a way as to generate a sustained growth in going concern value. An integral component of this system is the fact that potentially adverse developments and events are addressed in a structured manner and at an early stage, thereby allowing the Management Board to initiate countermeasures in time to prevent significant damage.

Having the function of detecting and communicating significant risk factors promptly, particularly those that are highly relevant in terms of income and liquidity and that could therefore jeopardise the Group's continued existence, the ACCENTRO Group's risk management system is integrated in the planning, reporting and controlling processes of ACCENTRO AG at an organisational level. The system is managed on a centralised basis by ACCENTRO AG, and comprises the systematic identification, analysis, assessment and monitoring of material risks by the company's Management Board. In light of the Group's clearly defined corporate structures and business processes, the level of formalisation has so far been kept comparatively low for reasons of efficiency.

The close involvement of the Management Board in the main business transactions and projects serves to ensure that emerging risks are monitored on an ongoing basis. The monthly reporting to the Management Board explicitly addresses threats to which ACCENTRO AG is exposed, and proposes ways to minimise them.

The risk management system employed by ACCENTRO AG contains the following key elements:

- a controlling and reporting system that is able to identify adverse business developments at an early stage, and to communicate them to the company's management;
- periodic or event-related risk stock-taking;
- the documentation of relevant risks for the purposes of informing the company's management on a regular or case-by-case basis;
- the periodic assessment of the identified risks and the resolution of decisions on any countermeasures or the conscious acceptance of transparent risks by the Management Board of ACCENTRO AG.

The key elements of the risk management system are itemised in the subsequent overview of the risk management process:

1. Definition of specifications: The Management Board defines the methodological and thematic prescriptions for the risk management system, with the company's expectations having been pinpointed and the risk awareness enhanced.
2. Risk identification and analysis: All entrepreneurial risks are fully captured, analysed in regard to causes and effects, evaluated, and classified in three different risk categories. In addition, appropriate countermeasures are identified.
3. Reporting: The Management Board is regularly and promptly briefed about extant threats and possible countermeasures. Within the framework of the reporting cycles, these briefings are scheduled spontaneously, weekly, monthly or quarterly, depending on the situation at hand and the respective threat analysis.
4. Risk management: The company will proactively respond to identified, analysed and rated threats on the basis of executive decisions regarding controlling measures.
5. Risk controlling: The purpose of risk controlling is the methodological and thematic planning, monitoring and controlling of the risk management system of ACCENTRO AG. Risk controlling covers all stages of the risk management process, and enables the Management Board to regularly update the methodological and thematic prescriptions for the risk management system.

**Presentation of Individual Risks**

The ACCENTRO Group is exposed to a wide variety of risks which, individually or collectively, could adversely affect the net asset, financial and income situation of the company and its continued economic performance. It needs to be remembered that the changes resulting from the composition of the various threats that were relevant for the ACCENTRO Group during the 2015 financial year continued to be relevant in the 2016 financial year.

Risks that used to be associated with the discontinued project development business and with the retailing of apartments in listed buildings that was also terminated have further lost in relevance, specifically because disputes in these contexts were resolved through settlements in 2016.

Letting-related risks for the company have also been significantly reduced since the rental property portfolio was dissolved. Accordingly, ACCENTRO Real Estate AG is currently exposed only to risks arising from the housing privatisation business, including a certain letting risk associated with the inventory properties.

## Company-Specific Risks

### a) Risks Arising from the Property Selection

The economic success of the ACCENTRO Group depends definitively on the selection and acquisition of properties suitable for the sale of apartments to owner-occupiers and buy-to-let-investors. This involves a certain risk of incorrectly appraising, or failing to detect, any negative structural, legal, commercial and other defects a property about to be purchased may have. Moreover, assumptions made in relation to the income potential of a given property could subsequently prove to be partially or wholly incorrect. In particular, the management of the respective property could fall short of the expected results, or apartments earmarked for sale could prove impossible to sell in the planned quantity, on the planned terms, and/or within the planned time frame, as a result of an incorrect assessment of the attractiveness of the property's location and other factors that investors deem crucial for their decision whether or not to buy.

These property-specific risks are countered by conducting due diligences on the relevant properties. As part of the property assessment, factors such as expected renovation, maintenance and modernisation requirements and the earnings power and debt service coverage ratio are examined using standard banking benchmarks.

### b) Letting Risks

There is a risk that changes in supply and demand on the occupier market, and a deterioration of the competitiveness of any given property within its market environment will have a direct negative impact on the rental income realised by companies of the ACCENTRO Group, as well as on the vacancy rate of the Group's property portfolio. Moreover, additional costs could be generated that may or may not be recoverable from the tenants. Risks of this type are addressed through active asset management and property management. This includes the continuous in-depth monitoring of the occupier market and analyses of tenant requirements, as well as the company's letting management and measures taken to ensure the company's competitiveness on the respective local occupier market. Such measures include specifically the continued upkeep along with refurbishments and modernisation measures necessary to preserve or enhance the attractiveness of the properties for the incumbent tenants and buyers.

### c) Construction Risks

To the extent that construction measures are required for let properties or properties acquired for privatisation or leased by the Group, there is a risk that the resulting construction costs could significantly exceed forecasts. This risk is countered through detailed construction cost planning and strict monitoring.

Uncertainties regarding whether, when and under what constraints and/or subsidiary conditions approval for the projects is granted under public construction law may contribute to the construction risks. This means that the company partly relies on the individual authorities exercising discretion. It also means that disputes with residents and neighbours may significantly delay or negatively influence the granting of approvals. These circumstances may mean that planned construction measures cannot be executed for the price assumed, within the timeline planned, or not at all. That is why risk factors of this sort are thoroughly examined in the run-up to a given construction measure.

Going forward, the ACCENTRO Group expects risks in this area to increase significantly. While construction risks used to be essentially limited to less-than-complex refurbishment and repair work for the purpose of improving the marketability of the company's housing stock, the acquisition of the Magnus Sieben portfolio will necessitate substantially higher capital expenditures. The residential portfolio with a total of 675 flats that was taken over in December 2016 is currently not in a marketable state. Returning it to a marketable condition will require extensive investments on a scale of more than EUR 60.0 million, according to current understanding.

ACCENTRO AG already hired employees with relevant experience to address these risks.

**d) Sales Risks**

To the extent that the ACCENTRO Group relies on external sales partners in its apartment retailing activities, the commercial success of such sales depends to a high degree on the Group's ability to recruit qualified estate agents and to retain them long-term. This is supposed to be achieved primarily by offering attractive payment terms and, a large property stock.

Moreover, the business success of the ACCENTRO Group in the apartment retailing sector definitively hinges on the willingness of owner-occupiers and investors to purchase the apartments offered for sale. The willingness to buy may be influenced, on the one hand, by developments within the sphere of the respective properties, such as a deterioration of the location's social environment or structural issues, but also by general developments, such as the economic situation and employment trends, on the other hand. There is a risk that developments such as these may impair a client's willingness to buy, so that apartments earmarked for sale could prove impossible to sell in the planned quantity, on the planned terms, and/or within the planned time frame.

**e) Financing, Liquidity and Interest Rate Risks**

Within the framework of its business activities, the ACCENTRO AG Group is exposed to a number of financing, liquidity, and interest rate risks that are addressed by the monitoring and controlling measures outlined below.

Extensive liquidity planning instruments both in the short- and medium-term sectors are used to match ongoing business processes with the planning data on the level of the parent Group, of the business units, and of key subsidiaries. The Management Board is regularly and exhaustively briefed about the current liquidity and the latest liquidity forecast.

In relation to the existing loans for financing the properties held by the Group, the refinancing of the ongoing business activities, and the new borrowing required to acquire additional properties, there is a risk that company-specific and market-specific developments may make it harder to borrow funds and/or make such borrowing possible only on less favourable terms. If this was to create issues for the repayment of current loans, creditors could initiate coercive realisations of mortgage collateral. Such fire sales would create serious financial issues for ACCENTRO AG. This risk is addressed by observing and analysing the financing market. For instance, ACCENTRO AG diversifies the Group's financing risks by exploiting financing alternatives in addition to classic loan financing, e.g. by issuing corporate bonds or convertible bonds.

The line of business currently pursued by the ACCENTRO Group is to a large degree influenced by the availability of financing options. A restrictive lending policy of banks over extended periods of time could negatively impact the business performance and the growth of ACCENTRO Group. In order to address this risk, the ACCENTRO Group collaborates with various banks, and closely monitors financing market trends. In addition, alternative funding options through the capital market are exploited in addition to bank financing, including the issuance of bonds, for instance.

The privatisation segment is exposed to the risk that a measure may not have been completed at maturity and that a loan rollover is either impossible altogether or possible only on unfavourable terms and/or at increased costs. This risk is countered by repaying a disproportionally high amount through partial sales, and by negotiating longer loan terms. The ACCENTRO Group also signed loan agreements with more than one bank, so as to counter the associated risks.

The consolidated Group has taken out loans and issued corporate bonds in a total amount of approximately EUR 33.5 million (previous year: EUR 175.5 million) that are subject to covenants agreed with the banks in regard to debt service coverage ratios or debt-to-equity ratios (financial covenants). The decline is definitively attributable to the already elaborated asset swap and the liability transferred in conjunction with the same. Breaches of these covenants could trigger payments into blocked accounts or early repayment obligations on the basis of a contractually agreed escalation procedure. Analogously, the convertible bonds and the one corporate bond issued are subject to credit terms that, were they to eventuate, could cause a liquidity risk. If certain credit terms eventuated, for instance in the event of a change of control, the convertible bond and the corporate bond could be prematurely called for redemption. The Group uses appropriate monitoring methods to detect any early signs of a risk that covenants might be breached, and strives to prevent the breach through adequate countermeasures. All financial covenants were upheld during the 2016 financial year.

On top of that, liquidity risks may arise as a result of possible rent losses. In order to minimise these risks as much as possible, regular credit checks are run on tenant prospects ahead of any lease signed.

Interest rate risks exist for the liabilities intended for prolongation or refinancing and the planned loans to finance properties. In order to protect itself from the adverse effects of interest rate changes, the ACCENTRO Group relies on fixed interest rates to finance the assets held for sale, but always with a view to the market situation and to the market forecasts. In the privatisation sector, by contrast, sensitivity analyses are conducted both in the context of drafting the business plans and in line with the continuous risk monitoring, so as to be able to predict the possible ramifications of interest rate changes for the Group's economic performance. The ongoing disproportionate repayments from properties sold rarely make long fixed-interest periods a sensible proposition.

The direct impact of changes in the general interest rate level on the company's performance through changes in cash flow pose a small risk compared to the conceivable indirect impact of changes in the general interest rate level on real estate demand (for more details on this, see the elaboration on economic risks).

**f) Bad Debt Risks**

The risk of bad debts in connection with trading residential real estate is reduced by delaying the property handover until the purchase price has been paid in full. This also applies whenever properties require refurbishment work. Given the broad customer structure especially in apartment retailing, bad debt risks in regard to the purchase price payment for retailed apartments play but a secondary role in this context when considered in isolation. The same is true for the default risk associable with rental claims vis-à-vis individual tenants in the apartment letting segment. Owing to these risk diversification measures, allowances that had to be made for rent receivables during the year under review were down to a total amount of EUR 0.1 million.

The company also bears the credit risk in the event that it enforces rights of rescission or warranty against the seller of a property and the seller defaults on the repayment of the purchase price or the fulfilment of the warranty rights.

Finally, property purchases are subject to a certain credit risk, as rent payments frequently continue to be paid to the seller even after the respective rights, entitlements and obligations have been transferred, meaning that the seller is then required to pass these payments on to the ACCENTRO Group. However, this concerns only those tenant shares that are not paid via direct debiting, and amount to less than 10 % of the net rents of the acquired properties.

**g) Legal Risks**
In the context of their business activities, ACCENTRO Group companies may, in particular, become involved in legal disputes and be confronted by (potential) warranty and compensation claims without being able to enforce claims against third parties in their own right. Warranty risks arise specifically from cases in which no liability exemption was agreed in conjunction with property sales.

When selling individual apartments, ACCENTRO Group companies and their external sales partners also perform consultancy services that could lead to compensation claims from third parties.

A property transaction completed in 2015 could occasion certain damage claims against ACCENTRO Real Estate AG because a special purpose entity sold through a share deal was involved in a law suit and because ACCENTRO has indemnified the buyer against possible claims by a plaintiff. At the same time, rights of recourse exist against the original owner of these special purpose entities because the legal action had already been initiated by the erstwhile seller at the time that ACCENTRO Real Estate AG acquired the property companies, which means that ACCENTRO itself has rights of recourse in this matter. At this moment, the risk is considered negligible.

Adequate provisions have been set aside for the legal risks to which the Group is currently exposed. We are not aware of any other legal risks at present, particularly no risks arising from legal disputes that could have a significant adverse effect on the financial position of the ACCENTRO Group.

## Market-Specific Risks

**a) Economic Risks**
The ACCENTRO Group has so far generated its revenues exclusively inside Germany. As such, a deterioration of the economic parameters in Germany, combined with a rise in unemployment, could bring about a (significant) drop in demand for property investments, negatively impact rent and price levels, and impair the credit ratings of potential property tenants and buyers. Moreover, the market environment in Germany is indirectly affected by global economic trends. Significant factors to watch in 2017 include primarily the general elections in some European countries, and the development of international free trade.

The development of interest levels in Germany is particularly important for domestic real estate demand. An increase in interest rates would make property investments more difficult due to rising interest payments. This scenario would also drive up the borrowing costs for the loans taken out by the companies of the ACCENTRO Group, with a corresponding negative impact on earnings.

**b) Sector Risks**
Deterioration in the general conditions on the German property market could have a negative influence on the business performance of ACCENTRO Group. Softening property prices would make it harder to realise sales profits, and diminish the earnings in the privatisation sector. At the same time, additions of attractively priced properties could be limited as potential sellers are unwilling to sell on account of the low price level.

Moreover, the development of the property sector is largely determined by the availability of finance instruments. A persistently restrictive lending policy could negatively impact the demand for real estate in general, and thus result in impairments for the inventory properties of ACCENTRO AG, and in lower privatisation proceeds.

The property sector is characterised by intense competition among numerous providers. So there is the obvious danger that mounting competition will intensify the price pressure and push down margins. For the subsidiary Accentro GmbH, this risk is particularly relevant whenever commission agreements are signed.

Finally, demand for residential properties could also be negatively impacted by the expected decline in the German population and the resulting potential downturn in living space requirements.

**c) Legal Parameters**
As the business activities of the ACCENTRO Group are regulated by the specific legal parameters that apply to property, they may be adversely affected by amendments to national and/or European legislation or the changed interpretation or application of existing legislation, including tenancy laws, public construction laws, and tax laws. These include, without being limited to, rental law, public building law, and fiscal law.

So far, ACCENTRO has focused its activities on the real estate market in Berlin. It is therefore of the essence to keep a close eye on the ramifications of policy decisions for our core market in Berlin. This applies, for one thing, to the consequences that the rent control measure commonly called the "rent freeze," which was signed into law on 5 March 2015, will have for the ACCENTRO Group. Another important development that could confront us with new challenges is the coalition agreement of Berlin's new city government, especially the agreement to zone additional historic district protection areas. However, the Management Board assumes on the basis of its current real estate inventory that no material changes are to be expected, because the going rent rates in Berlin generally match the rack rent.

## Risk Concentrations

The business success of the ACCENTRO Group is in some ways disproportionately dependent on a small number of projects and portfolios that account for a major share of its revenues. Aside from the client dependence that is generally associable with the fact, there is a risk that possible delays or issues arising in the context of the privatisation of this portfolio would disproportionately impact the business success of the ACCENTRO Group.

The investments of ACCENTRO focus in particular on the real estate market in Berlin. Accordingly, if Berlin as real estate location was to develop a generally adverse trend, the development could definitively impair the assets, finances and earnings of the ACCENTRO Group. For the time being, the Management Board rates the opportunities that present themselves on Berlin's real estate market as far greater than its potential threats, especially against the background of the company's long-term experience in the city's property sector. There are no signs so far that Berlin's real estate market could be overheating.

Moreover, specific one-off risks keep arising in connection with construction work, especially the threats of cost overruns, project delays, delinquency, which can arise in connection with building measure that involve portfolios acquired by the ACCENTRO Group, for instance within the framework of modernisations.

### Other Influencing Factors

In addition to the risks identified above, there are general influences that are unforeseeable, and that can therefore not be pre-empted. These include political changes, social influences, and force major such as natural disasters or terrorist attacks. These factors could have adverse effects on the economic environment and thus indirectly impair the future business performance of the ACCENTRO Group.

### Assessment of the Overall Risk

During the reporting period, the ACCENTRO Group continued to optimise its financing structure, taking advantage of the generally low level of interest rates to acquire properties earmarked for trading throughout 2016. Accordingly, the risk situation of the ACCENTRO Group in regard to financing has noticeably improved. With a view to the persistently auspicious market environment and the great marketing outlook in the wake of completed property acquisitions there are currently no signs of material risks to the ACCENTRO Group, and specifically no risks to the Group's going concern status.

### Opportunities Created by Future Developments

Following the successful deconsolidation of the proprietary property portfolio by 31 December 2016, ACCENTRO Real Estate AG can now shift its focus fully to the privatisation and development of residential real estate.

Meanwhile, ACCENTRO AG continued to expand its trading stock by acquiring and swapping new property portfolios during the 2016 financial year. The portfolio includes assets throughout Germany, including in Bavaria, North Rhine-Westphalia, Lower Saxony, and the metro regions of Hamburg and Berlin. Especially its strong position in Berlin gives ACCENTRO AG a great chance to exploit the exceptional dynamic of Berlin's housing market. The extensive geographic footprint of its privatisation segment makes ACCENTRO AG a fast-growing and reliable sales partner in its collaboration with business partners.

Its subsidiary Accentro GmbH has market leadership status in Germany's privatisation sector. This presents an opportunity for ACCENTRO AG, too, as it permits the Group to expand faster than the competition and simultaneously to have easier access to new properties earmarked for privatisation. The robust market position in connection with the demonstrable track record in apartment retailing also implies the chance to acquire new third-party contracts for privatisation services.

In a parallel development, the federal body politic has rediscovered the subject of homeowner subsidies. If German lawmakers were to act upon the impulse, new subsidy programs would probably have a positive effect on our business, no matter what form they might take (such as child tax credit for first-time home buyers, allowances for the real estate transfer tax, or similar).

Taken together, the above factors form the basis for a successful implementation of the corporate strategy, and will facilitate future fundraising efforts both on the capital markets and among banks.

## Overall Assessment

In light of the anticipated development of Germany's housing demand and the generally auspicious parameters of the country's residential property market, the company projects a growing business potential looking forward. This assessment is backed by the lively interest of owner-occupiers and buy-to-let investors in real estate – particularly in condominiums – that is acquired either as investment or (in the case of owner-occupiers) as an integral component of a private pension plan. The latter aspect is bound to gain in significance, and substantially so.

ACCENTRO AG intends to boost its revenues going forward, specifically by stepping up its activities in the housing privatisation sector. On the basis of a stable business performance and viable cost income ratios, the company expects to see its income and financial position to stabilise on a sustained high level. In the coming year, the Group is planning a substantial increase in revenues and a moderate growth in the consolidated funds from operations (EBIT) in a range of EUR 34 to 36 million.

# 4 Internal Control System and Risk Management in Regard to the Group Accounting Process

The financial risk management of the ACCENTRO Group is geared towards managing and limiting the financial risks arising from operating activities. In particular, this is intended to counter significant bad debt losses that could jeopardise the company's economic development. Another objective of financial risk management is to ensure optimised Group financing. The availability of sufficient funds for the company is monitored by a rolling liquidity control.

The appropriateness of the risk early warning system implemented by the Group is examined by the auditor in the course of the annual audit of ACCENTRO AG's external financial reporting. Potential improvements identified as a result are subsequently incorporated into the system.

To ensure the regularity of financial reporting in its consolidated financial statements, the Group management reports and the quarterly reports, ACCENTRO AG has integrated preventative and monitoring controls for the company's accounting processes in its internal control system (IKS). These measures include the separation of functions, pre-defined approval principles and computer processes for the processing of accounting data. The key organisational measures are a component of the IKS handbook, which sets out the company's core business processes. If necessary, special areas of accounting are covered by deploying external consultants.

To improve the efficiency of the business processes, an internal audit system was implemented on the Group level of ACCENTRO Real Estate AG during the 2016 financial year. It assists the various departments of ACCENTRO Real Estate AG in achieving their objectives by using a systematic and target-oriented approach to measure the efficiency of the risk management, the controls, and the managing and monitoring processes, and to help with efforts to enhance them. At the same time, it supports the Management Board of ACCENTRO AG in its control and supervisory functions One internal audit was carried out during the 2016 financial year, whereas two internal audits are planned for the 2017 financial year.

The consistency of accounting processes of the subsidiaries included in the consolidated financial statements is guaranteed by a central coordination and execution of the accounting at the parent company. The reliability of the IFRS accounting records of the consolidated companies and their consolidation in the group accounting process is principally ensured by the centralised group accounting done by the parent company. The separate IFRS accounts of the companies included in the consolidation for the Group accounting process is reviewed by various experts at the parent company before being reconciled with the Group's financial statements.

# 5 Disclosures pursuant to Sec. 289 (4), Sec. 315 (4), German Commercial Code (HGB)

ACCENTRO Real Estate AG is a stock corporation ("Aktiengesellschaft") based in Germany and has issued voting shares that are listed on an organised market as defined by Section 2 (7), German Securities Acquisition and Takeover Act (WpÜG), namely the Regulated Market of the Frankfurt Stock Exchange (Prime Standard).

## Managing Body

The legal managing and representative body of ACCENTRO Real Estate AG is its Management Board. The composition of the Management Board and the appointment of its members are based on Sections 76, 84 and 85, German Stock Corporation Act (AktG), in conjunction with Section 6 of the company's Articles of Association. In accordance with these provisions, the Management Board is composed of one or several members. The Supervisory Board determines the number of members of the Management Board. The Supervisory Board may appoint up to five Management Board members and specify a Management Board member to act as chairman. At the moment, the company's Management Board consists of a single member.

In accordance with Section 84, AktG, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. They may be reappointed or their term be extended for a maximum of five years in each case. At the moment, the contract signed with the sole member of the Management Board specifies a term of three years. The appointment and reappointment of members requires a corresponding resolution by the Supervisory Board to be principally passed pursuant to the provisions of Section 83, AktG. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of his or her term for good cause.

## Amendment of the Articles of Association

In accordance with Section 179, AktG, any amendment to the Articles of Association requires a resolution by the Annual General Meeting. This does not apply to amendments and additions to the Articles of Association that relate solely to their wording, the responsibility for which has been transferred to the Supervisory Board in accordance with Art. 11, Sec. 2, of the Articles of Association.

In accordance with Sections 133 and 179, AktG, in conjunction with Art. 13, Sec. 3, of the Articles of Association, resolutions by the Annual General Meeting on amendments to the Articles of Association require a simple majority of the votes cast and a simple majority of the share capital represented when the resolution is adopted, unless a larger majority is prescribed by law or the Articles of Association in a given case.

## Capital Structure

### Share Capital

As of 31 December 2016, the issued capital (share capital) of ACCENTRO Real Estate AG amounted to EUR 24,734,031.00. It was composed of 24,734,031 no-par value bearer shares. There are no different stock classes. At the start of the 2016 financial year, the share capital amounted to EUR 24,678,200 and increased by EUR 55,831 during the reporting period when the conversion rights from a convertible bond issued by ACCENTRO Real Estate AG were exercised.

#### Authorisation to Acquire Treasury Shares

The Management Board was authorised through a resolution by the General Meeting of the ACCENTRO Real Estate AG on 16 February 2010 to acquire up to 809,942 treasury shares and sell or recall them subject to the Supervisory Board's approval and excluding subscription rights, up to and including 15 February 2015. During the reporting period, the Management Board did not exercise its authorisation.

#### Authorisation to Issue Bonds

In accordance with the resolution of the Annual General Meeting of 27 February 2013, the Management Board is also authorised, with the approval of the Supervisory Board, to issue convertible or warrant bonds or participation rights with or without conversion or pre-emptive rights (also referred to collectively below as "bonds") with a total nominal amount of up to EUR 200 million on one or more occasions up to and including 26 February 2018. The bearers of bonds can be granted conversion or pre-emptive rights for up to 25,000,000 bearer shares of the company with a proportionate share of the share capital in the amount of up to a total of EUR 25,000,000. Subject to the conditions described below, shareholders are granted pre-emptive rights. Subject to the conditions described below, shareholders are granted pre-emptive rights.

The Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' pre-emptive rights in the following cases:

I. for fractional amounts arising from pre-emptive rights;
II. to offer convertible and/or warrant bonds and/or participation rights with conversion or pre-emptive rights for subscription to individual investors, provided that, in accordance with Section 186 (3), Sent. 4, AktG, mutatis mutandis, the shares issued on account of these bonds do not exceed 10% of the existing share capital at the time this authorisation comes into effect or at the time of the resolution to exercise this authorisation, and provided further that the issue price of the bonds is not significantly less than the theoretical fair value of the bonds as calculated in line with recognised actuarial methods. The amount of 10% of the share capital must include the amount relating to shares issued or disposed of on the basis of a different corresponding authorisation with pre-emption rights ruled out under direct or mutatis mutandis application of Section 186 (3), Sentence 4, AktG, if such inclusion is required by law;
III. subscription to individual investors provided that the issue price is not significantly less than the theoretical fair value of the profit participation certificates as calculated in line with recognised financial methods and provided that the profit participation certificates only have the characteristics of a debenture, i.e. if they do not constitute any shareholder rights in the company, nor any conversion or pre-emption rights, do not grant any entitlement to the liquidation proceeds and if the amount of the interest yield is not based on the net profit for the period, balance sheet profit or dividend;
IV. to grant, to the extent necessary, bearers of conversion or pre-emptive rights that were granted by the company or Group companies shares of the company, pre-emptive rights to bonds issued under this authorisation in the amount they would be entitled to after exercising their conversion or pre-emptive rights or after meeting a possible conversion obligation (dilution protection), or
V. if bonds are issued in exchange for non-cash contributions and the disapplication of pre-emptive rights is overwhelmingly in the interests of the company.

The Management Board is also responsible, with the approval of the Supervisory Board, for determining the further details of the issue and features of the bonds, including in particular the term, issue and exercise periods, termination, issue price, interest rate, denomination, adjustment of the subscription price and grounds for a conversion obligation.

### Authorisation of 2013 to Launch a Stock Option Program

Moreover, the Management Board was authorised through a resolution passed by the Annual General Meeting on 27 February 2013 to issue, subject to the approval by the Supervisory Board, on one or more occasions before 26 February 2016 up to 1,400,000 options to current or new members of the board and the top tier management, which options entitle their bearers, subject to the options terms, to acquire new shares in ACCENTRO Real Estate AG (2013 stock option program). To the extent that options are to be issued to members of the company's Management Board, only the Supervisory Board is entitled to issue the options. The Management Board of ACCENTRO Real Estate AG was authorised, subject to the approval by the Supervisory Board – and the Supervisory Board being exclusively authorised to do so whenever the Management Board itself is concerned – to define all further structuring details for the 2013 stock option program, specifically to fix the number of individuals or groups entitled to the issued options, the rules governing the handling of options in special cases, the rules governing other reasons for expiration, exemptions from the reasons for expiration, as well as the detailed expiration modalities, and the adjustment of the share subscriptions in conjunction with possible corporate actions and the conversion of ACCENTRO Real Estate AG itself. The Management Board of ACCENTRO Real Estate AG has not exercised its authorisation by the Annual General Meeting.

## Contingent Capital

### Contingent Capital 2014 (Redemption of Convertible Bonds)

A resolution passed by the Annual General Meeting on 27 February 2013 authorised the Management Board, subject to the Supervisory Board's approval, to issue – up to and including 26 February 2018 – one or more convertible bonds and/or warrant bonds with or without conversion or pre-emptive rights in an aggregate minimal amount of up to EUR 200,000,000.00 with a maximum maturity of 20 years, and to grant the bearers of these debenture bonds conversion or pre-emptive rights for up to 25,000,000 no-par-value bearer shares in the company, equal to a proportionate share in the share capital in a total amount of EUR 25,000,000.00. The authorisation by the Annual General Meeting of 13 December 2010, as amended by the resolution of the Annual General Meeting on 09 December 2011, the authorisation by the Annual General Meeting of 16 February 2010, as well as the authorisation by the Annual General Meeting of 20 February 2009, concerning the issuance of convertible bonds, warrant bonds and/or participation rights were repealed, to the extent that these had not been exercised yet, through a resolution by the Annual General Meeting on 27 February 2013. Pursuant to a resolution passed by the Annual General Meeting on 10 January 2014, the share capital was conditionally increased by up to EUR 4,136,631 through the issue of up to 4,136,631 new no-par-value bearer shares in order to redeem the conversion and pre-emptive rights arising from these debenture bonds ("Contingent Capital 2014").

In March 2014, the company issued convertible bonds in a nominal volume of EUR 15,000,000. The exercise period for the conversion right commenced on 1 July 2014.

A resolution by the Annual General Meeting of 16 June 2015 restructured the Contingent Capital 2014 as follows: The share capital has been conditionally increased by up to EUR 10,534,529.00 through the issuance of up to 10,534,529 new no-par-value bearer shares (Contingent Capital 2014). The Contingent Capital increase will only be implemented to the extent that

I. the bearers of convertible and/or warrant bonds and/or participation rights with conversion or pre-emptive rights that were issued by the company or its subordinate group companies on the basis of the authorisation resolution by the Annual General Meeting of 27 February 2013 exercise their conversion or pre-emptive rights and the company decides to redeem the conversion or pre-emptive rights from this Contingent Capital, or
II. the bearers of convertible and/or warrant bonds and/or participation rights with conversion or pre-emptive rights with a conversion obligation that were issued by the company or its subordinate group companies on the basis of the authorisation resolution by the Annual General Meeting on 27 February 2013 satisfy their obligation and the company decides to redeem the conversion or pre-emptive rights from this Contingent Capital. The share issuance shall proceed in line with the provisions of the authorisation resolution by the Annual General Meeting of 27 February 2013, i.e. in particular at a price equal to no less than 80 % of the average stock market price of the company shares in the opening auction in Xetra trading (or a successor system) on the last ten trading days before the resolution by the Management Board to issue the respective bonds, taking into account adjustments pursuant to the dilution protection regulations of the resolution by the Annual General Meeting of 27 February 2013 under agenda item 8 lit. g).

The Supervisory Board is authorised to amend the Articles of Association in their effective version to reflect the respective scope of the share capital increase through the Contingent Capital 2014.

Exercised conversion rights in convertible bonds reduced the revised Contingent Capital 2014 by EUR 55,831 down to EUR 10,478,298 during the 2016 financial year.

**Contingent Capital 2013/II (Redemption of Stock Options)**
The Contingent Capital 2013/II was created for the purpose of settling stock options that were issued on the basis of the authorisation by the Annual General Meeting on 27 February 2013 for the period ending on 26 February 2016. Accordingly, the company's share capital was conditionally increased on the basis of the authorisation resolution by the Annual General Meeting of 27 February 2013 by up to EUR 1,400,000.00 against the issue of up to 1,400,000 no-par-value bearer shares (Contingent Capital 2013/II). The conditional capital increase will go ahead only if bearers of the issued options exercise their right to subscribe shares of the company, and if the company draws on the Contingent Capital 2013/II to settle these options.

Shares from the Contingent Capital 2013/II are issued at their issue price, as defined in the authorisation. The Management Board has so far refrained from exercising the aforesaid authorisation.

## Authorised Capital

### Authorised Capital 2015

The Management Board was authorised by resolution by the Annual General Meeting of 16 June 2015 to increase, subject to the approval by the Supervisory Board, the share capital of the company by up to EUR 12,218,232.00 by issuing, on one or several occasions, up to 12,218,232 new no-par value bearer shares in exchange for non-cash and/or cash contributions up to and including 15 June 2020 (Authorised Capital 2015). The Management Board is moreover authorised to exclude the shareholders subscription rights wholly or in part, subject to the Supervisory Board's approval. However, the exclusion of the shareholders' subscription rights is permitted in the following instances only:

I. for capital increases against cash contributions if shares in the company are traded on a stock market (regulated market or OTC or the successors to these segments), the capital increase does not exceed 10% of the share capital and the issue price of the new shares does not significantly undercut the market price of shares in the company of the same class and features already traded on the stock market within the meaning of Sections 203 (1) and (2), 186 (3), Sent. 4, German Stock Corporation Act (AktG). The amount of 10% of the share capital must include the amount relating to shares issued or disposed of on the basis of a different corresponding authorisation with pre-emptive rights ruled out under direct or implicit application of Art. 186, Sec. 3, Sent. 4, AktG, if such inclusion is required by law. For the purposes of this authorisation, the issue price for the purchase of new shares by an intermediary with the simultaneous obligation of such intermediary to offer the new shares for purchase by one or more third parties designated by the company is deemed to be the amount that must be paid by the third party or third parties;
II. for capital increases against non-cash contributions, particularly for the acquisition of companies, parts of companies and investments in companies, industrial property rights, such as e.g. patents, brands or licences to these, or other product rights or other non-cash contributions, including debenture bonds, convertible bonds and other financial instruments;
III. to the extent required in order to grant holders or creditors of the debenture bonds with warrant or conversion rights or obligations issued by the company or group companies subscription rights to new shares to extent to which they would be entitled to these after exercising their option or conversion privileges or after having fulfilled their warrant or conversion obligations, or
IV. for fractional amounts arising from subscription ratios; or
V. in other cases in which the exclusion of subscription rights is understood to be in the company's best interest.

## Transfer and Voting Right Restrictions

The shares of ACCENTRO Real Estate AG were not subject to any voting right restrictions in accordance with statutory provisions or the Articles of Association as of the balance sheet date. All shares issued as of 31 December 2016 carry full voting rights and each grant the holder one vote at the Annual General Meeting.

## Equity Interests and Rights of Control

As of 31 December 2016, ADLER Real Estate AG with registered office in Berlin held 86.78 % of the shares of ACCENTRO Real Estate AG. The increase in the share capital of ACCENTRO Real Estate AG caused by the exercise of conversion rights in two convertible bonds diminished the pro-rata interest of 86.98 % that ADLER Real Estate AG holds in ACCENTO Real Estate AG since the previous annual accounts of ACCENTRO Real Estate AG dated 31 December 2015.

None of the shares issued by ACCENTRO Real Estate AG carry rights that grant the holders special rights of control.

There is no information on voting right controls for employees holding equity interests in the company who do not directly exercise their rights of control.

## Impacts of Potential Takeover Bids

The company is subject to the following significant agreements that include provisions governing a change of control as could be brought about, for instance, by a takeover bid:

### Financing Agreements

The ACCENTRO Group signed financing agreements that include change-of-control provisions, which could come into play in the event of a successful takeover bid. These provisions stipulate that the borrower is obliged to notify the lender whenever a change of control has transpired. The lender may cite the change of control as good cause for terminating the credit relationship. By the reporting date, loans in an aggregate volume of EUR 104.6 million were subject to change-of-control provisions.

### Convertible Bonds and Corporate Bond

In addition to financing agreements, the convertible bond 2014/2019 with an outstanding nominal value of EUR 13,349,187.50 as of the balance sheet date that was issued by ACCENTRO Real Estate AG contains a change-of-control provision. In case of an intervention, the noteholders may request, at their discretion, (i) the early repayment of the convertible partial debenture at its nominal amount plus the interest accrued on the nominal amount, or (ii) the conversion in ACCENTRO Real Estate AG shares at an adjusted conversion price. However, the bond terms of the 2014/2019 convertible bond specify in this context that no change of control as defined in the bond terms exists if ADLER Real Estate AG becomes the legal or beneficial owner of more than 50 % of the voting rights of ACCENTRO Real Estate AG.

The 2013/2018 bond (outstanding nominal value: EUR 10,000,000.00) also contains a change-of-control provision, which entitles each noteholder in the event of a change of control to request redemption by ACCENTRO Real Estate AG or, at the discretion of ACCENTRO Real Estate AG, the buy-back of the noteholder’s bond units at the early redemption amount, either whole or in part (“put option”). An exercise of the put option shall, however, only become valid if during the put period noteholders of notes with a principal amount of at least 30 % of the aggregate principal amount of the notes then outstanding have exercised the put option.

ACCENTRO Real Estate AG has not concluded any agreement that provides for the compensation of members of the Management Board or employees in the event of a takeover bid.

## 6 Corporate Governance Statement Pursuant to Section 289a, German Commercial Code (HGB)

The Corporate Governance Statement pursuant to Section 289a, German Commercial Code (HGB) is published annually on the company's homepage, and may be accessed (in German) via this hyperlink: http://www.accentro.ag/investor-relations/corporate-governance/erklaerung-gemaess-289a-hgb.html

## 7 Remuneration Report

The service contract with CEO Jacopo Mingazzini effective during the 2016 financial year was signed for a three-year term. The contract was adjusted in March 2015.

The contract of Jacopo Mingazzini does not provide for an ordinary termination during the contract term. In the event of a change of control, however, the contract stipulates a break option. The remuneration paid to the CEO consists of a fixed annual basic remuneration and a variable bonus to be jointly defined by Management Board and Supervisory Board.

In addition, the CEO is granted a health insurance allowance, while an accident and disability insurance has also been taken out for him. The CEO moreover has the use of a company car, and ACCENTRO Real Estate AG has taken out D&O and accident insurance policies on his behalf.

No other remuneration components with a long-term incentive effect have been agreed with the CEO at this time. Moreover, the CEO has been granted neither pension commitments nor other retirement benefits. No arrangements for benefits upon early termination have been agreed with the CEO, except for a provision entitling the company to release the CEO out of his duties during the statutory notice period and in the event of dismissal, subject to the continued payment of salary, and except for the CEO's right to demand immediate disbursement of the remuneration for the residual term in this case. The CEO's employment contract also prescribes a subsequent restraint on competition.

In addition to the reimbursement of their expenses, the members of the Supervisory Board receive a fixed annual compensation for each full financial year they have served on the Supervisory Board.

For a detailed account of the total remuneration of the Management Board and Supervisory Board members and the individual compensation paid to the Management Board members, see the Group notes to the consolidated financial statement and the Corporate Governance Report.

Berlin, 2 March 2017

Jacopo Mingazzini
CEO

# Consolidated Financial Statements

# Consolidated Balance Sheet

ACCENTRO Real Estate AG

| Assets | Notes | 31 Dec. 2016<br>TEUR | 31 Dec. 2015<br>TEUR |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 6.1.1 | 17,776 | 17,776 |
| Other intangible assets | | 30 | 47 |
| Property, plant and equipment | | 185 | 188 |
| Investment property | 6.1.3 | 0 | 168,337 |
| Equity investments | 6.1.6 | 26 | 1,188 |
| Equity interests accounted for using the equity method | 6.1.5 | 472 | 1,593 |
| Deferred tax assets | 6.10 | 408 | 465 |
| **Total non-current assets** | | **18,897** | **189,594** |
| | | | |
| **Current assets** | | | |
| Inventory properties | 6.2 | 223,565 | 156,121 |
| Trade receivables | 6.3 | 2,010 | 10,422 |
| Other receivables and other current assets | 6.3 | 18,751 | 14,885 |
| Current income tax receivables | 6.3 | 480 | 54 |
| Cash and cash equivalents | 6.4 | 15,143 | 6,981 |
| **Total current assets** | | **259,949** | **188,462** |
| Non-current assets held for sale | 6.5 | 21,700 | 17,149 |
| **Total assets** | | **300,546** | **395,205** |

# Consolidated Balance Sheet

| ACCENTRO Real Estate AG | Notes | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|---|
| Equity | | TEUR | TEUR |
| Subscribed capital | 6.6 | 24,734 | 24,678 |
| Capital reserves | 6.6 | 53,180 | 53,095 |
| Retained earnings | 6.6 | 57,164 | 30,873 |
| Attributable to parent company shareholders | | 135,078 | 108,646 |
| Attributable to non-controlling companies | 6.1.4 | 1,758 | 595 |
| **Total equity** | | **136,836** | **109,241** |

| Liabilities | | TEUR | TEUR |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Provisions | 6.8 | 17 | 17 |
| Financial liabilities | 6.7 | 42,716 | 154,562 |
| Bonds | 6.7 | 21,644 | 21,338 |
| Shareholder loans | 6.7 | 0 | 2,824 |
| Deferred income tax liabilities | 6.11 | 851 | 7,288 |
| **Total non-current liabilities** | | **65,228** | **186,027** |
| **Current liabilities** | | | |
| Provisions | 6.8 | 3,030 | 2,540 |
| Financial liabilities | 6.7 | 64,807 | 63,804 |
| Bonds | 6.7 | 138 | 137 |
| Advanced payments received | 6.9 | 8,503 | 9,253 |
| Current income tax liabilities | 6.10 | 9,269 | 2,014 |
| Trade payables | 6.9 | 3,365 | 4,114 |
| Other liabilities | 6.9 | 3,178 | 3,655 |
| **Total current liabilities** | | **92,290** | **85,515** |
| Liabilities associated with assets held for sale | 6.5 | 6,192 | 14,421 |
| **Total equity and liabilities** | | **300,546** | **395,205** |

# Consolidated Income Statement

## for the Financial Year Beginning on 1 January and Ending 31 December 2016

| ACCENTRO Real Estate AG | Notes | 1 Jan. 2016– 31 Dec. 2016 | 1 Jan. 2015– 31 Dec. 2015 |
|---|---|---|---|
| | | TEUR | TEUR |
| Revenues from sales of inventory property | 6.12 | 116,920 | 31,429 |
| Expenses from sales of inventory property | 6.13 | –80,543 | –25,876 |
| **Capital gains from inventory property** | | **36,377** | **5,553** |
| Letting revenues | 6.12 | 6,597 | 5,754 |
| Letting expenses | 6.13 | –2,032 | –1,453 |
| **Net rental income** | | **4,565** | **4,301** |
| Revenues from services | 6.12 | 1,588 | 2,314 |
| Expenses from services | 6.13 | –979 | –942 |
| **Net service income** | | **608** | **1,372** |
| Other operating income | 6.16 | 997 | 1,291 |
| **Gross profit or loss** | | **42,548** | **12,517** |
| Total payroll and benefit costs | 6.14 | –2,986 | –2,256 |
| Depreciation and amortisation of intangible assets and property, plant and equipment | 6.1 | –114 | –97 |
| Impairments of inventories and accounts receivable | 6.15 | –951 | –884 |
| Other operating expenses | 6.16 | –4,561 | –3,183 |
| **EBIT (earnings before interest and income taxes)** | | **33,936** | **6,097** |
| Net income from associates | 6.1.5 | 514 | 525 |
| Other income from investments | 6.1.6 | 18 | 48 |
| Interest income | 6.7 | 298 | 306 |
| Interest expenses | 6.7 | –6,695 | –6,163 |
| **Net interest income** | | **–6,397** | **–5,856** |
| **EBT (earnings before income taxes)** | | **28,070** | **814** |
| Income taxes | 6.18 | –7,390 | –1,530 |
| **Consolidated income from continuing operation** | | **20,680** | **–716** |
| Earnings after taxes of discontinued operation | 6.19 | 5,792 | 23,502 |
| **Discontinued operation** | | **5,792** | **23,502** |
| **Consolidated income** | | **26,473** | **22,786** |
| thereof attributable to non-controlling interests | | 181 | 148 |
| thereof attributable to shareholders of the parent company | | 26,291 | 22,638 |

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| ACCENTRO Real Estate AG | Notes | 1 Jan. 2016 – 31 Dec. 2016 | 1 Jan. 2015 – 31 Dec. 2015 |
|---|---|---|---|
| | | EUR | EUR |
| **Earnings per share (comprehensive income)** | | | |
| Basic net income (24,734,000 shares; prior year 24,678,000 shares) | 6.20 | 1.09 | 0.92 |
| Diluted net income per share (30,039,000 shares; prior year 29,930,000 shares) | 6.20 | 0.90 | 0.78 |
| **Earnings per share (continuing operation)** | | | |
| Basic net income (24,734,000 shares; prior year 24,678,000 shares) | 6.20 | 0.87 | 0.0 |
| Diluted net income per share (30,039,000 shares; prior year 29,930,000 shares) | 6.20 | 0.72 | 0.0 |

# Consolidated Cash Flow Statement

## for the Financial Year Beginning on 1 January and Ending 31 December 2016

| ACCENTRO Real Estate AG | | 1 Jan. 2016–31 Dec. 2016 | 1 Jan. 2015–31 Dec. 2015 |
|---|---|---|---|
| | | TEUR | TEUR |
| Consolidated income (continuing and discontinued operations) | | 26,473 | 22,786 |
| + | Depreciation/amortisation of non-current assets | 114 | 97 |
| –/+ | Net income from associates carried at equity/investment income | –532 | –525 |
| +/– | Increase/decrease in provisions | 520 | 461 |
| +/– | Changes in the fair value of investment property | –9,702 | –10,465 |
| +/– | Other non-cash expenses/income | 11,393 | 4,007 |
| –/+ | Gains/losses from the disposal of non-current assets | 0 | 1 |
| –/+ | Increase/decrease in trade receivables and other assets that are not attributable to investing or financing activities | 8,133 | 10,739 |
| +/– | Increase/decrease in trade payables and other liabilities that are not attributable to investing or financing activities | 13,032 | –5,518 |
| –/+ | Income from disposal of investment property | 157 | –15,775 |
| –/+ | Gains/losses from disposals of subsidiaries | –275 | –150 |
| +/– | Other income tax payments | –721 | –26 |
| **=** | **Operating cash flow before de-/reinvestment in trading assets** | **48,592** | **5,631** |
| –/+ | Increase/decrease in inventories (trading properties) | –26,877 | –80,224 |
| **=** | **Cash flow from operating activities** | **21,715** | **–74,593** |
| | **thereof continuing operation** | **20,311** | **–69,046** |
| | **thereof discontinued operation** | **1,404** | **–5,547** |
| + | Proceeds from disposal of investment property (less costs of disposal) | 23,371 | 71,581 |
| + | Interest received | 61 | 0 |
| – | Cash outflows for investments in intangible assets | –14 | –35 |
| – | Cash outflows for investments in property, plant and equipment | –96 | –88 |
| – | Cash outflows for investments in investment properties | –2,440 | –2,682 |
| – | Cash outflows for investments in non-current assets | –26 | 0 |
| + | Payments-in from distributions for shares consolidated at equity | 1,314 | 0 |
| **=** | **Cash flow from investment activities** | **22,170** | **68,776** |
| | **thereof continuing operation** | **1,239** | **–123** |
| | **thereof discontinued operation** | **20,931** | **68,899** |

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| | ACCENTRO Real Estate AG | 1 Jan. 2016–31 Dec. 2016 | 1 Jan. 2015–31 Dec. 2015 |
|---|---|---|---|
| | | TEUR | TEUR |
| + | Payments from issuing bonds and raising (financial) loans | 87,702 | 75,814 |
| – | Repayment of bonds and (financial) loans | –107,923 | –57,477 |
| – | Interest paid | –10,916 | –12,747 |
| + | Interest received | 20 | 108 |
| + | Repayment of loans granted | 435 | 0 |
| = | **Cash flow from financing activities** | **–30,682** | **5,698** |
| | **thereof continuing operation** | **–5,841** | **48,099** |
| | **thereof discontinued operation** | **–24,841** | **–42,401** |
| | Net change in cash and cash equivalents | 13,204 | –118 |
| + | Increase in cash and cash equivalents from investments in fully consolidated companies | 94 | 0 |
| – | Decrease in cash and cash equivalents from the disposal of fully consolidated companies | –5,133 | –583 |
| + | Cash and cash equivalents at the beginning of the period | 6,981 | 7,681 |
| = | **Cash and cash equivalents at the end of the period** | **15,143** | **6,981** |

## Consolidated Statement of Changes in Equity

**for the Financial Year Beginning on 1 January and Ending 31 December 2016**

| ACCENTRO Real Estate AG | Subscribed capital | Capital reserve | Retained earnings | Interests held by non-controlling companies | Total |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| **As of 1 January 2016** | **24,678** | **53,095** | **30,873** | **595** | **109,241** |
| Consolidated income | – | – | 26,291 | 181 | 26,472 |
| Other comprehensive income | – | – | 0 | 0 | 0 |
| Total consolidated income | – | – | 26,291 | 181 | 26,472 |
| Change in non-controlling interests from additions to the scope of consolidation | – | – | – | 1,148 | 1,148 |
| Disposal of non-controlling interests | – | – | – | – 165 | –165 |
| Convertible bonds converted | 56 | 84 | – | – | 140 |
| **As of 31 December 2016*** | **24,734** | **53,180** | **57,164** | **1,758** | **136,836** |

* Adding the values of the individual line items may result in slight differences compared to the sum totals posted.

## Consolidated Statement of Changes in Equity

**for the Financial Year Beginning on 1 January and Ending 31 December 2015**

| ACCENTRO Real Estate AG | Subscribed capital | Capital reserve | Retained earnings | Interests held by non-controlling companies | Total |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| **As of 1 January 2015** | **24,436** | **52,756** | **8,225** | **432** | **85,851** |
| Consolidated income | – | – | 22,638 | 148 | 22,786 |
| Other comprehensive income | – | – | 0 | 0 | 0 |
| Total consolidated income | – | – | 22,638 | 148 | 22,786 |
| Changes in non-controlling interests | – | – | 10 | 15 | 25 |
| Convertible bonds converted | 242 | 338 | – | – | 580 |
| **As of 31 December 2015*** | **24,678** | **53,095** | **30,873** | **595** | **109,241** |

* Adding the values of the individual line items may result in slight differences compared to the sum totals posted.

# Notes to the Consolidated Financial Statements

# 1 Basic Information

ACCENTRO Real Estate AG with its subsidiaries is a listed real estate group whose core business consists in trading residential real estate within the framework of housing privatisations. The company's registered office is located at Uhlandstr. 165 in 10719 Berlin, Germany. The company shares are listed on the Frankfurt Stock Exchange for trading on the Regulated Market (Prime Standard).

As of 31 December 2016, ACCENTRO Real Estate AG acts as the operating holding company for a number of property vehicles.

These consolidated financial statements will probably be released for publication at the end of the Supervisory Board meeting on 2 March 2017.

All amounts contained in the notes and tables are disclosed in thousands of euro (TEUR) unless stated otherwise. Both individual and total figures represent the value with the smallest rounding difference. Accordingly, adding the values of the individual line items may result in minor differences compared to the sum totals posted.

# 2 Significant Accounting Policies

The following section describes the accounting policies applied in preparing the consolidated financial statements.

## 2.1 Principles

The consolidated financial statements for the 2016 financial year of ACCENTRO Real Estate AG were prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 concerning the application of international accounting standards in the form of the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as required in the European Union for capital market-oriented companies.

The requirements of the IFRS whose application is mandatory in the EU were met in full and provide a true and fair account of the net assets, financial position and results of operations of the ACCENTRO Group. In order to improve the clarity of presentation, some balance sheet items are presented in aggregated form. These items are discussed in the notes.

The financial years of the parent company, its subsidiaries, and its associates coincide with the respective calendar years. The financial statements of the subsidiaries are uniformly compiled according to the same accounting policies.

The income statement is compiled in accordance with the nature of expense method.

During the year under review, interests of just over 50 % in each of ten companies from the "Portfolio" segment were transferred to a group member company of parent company ADLER Real Estate AG via share exchange and transfer agreements. This caused the Group ACCENTRO Real Estate AG to lose control over said companies, and ultimately resulted in their deconsolidation. The remaining interests of nearly 49 % each still held by ACCENTRO Real Estate AG are measured at equity, and recognised as earmarked for sale. The remaining residential portfolio in investment properties within the meaning of IAS 40 that were formerly held in the "Portfolio" segment were also categorised as non-current assets held for sale. As a result of this and of the fact that the Portfolio segment was discontinued, the historic Group representation with two segments, namely "Portfolio" and "Trading," has become obsolete. In its stead, these consolidated financial statements with the key date of 31 December 2016 use a representation of the ACCENTRO Real Estate Group that divides the Group's business in continuing and discontinued operations in accordance with IFRS 5. The recognition of the previous year's figures was adjusted accordingly.

It was decided not to include a statement of comprehensive income because there are no other effects recognised directly in equity that should be posted with the other comprehensive income.

The financial statements were principally prepared using the historical cost approach. However, the investment properties and the non-current assets earmarked for sale represent a significant exception from this principle as they are appraised at fair value or at fair value minus the costs of disposal.

The estimates and assumptions applied in preparing the IFRS financial statements affect the measurement of assets and liabilities, the disclosure of contingent assets and liabilities at the respective balance sheet dates, and the amount of income and expenses during the period under review. Although these assumptions and estimates are made to the best knowledge of the company's senior management and on the basis of current events and measures, actual results may ultimately differ from these estimates.

The accounting methods employed in the consolidated financial statements are the same as those on which the consolidated financial statements of 31 December 2015 were based, except for certain changes elaborated below.

**Accounting Guidance Applied for the First Time during the 2016 Financial Year**

Adoption of the following new or amended accounting standards and interpretations became mandatory for the first time in the IFRS consolidated financial statements for the 2016 financial year:

| Standard/interpretation | | Amended/new |
|---|---|---|
| IFRS 10/12/ IAS 28 | Investment entities | amended |
| IAS 19 | Defined benefit plans: employee contributions | amended |
| IFRS 11 | Accounting for acquisitions of interests in joint operations | amended |
| IAS 16/IAS 38 | Clarification of the acceptable methods of depreciation and amortisation | amended |
| IAS 16/IAS 41 | Accounting for bearer plants | amended |
| IAS 1 | Disclosure initiative | amended |
| IAS 27 | Equity method in separate financial statements | amended |
| IASB 2010–2012 | Improvement process IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38 and IAS 24 | amended |
| IASB 2012–2014 | Improvement process IFRS 5, IFRS 7, IFRS 19, IFRS 34 | amended |

**IAS 11 – Accounting for Acquisitions of Interests in Joint Operations**

The revisions made clarify that all accounting principles referring to corporate mergers as defined in IFRS 3 and other IFRS should be applied to acquired interests in joint operations that represent a business operation pursuant to IFRS 3, unless doing so conflicts with the IFRS 11 guidelines. The new interpretation has no effects on the consolidated financial statements.

**IAS 16/38 – Clarification of the Acceptable Methods of Depreciation and Amortisation**
The revised IAS 16 clarifies that the use of revenue-based methods of depreciation for tangible assets is inappropriate because they fail to represent the consumption of assets. The provision was adopted as rebuttable presumption in IAS 38. Since ACCENTRO Real Estate AG did not recognise any revenue-based depreciation there were no effects on the consolidated financial statements

**Improvements Project IFRS 2010–2012**
Four standards were amended within the framework of the annual improvements project. The purpose of the adjusted phrasing in selected IFRS was to clarify existing rules and regulations. The standards involved are IFRS 2, IFRS 3, IFRS 13, IAS 24, IFRS 8 and IAS 16/38.

**Improvements Project IFRS 2012–2014**
Four standards were amended within the framework of the 2012–2014 annual improvements project. The purpose of the adjusted phrasing in the selected IFRS was to clarify existing rules and regulations for the standards IFRS 5, IFRS 7, IAS 19 and IAS 34.

The requirements of the IFRS whose application became mandatory in the EU as of 1 January 2016 have no effects on the consolidated financial statements of ACCENTRO Real Estate AG.

**Accounting Guidance already Published but not yet Subject to Mandatory Adoption**
No accounting standards were applied early. The following accounting standards that have been published or amended by the IASB and, in some cases, not yet endorsed by the European Union will only be required to be adopted in preparing future financial statements – subject to their endorsement by the European Union. Unless stated otherwise, the ramifications for the ACCENTRO consolidated financial statements are currently under review.

| Standard/interpretation | | Application mandatory for ACCENTRO AG | Adoption by the EU | Prospective effects |
|---|---|---|---|---|
| IFRS 9 | Financial Instruments | 1 January 2018 | yes | Replaces IAS 39 – the potential effects are still being examined. |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 | yes | no material effects anticipated |
| IFRS 10/ IAS 28 | Sale or contribution of assets between an Investor and its associate or joint venture | * | no | none |
| IFRS 14 | Regulatory deferral accounts for rate-regulated activities | 1 January 2016 | none | none |
| IAS 12 | Recognition of deferred tax assets for unrealised losses | 1 January 2017 | no | no material effects anticipated |
| IAS 7 | Statement of cash flows | 1 January 2017 | no | The possible effects are still being examined. |
| IFRS 2 | Clarifications of classification and measurement of share-based payment transactions | 1 January 2018 | no | none |
| IFRS 4 | Application of IFRS 9 and IFRS 4 on insurance contracts | 1 January 2018 | no | none |
| IASB 2014–2016 | Improvement process IFRS 1, IFRS 12 and IFRS 28 | 1 January 2018 | no | none |
| IFRIC 22 | Foreign currency transactions and advance consideration | 1 January 2018 | no | none |
| IAS 40 | Classification of property under construction | 1 January 2018 | no | The possible effects are still being examined. |
| IFRS 16 | Leasing | 1 January 2019 | no | The possible effects are still being examined. |

* First-time adoption postponed indefinitely.

**IFRS 9 – Financial Instruments**
The IFRS 9, issued in July 2014, takes the place of the existing guidelines in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains the revised guidelines for the classification and valuation of financial instruments, including a new model for anticipated credit defaults that should be used to calculate the impairment of financial assets, along with the new general hedge accounting requirements. It also takes over the guidelines governing the recognition and derecognition of financial instruments from IAS 39.

Application of IFRS 9 is mandatory for financial years beginning on 1 January 2018 or thereafter. Since hedges and allowances for receivables play an altogether negligible role for ACCENTRO Group at the moment, the application of IFRS 9 will probably warrant no material adjustments

**IFRS 15 – Revenue from Contracts with Customers**
IFRS 15 establishes a comprehensive framework for the recognition of revenue from contracts with customers, specifically the amount of, and the time at which, the revenues should be recognised. It takes the place of existing guidelines for the recognition of revenues, including IAS 18 Revenues, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes.

Application of IFRS 15 is mandatory for financial years beginning on 1 January 2018 or thereafter. Early application is permitted.

The introduction of IFRS 15 will not result in material changes to the representation of the revenue recognition in the consolidated financial statements of ACCENTRO Real Estate AG as far as the identification and recognition of performance obligations and the capitalisation of order acquisition costs go.

## 2.2 Consolidation

**a) Principles for Determining the Entities to be Included in Consolidation**
The consolidated financial statements present the parent company, ACCENTRO Real Estate AG, and the subsidiaries that it controls and that are included in the basis of consolidation as one economic entity.

A controlling interest in a subsidiary is given whenever ACCENTRO Real Estate AG benefits from variable returns from its commitment in the company or is entitled to such returns and has the power to control the returns through its decision-making authority over the company. ACCENTRO Real Estate AG has decision-making authority over a company if it currently has the necessary rights to control the relevant activities of that company either directly or through third parties. Relevant activities are considered those that materially influence the returns, depending on the nature and purpose of the entity. Variable pay-back is considered any kind of pay-back that could vary depending on the entity's productivity. Accordingly, returns from the commitment in another company may be either positive or negative. Variable returns include dividends, fixed and variable interest rates, payments and fees, fluctuations in the value of the investments, and other economic benefits.

Whether or not ACCENTRO Real Estate AG has decision-making authority over a given company is determined on the basis of that company's relevant activities and the influencing competencies of ACCENTRO Real Estate AG. The assessment considers voting rights as well as other contractual rights to control relevant activities, provided no economic or other obstacles stand in the way of exercising the existing rights. Decision-making authority based on voting rights is vested in ACCENTRO Real Estate AG if the latter holds, due to equity instruments or contractual agreements, more than 50% of the voting rights and if this share of the voting rights comes with robust decision-making authority in regard to the relevant activities. Other contractual rights that could facilitate a dominant influence are essentially rights to appoint and recall members to governing bodies, liquidation rights and other decision-making rights. Contractual agreements that fail to grant ACCENTRO Real Estate AG any rights to modify the terms of agreement but merely protect their interests as creditors, and thus serve the purpose of safeguarding the loan, do not qualify as criteria confirming decision-making powers. ACCENTRO Real Estate AG controls a subsidiary if the full set of contractual rights bestows on it the power to control the relevant activities of the company in question.

Subsidiaries are fully consolidated as of the date on which the Group acquires a controlling interest in the respective company. They are deconsolidated whenever the control ceases.

Subsidiaries also principally include structured entities that are controlled by ACCENTRO Real Estate AG. Structured entities are entities where the assessment of control is dominated by factors other than voting rights or similar rights. There are currently two structured entities that the Group factually controls without having a voting rights majority. These represent property vehicles whose privatisation process and financing arrangements were supervised and controlled by the ACCENTRO Group, so that the ACCENTRO Group participated definitively in variable returns.

**b) Subsidiaries**

All the subsidiaries of ACCENTRO Real Estate AG are included in the consolidated financial statements. For a list of the companies included in the consolidation, please see section 2.2e. All the subsidiaries were fully consolidated and are included in the consolidated financial statements of ACCENTRO Real Estate AG.

Acquired companies are recognised using the purchase method. The cost of acquisition corresponds to the fair value of the assets given up, equity instruments issued and liabilities created or incurred at the date of exchange, plus any costs directly attributable to the acquisition. On initial consolidation, any assets, liabilities and contingent liabilities identified in the course of the business combination are measured at fair value as of their acquisition date. An excess in the initial costs over the Group's interest in the fair value of the net assets of the company acquired is recognised as goodwill. If the initial costs are lower than the fair value of the (proportionate) net assets of the company acquired, the difference is directly recognised in the income statement following a re-examination. Acquisitions of shares in subsidiaries after control has been established are recognised as equity transactions. The difference between the purchase price of the shares and the outgoing minority interest is directly offset against retained earnings in equity.

Interests in the subsidiary's equity that are held by other partners are recognised with the Group's equity as shares without controlling influence, unless they represent shares in consolidated trading partnerships held by outside shareholders. The interest without controlling influence is that part of the profit/loss for the period and the net assets of a subsidiary which represents shares not directly held by the parent company or a Group member company. Non-controlling ownership interests in subsidiaries and the resulting profits or losses as well as the summarised financial information of subsidiaries with significant but non-controlling interests are disclosed in section 6.1.4.

Intercompany receivables, liabilities and income are eliminated for the purposes of the consolidated financial statements within the framework of the debt consolidation and the consolidation of income and expenses, respectively. Expenses and income created by intercompany assignments of assets are also eliminated. The accounting policies of subsidiaries are applied uniformly throughout the Group.

**c) Joint Ventures**

Joint arrangements are based on contractual agreements between two or more parties, and serve in turn as basis for a business activity that is subject to joint control by these parties. Joint control is established whenever the parties need to cooperate in order to control the relevant activities of the joint arrangement, and whenever decisions require the unanimous consent of the participating parties. In a joint arrangement taking the form of a joint venture, the parties that exercise joint control have rights to the net assets of the arrangement and obligations for the liabilities thereof.

The consolidated financial statements of ACCENTRO Real Estate AG include, as they did the year before, a joint venture accounted for using the equity method pursuant to IAS 28.

**d) Associates**

Associates are entities over which ACCENTRO Real Estate AG has significant but not controlling influence, be it directly or indirectly through subsidiaries. The term "significant influence" refers to the power to participate in the financial and operating policy decisions of another entity without controlling it. Significant influence principally exists if ACCENTRO Real Estate AG in its role as investor holds at least 20 % of the entity's voting rights, be it directly or indirectly through subsidiaries. Even a company holding less than 20 % of the voting rights could qualify as an associate if ACCENTRO Real Estate AG has other ways to participate in the financial and operating policy decisions of the respective company on the basis of other factors. Such factors include in particular the representation of ACCENTRO Real Estate AG on the governing body of the company, and contractual rights to manage or realise assets. If ACCENTRO Real Estate AG has only approval, consent, and veto rights, it is not assumed to have significant influence.

Investments in associates and joint ventures that are of significance for the Group's assets, financial and earnings position are taken into account in the consolidated financial statements using the equity method. To this end, the Group's investments in the joint venture or associate are recognised at their initial costs when added, and subsequently increased or decreased by the Group's share of the profits and losses of the joint venture or associate, as the case may be. The relevant interests are posted in separate items in the balance sheet. Disclosures on the risks associated with the interests that ACCENTRO Real Estate AG holds in joint ventures and associates are posted along with summarised financial information on these entities in section 6.1.5. The summarised financial information for joint ventures and associates that are, on an individual basis, immaterial are presented in aggregate form.

Interests in joint ventures or associates that are not taken into account in the consolidated financial statements using the equity method because of their negligible significance for the assets, financial and earnings position of ACCENTRO Real Estate AG are measured in accordance with the accounting and valuation requirements in IAS 39 as financial instruments of the Available for Sale (AfS) category, and recognised among the financial assets. If no information is available to ACCENTRO Real Estate AG as of the balance sheet date that would permit a reliable measurement of these interests, the valuation will be based on the initial costs, as it would for non-consolidated subsidiaries.

### e) Consolidated Group

As of 31 December 2016, the consolidated financial statements of ACCENTRO Real Estate AG included 24 (previous year: 26) subsidiaries, one joint venture, and twelve (previous year: 2) associates. The consolidated Group changed as follows since 31 December 2015:

**Formation of New Subsidiaries**

During the 2016 financial year, the basis of consolidation was expanded to include five new shelf companies that were set up for the privatisation business.

**Exchange of Shares in Subsidiaries**

In line with the intensified strategic focus on the core business, namely the trading of residential real estate and the retailing of condominiums, the company sold 53.09 % of its shares in the company Magnus-Relda Holding Vier GmbH to a subsidiary of ADLER Real Estate AG via an exchange and transfer agreement dated 28 December 2016. The transferred subgroup includes a total of 3,073 residential units, which is the bulk of the former proprietary portfolio. It includes the companies ESTAVIS 6. Wohnen GmbH, ESTAVIS 7. Wohnen GmbH, ESTAVIS 8. Wohnen GmbH, ESTAVIS 9. Wohnen GmbH, RELDA 36. Wohnen GmbH, RELDA 38. Wohnen GmbH, RELDA 39. Wohnen GmbH and RELDA 45. Wohnen GmbH, each of which had 50.39 % of its shares transferred, plus the company RELDA Bernau Wohnen Verwaltungs GmbH. In the case of the latter company, a 49.91 % interest was indirectly sold. The difference in the shareholding ratio in Magnus-Relda Holding Vier GmbH (46.91 %) and the shareholding ratio in the property holding companies (49.91 %) is explained by the fact that ACCENTRO Real Estate AG, in addition to the indirect interest in the property holding subsidiaries through the company Magnus-Relda Holding Vier GmbH, also holds a direct interest of 5.1 % each in the property holding companies (and of 0.0 % in the company RELDA Bernau Wohnen Verwaltungs GmbH).

Conversely, 100 % of the shares in the holding company ACCENTRO Gehrensee GmbH (formerly Magnus Siebte Immobilienbesitz und Verwaltungs GmbH) were acquired from ACCENTRO Real Estate AG whose value equals that of the transferred shares in the company Magnus-Relda Holding Vier GmbH. Inversely, 94.9 % of the shares in the associated subgroup were acquired at the same time, consisting of the housing companies WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH, WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH, WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH, WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH, and WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH. The business object of these companies is a property development of 675 residential units in Berlin. No business operations within the meaning of IFRS 3 were acquired.

The exchange and transfer became effective on 31 December 2016. No consideration beyond the exchange is due to either party.

The value ratios underlying the exchange were determined by way of an independent appraisal report by an internationally active auditing firm.

In addition to the shares exchanged, the intercompany receivables associated with the sold subsidiary in a face amount of TEUR 38,580 were transferred to the buyer. Conversely, ACCENTRO Real Estate AG accepted accounts receivable in a face amount of TEUR 26,129. The accounts receivable in the excess amount of TEUR 12,661 are owed by the buyer, Münchener Baugesellschaft mbH, a subsidiary of ADLER Real Estate AG.

## Subsidiaries Sold

The shares in the Stresemannstr. 32 Projekt GmbH, a company acquired the previous year, were sold during the first quarter. From this, the ACCENTRO Group earned a net income of TEUR 275.

The following list shows the companies included in the consolidated group in addition to ACCENTRO Real Estate AG.

List of equity interests in subsidiaries whose shares are fully held by ACCENTRO Real Estate AG or one of its subsidiaries

| Company | Domicile | 31 Dec. 2016 Interest in net assets (in %)* | 31 Dec. 2015 Interest in net assets (in %)* |
|---|---|---|---|
| ESTAVIS Wohneigentum GmbH | Berlin | 100 % | 100 % |
| ESTAVIS 43. Wohnen GmbH & Co. KG | Berlin | 100 % | 100 % |
| Accentro GmbH (agency services) | Berlin | 100 % | 100 % |
| Accentro Wohneigentum GmbH | Berlin | 100 % | 100 % |
| ACCENTRO 5. Wohneigentum GmbH (previously ESTAVIS Sachsen Verwaltungsgesellschaft mbH ) | Berlin | 100 % | 100 % |
| MBG 2. Sachsen Wohnen GmbH | Berlin | 100 % | 100 % |
| Accentro Verwaltungs GmbH | Berlin | 100 % | 100 % |
| Koppenstraße Wohneigentum GmbH | Berlin | 100 % | 100 % |
| ACCENTRO 2. Wohneigentum GmbH (set up in Q1 2016) | Berlin | 100 % | |
| ACCENTRO 3. Wohneigentum GmbH (set up in Q1 2016) | Berlin | 100 % | |
| ACCENTRO 4. Wohneigentum GmbH (set up in Q1 2016) | Berlin | 100 % | |
| ACCENTRO 6. Wohneigentum GmbH (set up in Q4 2016) | Berlin | 100 % | |
| ACCENTRO 7. Wohneigentum GmbH (set up in Q4 2016) | Berlin | 100 % | |
| ACCENTRO Gehrensee GmbH (acquired through exchange in Q4 2016) | Hamburg | 100 % | |
| WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH (acquired through exchange in Q4 2016) | Berlin | 94.9 % | |
| WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH (acquired through exchange in Q4 2016) | Berlin | 94.9 % | |
| WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH (acquired through exchange in Q4 2016) | Berlin | 94.9 % | |
| WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH (acquired through exchange in Q4 2016) | Berlin | 94.9 % | |
| WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH (acquired through exchange in Q4 2016) | Berlin | 94.9 % | |
| **Subsidiaries with Non-Controlling Interests** | | | |
| Phoenix F1 Neubrandenburgstrasse GmbH | Erlangen | 94.9 % | 94.9 % |
| Uhlandstraße 79 Immobilien GmbH | Berlin | 50 % + 1 vote | 50 % + 1 vote |
| ESTAVIS Beteiligungs GmbH & Co. KG | Berlin | 94 % | 94 % |
| Kantstraße 130b/Leibnizstraße 36, 36a GbR | Berlin | 38.40 % | 38.40 % |
| Kantstraße 130b/Leibnizstraße 36, 36a Immobilien Gesellschaft mbH | Berlin | 40.80 % | 40.80 % |
| **Companies Derecognised during the Financial Year** | | | |
| Stresemannstr. 32 Projekt GmbH | Berlin | 100 % | 100 % |

* The disclosures in this table comply with the provisions of the German Commercial Code (HGB).

The following companies were moreover amalgamated or merged during the financial year in order to streamline the Group structure:

Mergers during the Financial Year

| Company | Domicile | 31 Dec. 2016 Interest in net assets (in %) | 31 Dec. 2015 Interest in net assets (in %) |
|---|---|---|---|
| ESTAVIS Friedrichshöhe GmbH (merged with ACCENTRO Real Estate AG as of 1 January 2016) | Berlin | 100 % | 100 % |
| ESTAVIS 37. Wohnen GmbH & Co. KG (amalgamated into ACCENTRO Real Estate AG as of 1 January 2016) | Berlin | 100 % | 100 % |

List of Equity Interests Accounted for Using the Equity Method

| Company | Domicile | 31 Dec. 2016 Interest in net assets (in %) | 31 Dec. 2015 Interest in net assets (in %) |
|---|---|---|---|
| Wohneigentum Berlin GbR (joint venture) | Berlin | 33.33 % | 33.33 % |
| SIAG Sechzehnte Wohnen GmbH & Co. KG (associate) | Berlin | 50 % | 50 % |
| Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH (associate) | Berlin | 50 % | 50 % |
| Magnus-Relda Holding Vier GmbH (associate) | Berlin | 46.91 % | 100 % |
| RELDA 36. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| RELDA 38. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| RELDA 39. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| RELDA 45. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| RELDA Bernau Wohnen Verwaltungs GmbH (associate) | Berlin | 44.09 % | 94 % |
| ESTAVIS 6. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| ESTAVIS 7. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| ESTAVIS 8. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |
| ESTAVIS 9. Wohnen GmbH (associate) | Berlin | 49.61 % | 100 % |

**Group Affiliation and Group Exemptions**

The companies identified in the subsequent list of subsidiaries are exempt from the reporting, audit, and disclosure requirements for annual accounts and management reports that apply to corporations pursuant to Section 264 (3), German Commercial Code (HGB):

| Company | Domicile |
|---|---|
| MBG 2. Sachsen Wohnen GmbH | Berlin |
| Phoenix F1 Neubrandenburgstrasse GmbH | Erlangen |
| Koppenstraße Wohneigentum GmbH | Berlin |
| Accentro 2. Wohneigentum GmbH | Berlin |
| Accentro 3. Wohneigentum GmbH | Berlin |
| Accentro 4. Wohneigentum GmbH | Berlin |

**Group Affiliation**

The ACCENTRO Group is included in the consolidated financial statements of ADLER Real Estate AG, Berlin, the latter being its top-tier parent company.

## 2.3 Segment Reporting

For several reasons, one being the strategic realignment to focus on the trade with residential real estate within a housing privatisation framework, another being the deconsolidation of the majority of portfolio properties as of 31 December 2016, and a third being the reclassification of the remaining portfolio properties as assets held for sale, the previously used distinction between the two business units "Trading" and "Portfolio" has become obsolete. In its stead, these consolidated financial statements distinguish between continuing and discontinued operations in their representation of the statement of financial position, income statement, and statement of cash flows. Accordingly, the remaining portfolio properties are shown in the "Discontinued Operation" segment. They are earmarked for disposal within a year. The representation of the previous year's figures has been adjusted accordingly.

Segment reporting complies with internal reporting to the ACCENTRO Real Estate AG Management Board, which is the highest management body as defined by IFRS (management approach). The Group only deals in property located in Germany. Therefore no geographical segmentation has been undertaken.

## 2.4 Foreign Currency Translation

**a) Functional Currency and Reporting Currency**

ACCENTRO Real Estate AG prepares its consolidated financial statements in euro (EUR).

The euro is the currency of the primary business environment in which ACCENTRO Real Estate AG and its subsidiaries operate, and is therefore their functional currency. Transactions in other currencies are thus foreign currency transactions.

**b) Transactions and Balances**

Foreign currency transactions are translated into the functional currency of the respective Group company using the exchange rates applicable at the transaction date. After initial recognition, monetary foreign currency items are translated at the exchange rate of the respective balance sheet date.

Currency translation differences resulting from the fulfilment of foreign currency transactions or the translation of monetary foreign currency items at the exchange rate as at the end of the reporting period are recognised in the income statement as foreign currency gains or losses.

## 2.5 Fair Value

Under IFRS 13, fair value is defined as the price at which an asset could be exchanged within the framework of an arm's-length transaction between knowledgeable, willing and independent market participants under current market conditions at the measurement date. The fair value may be determined using either the market-based approach, the cost-based approach, or the income-based approach. The fair value measurement maximises the use of definitive observable market-based inputs while minimising the use of unobservable inputs.

The measurement hierarchy divides into the following levels of inputs:

- Level 1: Quoted (unadjusted) prices on active markets for identical assets and liabilities, assuming the entity has access to these active markets at the measurement date (IFRS 13 – Appendix A, IFRS 13.76)
- Level 2: Directly or indirectly observable inputs not included within Level 1 (IFRS 13 – Appendix A, IFRS 13.81)
- Level 3: Unobservable inputs (IFRS 13 – Appendix A, IFRS 13.86)

If the various inputs are categorised into different levels of the fair value hierarchy, they are broken up into significant and insignificant inputs in the first step of the measurement process. Next, the fair value measurement is categorised in its entirety on the level of the lowest level input that is significant to the entire measurement (IFRS 13.73 ff.).

## 2.6 Investment Property

The real estate held as a financial investment comprises real estate held in the long term to earn rental income or for capital appreciation. Unlike real estate contained in inventory assets, active resale activities for these properties are generally developed only after a prolonged holding period within the scope of portfolio reallocations. The properties are measured at cost at the time they are added to the portfolio, and thereafter at fair value. Changes to the fair value are recognised in the income statement and reported separately.

As of 31 December 2016, all investment properties were sold or recognised as available for sale. In line with IFRS 5.5, the investment properties continue to be measured at their fair value in accordance with IFRS 13. However, since sale and purchase agreements have already been negotiated for the majority of the properties, only three properties were measured with an appraised fair value of TEUR 9,210 by the reporting date.

## 2.7 Intangible Assets and Goodwill

**a) Goodwill**

The term "goodwill" as it is used here refers to the intangible value of the Group's interest in an acquired company in excess of the fair value of that company's net assets at the acquisition date. It is recognised in the balance sheet as an intangible asset. The goodwill resulting from the acquisition of an associate is included in the book value of the interest in the respective associate. Goodwill is subjected at least once a year, and moreover whenever an impairment event has occurred, to an impairment test, and carried at original cost less accumulated impairment losses. Goodwill is not subject to scheduled depreciation.

**b) Other Intangible Assets**

This category includes software purchased. Purchased software is carried at cost and amortised on a straight-line basis over its useful life. The useful life for acquired software is three to five years.

## 2.8 Property, Plant and Equipment

The property, plant and equipment represent essentially computer hardware, other office equipment and motor vehicles. These are recognised at their initial costs minus their accumulated scheduled depreciation and impairment losses. Depreciation is recognised on a straight-line basis, taking into account the residual value and applying the following useful lives:

- Computer hardware 3 years
- Other office equipment 8–13 years
- Motor vehicles 6 years

The residual values and remaining useful lives are reviewed at each balance sheet date and adjusted as necessary.

Subsequent expenditure is only capitalised if it is probable that the company will receive an economic benefit from the respective expenditure in the future. All other repair and maintenance measures are posted as expenses in the financial year in which they are incurred.

If the book value of an asset exceeds its estimated recoverable amount, it is written down to the latter (see also section 2.9 on the subject).

Gains and losses from the disposal of property, plant and equipment are determined by comparing the sales proceeds with the book value, and are listed with the "Other operating result."

## 2.9 Impairment of Assets

The goodwill is reviewed at least once a year, and moreover whenever events or indicators suggest a possible impairment. Property, plant and equipment and intangible assets that are subject to depreciation or amortisation are tested for impairments whenever events or indicators suggest that their carrying value may not be recoverable. Impairment losses are recognised in the amount by which the carrying value of an asset exceeds its recoverable amount. The latter corresponds to the higher amount, derived from the fair value of the asset less the costs of disposal, and the discounted net cash flow from its continued use (value in use). In order to determine impairment, assets are combined at the lowest level to form cash-generating units for which cash flows can be identified largely independently from the rest of the company. Goodwill impairment is determined at the level of the cash generating unit to which the respective goodwill is allocated.

If the reasons for impairment no longer apply, impairment losses can be reversed up to a maximum of the amortised cost of the respective asset. Goodwill impairment losses may not be reversed.

## 2.10 Financial Instruments

### 2.10.1 Financial Assets

Acquisitions and dispositions of financial assets are aggregated as of the settlement date. These are recognised at their fair value at the time added while taking directly attributable transactions costs into account, unless they are recognised in income at fair value. In this context, financial assets are divided into the following measurement categories: financial assets recognised at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and financial assets available for sale. The classification of financial assets depends on the purpose for which they were acquired. The company's management is responsible for determining the categorisation of financial assets on initial recognition and reviewing it periodically. Under IFRIC 9, the allocation may be changed after contractual amendments or whenever special conditions pursuant to IAS 39.50 ff. pertain. During the period under review and the prior period, the Group only had financial assets in the categories loans and receivables and available-for-sale financial assets to report.

**a) Loans and Receivables (LaR)**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise whenever the Group directly provides a debtor with money, goods or services without intending to use the corresponding receivables for trading purposes. Loans and receivables are classified as current assets if they have a maturity of twelve months or less from the balance sheet date. Otherwise, they are reported under non-current assets. Loans and receivables are recognised in the balance sheet under trade receivables and other receivables and other assets. Within the framework of subsequent valuations, they are carried at amortised cost.

Trade receivables are initially carried at their fair value, and subsequently at amortised costs, unless they are short-term in nature. Trade receivables are written down if there is objective evidence that the amounts due may not be collectable in full.

Identifiable individual risks are subject to valuation allowances that are recognised in the respective net book value. If the default of a certain portion of the receivables portfolio is likely, impairment allowances are effected in proportion to the anticipated loss. Objective indications of the impairment of receivables exist whenever debts are in default or in arrears, or whenever bankruptcy or economic conditions are impending that positively correlate with defaults. Such impairments are recognised in income.

For standardisation purposes within the parent group ADLER Real Estate AG, overdue rent receivables will be written down by 40 % as of the 2016 financial year if they involve resident tenants. Rent arrears of tenants already moved out are written down by 90 %.

Until the end of the previous year, rent receivables older than three months were recognised with their book value adjusted by the following allowances:

- 3 to 6 months: 25 %
- 6 to 9 months: 50 %
- 9 to 12 months: 75 %
- above 12 months: 100 %

As soon as it becomes evident that a rental claim may not be recovered, the full amount is derecognised in income.

If the reasons for an impairment cease to apply, either in full or in part, the impairment is reversed up to a maximum of the amortised cost of the receivable and the amount of the reversal is recognised in income.

**b) Available-for-Sale Financial Assets (AfS)**

Available-for-sale financial assets are non-derivative financial assets that have been allocated to this category or that cannot be allocated to any of the other categories. These are reported under "Non-current assets" if the company's management does not intend to dispose of them within twelve months of the balance sheet date.

Available-for-sale financial assets include equity interests, securities held as fixed assets, and other long-term investments.

On initial recognition, available-for-sale financial assets are carried at fair value, with the transaction costs incurred duly taken into account. The unrealised gains and losses resulting from the fair value appraisal are recognised, with the deferred taxes deducted, as equity component (under "Other comprehensive income") until they are realised. If sold, any unrealised gain or loss recognised in the equity position must be recognised as income in the income statement.

At the end of each reporting period, ACCENTRO Real Estate AG examines whether there is any objective evidence of impairment. If such evidence exists, any cumulative losses previously recognised outside profit or loss are reclassified and recognised in profit or loss. To this end, all available information, including market conditions or the duration and scale of the impairment, are taken into account. An objective indication regarding an impairment is assumed whenever the fair value of an equity instrument earmarked for sale falls short of its historic costs by 20% or more, or whenever the fair value has undercut the historic cost by an average of 10% or more for longer than a year. Reversals of impairments concerning equity instruments earmarked for sales are exclusively recognised directly on equity. No financial instruments associable with other categories are being used at the moment, and are therefore not separately discussed.

### 2.10.2 Financial Liabilities

On first-time recognition, financial liabilities other than derivatives are carried at fair value less transaction costs. In subsequent periods, they are carried at amortised cost. Any differences between the amount disbursed (less transaction costs) and the settlement amount are recognised in income over the term of the respective liability in accordance with the effective interest method.

Financial liabilities are classified as current if the Group does not have the unconditional right to settle the liability at a date at least twelve months after the balance sheet date.

For the purpose of calculating the fair value, the expected future cash flow is discounted on the basis of a maturity-matched market interest rate. The individual features of the financial instruments being measured are taken into account using standard credit and liquidity spreads.

The fair value of the ACCENTRO Group's financial assets and liabilities is determined on the basis of the input factors of Levels 1, 2 and 3.

## 2.11 Inventory Properties

The inventories of the ACCENTRO Group consist of property acquired for resale. Initial recognition is measured at the acquisition costs or construction costs, as the case may be. For the purpose of subsequent valuations, inventories are carried at cost value or net realisable value, whichever is lower. The cost includes the purchase price for the respective properties plus directly attributable expenses, such as brokerage fees, real property transfer taxes, notaries' fees and land register costs. Refurbishment costs that result in a material improvement of the respective property are capitalised. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2.12 Cash and Cash Equivalents

Cash and cash equivalents are carried at cost. For the purposes of the cash flow statement, cash and cash equivalents are composed of cash on hand, sight deposits placed with banks, and other short-term, highly liquid investments with a remaining term of no more than three months at the time of acquisition.

## 2.13 Provisions

Provisions are recognised if the company has a current legal or constructive obligation based on events in the past, if settlement of the obligation is likely to require an outflow of resources, and if the amount of the obligation can be reliably estimated. If the company expects the reimbursement of an amount for which a provision has been recognised (e.g. under an insurance policy), it must record the right to reimbursement as a separate asset, providing that reimbursement is effectively guaranteed in the event that a claim is actually asserted on the respective obligation.

The company recognises a provision for unprofitable business if the unavoidable costs of meeting the obligation under the respective contract are greater than the expected benefits from the contractual claim.

Provisions are measured at the amount of the probable outflow of resources. The measurement of non-current provisions includes discounting at a risk-adequate interest rate.

## 2.14 Non-current Assets Available for Sale

Non-current assets or a group of available-for-sale financial assets are categorised "as held-for-sale" if the associated book value is to be realised mainly through a sale transaction rather than through continued use, or else if the asset is immediately available for sale and it is safe to assume that the asset will find a buyer. The measurement will adopt either the most recent book value or the fair value, whichever is lower, minus the costs of disposal. Within the balance sheet, these assets or groups of assets and the associable liabilities will be posted separately.

Whenever ACCENTRO Real Estate AG resolves to sell investment properties, the properties at issue are reclassified as held for sale, assuming the properties are immediately marketable, and assuming further that the intended sale will go ahead within one year of the resolution to sell. The measurement will continue to adopt the fair value.

If the decision to sell involves an entire business unit, all assets and liabilities of that business unit will be categorised as "discontinued operation." The measurement will adopt either the most recent book value or the fair value, whichever is lower, minus the costs of disposal. Within the balance sheet, these assets and the associable liabilities will be posted separately. Within the income statement, the cash flow statement, and the comprehensive income, the discontinued operation represents a separate component. The prior-year comparative figures are adjusted accordingly.

## 2.15 Deferred Taxes

Deferred taxes are recognised in accordance with the liability method for temporary differences between the tax base and the IFRS book value of assets and liabilities, as well as for unused tax loss carryforwards. Deferred taxes are calculated by applying the rate that is expected to be in effect when the temporary difference is reversed in accordance with the information available at the end of the respective reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which temporary differences or tax loss carryforwards can be utilised.

Changes in deferred tax items are recognised in income. Exceptions to this include the addition in equity of deferred tax items as part of the purchase price allocation of company acquisitions and deferred tax items in connection with changes in value recognised as other comprehensive income, which are also recognised under "Other comprehensive income."

## 2.16 Revenue Recognition

Revenues are composed of the amounts invoiced for the sale of properties held as inventory assets. Revenue from the sale of a property is recognised when substantially all the risks and rewards incident to ownership of the respective property are transferred to the buyer. This is generally the case when possession, benefits, duties and risks associated with the property are transferred. In the case of the sale of special-purpose entities, this date is generally the date on which the transfer of the shares in the respective entity is completed.

If renovation work is still in progress by the date on which the property is sold and this refurbishment work is negligible compared to the volume of the transaction as a whole, the company recognises a provision for the additional costs that are expected to be incurred.

Rental income is recognised on an accrual basis in accordance with the terms of the underlying contracts. Rental income is recognised as revenues. The incidental expenses invoiced to tenants are offset against the corresponding expenses as the allocable expenses are considered to have been advanced in the interest of the tenants.

Interest income is recognised on a time proportion basis that takes into account the outstanding liability and the effective yield over the remaining term.

## 2.17 Brokerage Commission

Commissions for brokering an actual business contract are recognised by the Group as an expense whenever the brokered transaction has been fulfilled. Any commission paid before this time is reported under "Miscellaneous receivables."

## 2.18 Leases

Certain Group companies act as lessees.

Leases under which the Group companies bear the substantial risks and rewards of ownership of the leased property are classified as finance leases. Assets held under finance leases are capitalised at the start of the lease term at their fair value or the present value of the minimum lease payments, whichever is lower. At the same time, a lease liability in the same amount is recognised under non-current financial liabilities. The portion of the lease liability that is due within twelve months of the balance sheet date is reported under current financial liabilities. Each lease instalment is then divided into the finance charge and the reduction of the outstanding liability in order to ensure a constant periodic return on the outstanding lease liability. The interest portion is recognised in the income statement as an interest expense. Items of property, plant and equipment held under finance leases are depreciated over their useful life, which may be limited by the lease term, taking into account any residual value.

Leases not classified as finance leases are classified as operating leases. The operating leases entered into involve motor vehicles, some office and business equipment, and business premises. These leases do not contain purchase options. Leases for office space contain extension options at standard market conditions. Payments made in connection with operating leases (less incentive payments by the lessor) are recognised in the income statement on a straight-line basis over the term of the lease.

The Group acts as a lessor in connection with the leasing of properties. These agreements are classified as operating leases. See section 6.21 for information on accounting for rental income.

## 2.19 Residual Interests and Dividend Distributions

ACCENTRO Real Estate AG includes subsidiaries in the legal form of partnerships in which it holds minority interests in its Group accounts. The partner position that the Group holds through these minority interests must be recognised in the Group accounts under IAS 32 as debt due to their statutory right to termination that cannot be contracted away. When these liabilities arise, they are measured at the present value of the partner's compensation claim. This is generally the amount of the partner's capital contribution. The liability is subsequently carried forward with the result distribution taken into account. The change in liability is recognised in the income statement unless it is based on capital contributions and withdrawals. If the adjustment results in a notional claim from the partner, it must be suspended until it would result in a liability against the partner again.

For corporations within the Group, liabilities for distributions to shareholders are only recognised in the period in which the corresponding resolution on the appropriation of net retained profits is adopted by the Annual General Meeting.

## 2.20 Cash Flow Statement

The cash flow statement shows the development of the Group's cash flows during the financial year. The consolidated financial statement uses the indirect method for a breakdown of the cash flow, with non-cash items deducted and cash items added to the consolidated income. The statement of cash flows represents the cash flows from the operational activities, from the investing activities, and from the financing activities.

## 3 Capital and Financial Risk Management

Using its capital management, ACCENTRO Real Estate AG pursues the goal of sustainably strengthening the Group's liquidity and equity basis, providing funds for the Group's equity-financed growth and generating an appropriate return on capital employed. In the context of the ACCENTRO Group's property-related business activities, purchasing volumes are financed as far as possible by debt capital in line with tax considerations as long as the relatively favourable refinancing situation persists. The Group's accounting equity acts as a passive control criterion. The active control variables are revenues and EBIT.

Once a quarter, and ahead of large-scale transactions, the risk management department reviews the Group's capital structure. To this end, the cost of capital and the threat associated with each class of capital is taken into account. In order to satisfy the banking industry standards of the external capital requirements, the accounting ratios are regularly updated. These include principal repayment ratios for each asset, loan-to-value ratios, as well as contractually agreed balance relations and success relations.

Financial risk management (see also the elaborations in the Group management report) describes the management and limitation of the financial risks resulting from the Group's operating activities. Particular risks include the liquidity risk (avoiding disruptions to solvency) and risk of default (risk of a loss if one contractual party fails to meet its contractual obligations).

Responsibility for the liquidity risk management lies with the Management Board, which has established an appropriate system for controlling short, medium and long-term finance and liquidity requirements. The Group controls liquidity risks by maintaining appropriate liquid funds, credit lines with banks and other facilities as well as constant monitoring of forecast and actual cash flows as part of ongoing, rolling liquidity controlling and by coordinating the maturity profiles of financial assets and liabilities.

In order to avoid risks of default, the Group only enters into sales relationships with parties of sound creditworthiness. In order too further limit default risk, ownership of sold properties is only transferred to the buyer after the purchase price has been paid into an escrow account.

## 4 Estimates and Accounting Decisions at the Company's Discretion

In preparing the consolidated financial statements, the company uses forward-looking estimates and assumptions based on the conditions prevailing by the balance sheet date. The estimates thus obtained may deviate from the actual events going forward.

The following estimates were used within the framework of measuring the balance sheet items:

- Impairment testing for the goodwill that is allocated to the "continuing operation" segment requires the use of estimates in respect to future revenues and trading margins in particular. The sales prices and sold quantities underlying these figures are used for a planning period of 10 years (previous year: 5 years) based on market development forecasts and past empirical evidence. The cash operating surplus determined in the process are discounted, taking market-consistent costs of equity and debt as well as a market-consistent risk interest on its cash value into account.
- The fair values of the investment properties are based on valuation reports of independent external valuers. The latter determine the fair value of the property assets by applying the discounted cash flow method (DCF method). The appraisal takes estimates of future rent revenues, vacancies, and possible refurbishment measures into account. Uncertainties concerning the development of the market conditions as well as the nature and use of the properties are reflected in a market-consistent discount interest rate that includes a risk premium.
- In estimating the net selling prices of properties held for trading, the calculation of realistic selling prices is subject to considerable uncertainty. Selling prices are estimated on the basis of the assessed attractiveness of micro-environments and the expected development of the spending power. The range of sales prices obviously depends on the location of a given trading property. The adequacy of a certain price and thus of the amount posted in the balance sheet are periodically reviewed and adjusted as needed.
- Estimates define particularly the appraisal of the intrinsic value of the rent receivables. Assumptions regarding the collectability of an outstanding receivable are based on the structure of that receivable. Based on empirical evidence, the probability that who have moved out will default on rent receivables is assumed to be 90 %, whereas the default risk on rent receivables from incumbent tenants is assumed to be 40 %.
- There are a range of estimates as to possible future expenses to the Group in the context of the recognition of provisions.
- Current and deferred taxes are necessarily recognised on the basis of estimates. Since the proper interpretation of complex tax issues is far from clear, differences between actual results and the assumptions or future changes in the estimates may lead to changes in tax results in future periods.

Concerning the financial reporting and valuation rules, ACCENTRO Real Estate AG made the following discretionary decisions:

- Whenever real estate packages are added or sold, it is up to the company to decide whether this involves the acquisition or disposal, respectively, of a business operation.
- By each balance sheet date, it has to be decided whether a given property held by the Group is reported as financial investment or as inventory property.
- When recognising financial instruments for the first time, you need to choose one of four measurement categories to allocate it to: financial assets recognised at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, or available-for-sale financial assets, as the case may be.
- The companies Kantstraße 130b/Leibnizstraße 36, 36a GbR and Kantstraße 130b/Leibnizstraße 36, 36a Immobilien Gesellschaft mbH are itemised as Group subsidiaries under 6.1.4 although the Group only holds minority stakes of 39% and 41%, respectively, because the Group controls the key operating decisions and definitively participates in the returns through financing arrangements and marketing agreements.

Whenever errors in the accounting estimates and in the fair value measurements become apparent during the periods following the balance sheet date, the provisions of IAS 8 apply. Accordingly, material omissions or misstatements are retroactively corrected for all prior reporting periods affected up to the current period's financial statement whenever they could impact the economic decisions that the recipients of the statements may have made on the basis of the financial statement.

# 5 Segment Reporting

The ACCENTRO Group is organised into the following business divisions (2016) or segments (2015):

1. **Continuing Operation:** the buying and selling of property, with apartments usually sold to private investors. The estate agency business within the framework of apartment retailing is also included in this segment. The continuing operation is identical to the former "Trading" segment.
2. **Discontinued Operation:** This business division handles the wind-down of the remaining activities of the former "Portfolio" segment.

For detail on changes in the representation, see the elaborations in section 2.3 Segment Reporting.

The segment results for the financial year ended 31 December 2016 present the following picture year on year:

| | Continuing Operation* | | Discontinued Operation* | | Group | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Revenues | 125,105 | 39,497 | 31,127 | 117,482 | 156,232 | 156,979 |
| thereof | | | | | | |
| Letting | 6,597 | 5,754 | 11,401 | 15,703 | 17,998 | 21,457 |
| Disposals / Privatisation | 116,920 | 31,429 | 0 | 0 | 116,920 | 31,429 |
| Disposals / income-producing companies | 0 | 0 | 19,726 | 101,779 | 19,726 | 101,779 |
| Brokerage | 1,588 | 2,314 | 0 | 0 | 1,588 | 2,314 |
| Changes in the value of investment property | 0 | 0 | 9,702 | 10,465 | 9,702 | 10,465 |
| **EBIT** | **33,936** | **6,097** | **15,300** | **32,835** | **49,236** | **38,932** |
| Result from financial investments | 532 | 573 | 0 | 0 | 532 | 573 |
| Net interest income | –6,397 | –5,856 | –7,184 | –8,117 | –13,581 | –13,973 |
| **Earnings before income taxes** | **28,070** | **814** | **8,116** | **24,719** | **36,186** | **25,533** |

* The recognition of the previous year's figure was adjusted.

The total consolidated revenue break down as follows:

- Continuing operation: EUR 125.1 million (previous year: EUR 39.5 million)
- Discontinued operation: EUR 31.1 million (previous year: EUR 117.5 million)

Revenues in the "Continuing Operation" segment grew by EUR 85.6 million year on year. The bulk of this decidedly positive result was generated through global sales of three larger portfolios in a sales total of EUR 75.2 million.

The operating profit (EBIT) of the "Continuing Operation" segment of the 2016 financial year increased noticeably to EUR 33.9 million (previous year: EUR 6.1 million). The increase is based exclusively on the steady growth in earnings from inventory property sales within the framework of the privatisation business.

Revenues in the "Discontinued Operation" segment amounted to EUR 31.1 million in the 2016 financial year (previous year: EUR 117.5 million) and were generated mainly by property disposals in conjunction with the portfolio optimisation. The operating income (EBIT) in the "Discontinued Operation" segment decreased to EUR 15.3 million (previous year: EUR 32.8 million). The massive deviation from the prior-year figures is due, on the one hand, to the fact that the sale of the property in Berlin-Hohenschönhausen played a definitive role, and to the absence of the properties sold during the 2016 financial year, on the other hand.

Depreciation and write-downs of property, plant and equipment and amortisation, and write-downs of intangible assets, and the changes in the value of investment property during the years at issue were attributable to the segments as follows:

| | Continuing Operation | | Discontinued Operation | | Group | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Depreciation and amortisation of property, plant and equipment | –85 | –68 | 0 | 0 | –85 | –68 |
| Depreciation and amortisation of intangible assets | –28 | –29 | 0 | 0 | –28 | –29 |
| Change in value of investment property | 0 | 0 | 9,702 | 10,465 | 9,702 | 10,465 |

Segment assets, segment liabilities and segment investments were recognised as follows by 31 December 2016:

| | Continuing Operation | Discontinued Operation | Group |
|---|---|---|---|
| | TEUR | TEUR | TEUR |
| Segment assets | 278,374 | 12,245 | 290,619 |
| Equity interests accounted for using the equity method | 472 | 9,455 | 9,927 |
| **Total segment assets** | **278,846** | **21,700** | **300,546** |
| **Segment liabilities** | **157,520** | **6,192** | **163,712** |
| Segment investments | 136,620 | 1,774 | 138,394 |

The 2015 financial year returned the following figures:

| | Continuing Operation | Discontinued Operation | Group |
|---|---|---|---|
| | TEUR | TEUR | TEUR |
| Segment assets | 187,549 | 206,063 | 393,612 |
| Equity interests accounted for using the equity method | 1,593 | 0 | 1,593 |
| **Total segment assets** | **189,142** | **206,063** | **395,205** |
| **Segment liabilities** | **126,811** | **159,153** | **285,964** |
| Segment investments | 102,409 | 3,164 | 105,696 |

The changed representation of the segment assets, the segment liabilities and the segment investments during the 2016 financial year after the former "Portfolio" segment was reclassified as "Discontinued Operation" makes it difficult to compare the current reporting figures with the segment reporting of the previous year.

The segment assets include primarily property, plant and equipment, inventories, accounts receivable from third parties, and loan receivables from related parties. Goodwill is allocated to the "Continuing Operation" or to "Trading" segment, as the case may be.

On top of that, the segment assets and the segment liabilities of the "Continuing Operation" increased due to the ongoing expansion of the privatisation portfolio.

The segment liabilities include essentially financial liabilities, trade payables, bond liabilities, accounts payable to ADLER Real Estate AG, and other liabilities.

The 2016 financial year will be the last year for which ACCENTRO Real Estate AG will do a segment reporting, as the representation of segments will no longer be part of the internal reporting now that the investment properties have been sold off.

# 6 Supplementary Notes to the Individual Items of the Financial Statements

## 6.1 Statement of Changes in Non-current Assets

Non-current assets changed as follows during the financial year beginning 1 January 2016 and ending 31 December 2016:

| | Other intangible assets | Property, plant and equipment |
|---|---|---|
| | TEUR | TEUR |
| Acquisition costs/construction costs | 209 | 773 |
| Cumulative depreciation, amortisation and write-downs | 162 | 585 |
| **Book value as of 1 January 2016** | **47** | **188** |
| Additions (+) | 14 | 96 |
| Disposals (–) | 3 | 14 |
| Depreciation, amortisation and write-downs (–) | 28 | 85 |
| **Book value as of 31 December 2016** | **30** | **185** |
| Acquisition costs/construction costs | 273 | 777 |
| Cumulative depreciation, amortisation and write-downs | 243 | 592 |

Non-current assets have changed as follows in the financial year from 1 January 2015 to 31 December 2015:

| | Other intangible assets | Property, plant and equipment |
|---|---|---|
| | TEUR | TEUR |
| Acquisition costs/construction costs | 174 | 688 |
| Cumulative depreciation, amortisation and write-downs | 133 | 517 |
| **Book values as of 1 January 2015** | **41** | **171** |
| Additions (+) | 35 | 88 |
| Disposals (–) | 0 | 3 |
| Depreciation, amortisation and write-downs (–) | 29 | 68 |
| **Book values as of 31 December 2015** | **47** | **188** |
| Acquisition costs/construction costs | 209 | 773 |
| Cumulative depreciation, amortisation and write-downs | 162 | 585 |

### 6.1.1 Intangible Assets and Goodwill

The table under section 6.1 shows the changes in other intangible assets over the past two reporting periods.

Goodwill is allocated to the "Continuing Operation" or to the "Trading" segment, as the case may be. The recoverable amount is determined for impairment testing by calculating the segment's value in use.

The mandatory annual impairment test was conducted during the fourth quarter of the year under review. Within the context of determining the recoverable amounts from the business divisions, the company plan approved by the Management Board was used as basis for determining the respective value in use for a planning period of ten years (previous year: five years). The cash flows used to calculate the perpetual annuity were derived from the last planning year. The planning figures were determined taking both controllable and uncontrollable factors into account.

The company's Management Board determined the budgeted cash flow for the detailed planning phase on the basis of favourable past events in the privatisation business and positive expectations regarding future market developments. These are based on the forecast development of sold or brokered residential units, the assumption being that – presupposing an upward learning curve in the "Trading" segment – the contribution to operating income per residential unit will increase.

Other key parameters for determining the recoverable amount include the weighted average cost of capital (WACC) before taxes and the sustainable growth rate of the perpetual annuity. The WACC consider weighted market-consistent costs of both equity and debt capital, weighted according to the company's capital structure. The measurement was based on the Capital Asset Pricing Models (CAPM) used in both theory and practice. It takes a risk-free interest rate, a market-consistent risk premium (market risk premium and beta factor) and a risk mark-up of corporate bonds into account. The measurement also considered comparables from a so-called peer group. The sustainable growth rate traces the anticipated market development.

The budgeted cash flows of the Continuing Operation were discounted with a 4.5 % weighted average cost of capital after taxes (previous year: 7.8 %). This post-tax discount rate reflects the specific risks of the trading segment compared to the market portfolio. Moreover, a sustainable growth rate of 0.8 % (previous year: 0.5 %) was assumed for the purpose of mapping the future market trend. The book value of the Cash Generating Unit (CGU) including goodwill amounted to TEUR 222,852 as of 30 September 2016, taking into account adequate working capital in an amount equal to the book value of the CGU that would be taken over by a potential buyer.

The impairment test for the goodwill was conducted as of 30 September 2016, and returned a considerable excess cover for the book values. Within the framework of sensitivity analyses, the ramifications of changes to the key parameters were examined while retaining the other assumptions. Even if the cash flow was be cut in half after the detailed planning period, the book values in the trading business unit would not be impaired. Neither would an increase in the weighted average cost of capital (WACC) by 2.5 percentage points in combination with a simultaneous drop in the sustainable growth rate impact the intrinsic value of the goodwill.

### 6.1.2 Property, Plant and Equipment

Property, plant and equipment consist essentially of computer hardware, other office equipment and motor vehicles. These are recognised at their initial costs minus their accumulated scheduled depreciation and impairment losses. Depreciation is recognised on a straight-line basis, taking into account the residual value and applying the following useful lives:

- Computer hardware 3 years
- Other office equipment 8–13 years
- Motor vehicles 6 years

Property, plant and equipment acquired during the 2016 financial year included computer hardware and other office equipment at a cost of TEUR 96. The additions are matched by disposals in the amount of TEUR 14. The values of the other property, plant and equipment represent the amortised costs carried forward.

### 6.1.3 Investment Property

Investment property developed as follows:

| | 2016<br>TEUR | 2015<br>TEUR |
|---|---|---|
| **Start of financial year** | **168,337** | **257,861** |
| Other additions following their acquisition | 0 | 600 |
| Refurbishment | 2,260 | 2,564 |
| Disposals | –4,941 | –86,003 |
| Appreciation | 12,234 | 23,427 |
| Impairment | –2,532 | –12,963 |
| Disposal from Discontinued Operation | –166,648 | 0 |
| Reclassifications | –8,710 | –17,149 |
| **End of financial year** | **0** | **168,337** |

The value changes attributable to measurements at fair value add up to TEUR 9,702 on balance, and break down into TEUR 9,256 for properties sold during the year, and TEUR 446 for properties recognised as available for sale by 31 December 2016. Properties remaining in the "Discontinued Operation" segment and scheduled to be sold off during the next twelve months are reassigned to the line item "Non-current assets held for sale" in accordance with IFRS 5.

For the properties held for sale as of 31 December 2016, the income statement of the discontinued operation includes the following items, in addition to value changes from the measurement at fair value in a balance of TEUR 446:

| | 2016*<br>TEUR | 2015<br>TEUR |
|---|---|---|
| Rental income (revenues) (Discontinued Operation) | 287 | 15,703 |
| Cost of materials (Discontinued Operation) | –267 | –4,433 |
| Maintenance costs (material costs) (Discontinued Operation) | –68 | –3,854 |

* relative to properties held for sale

Out of the expenses, vacant property held for sale account for TEUR 14 (previous year: TEUR 973). The contribution to operating income from investment properties is included in the net income of the discontinued operation.

As of year-end 2016, TEUR 8,710 worth of investment properties were reallocated to the item “non-current assets available for sale.” The reclassification reflects the decision by ACCENTRO Real Estate AG to sell off its investment properties. The Group expects the planned disposals to go ahead within a year’s time (see section 6.5).

### 6.1.4 Subsidiaries with Substantial but Non-Controlling Interests

The table below contains detailed information on subsidiaries of ACCENTRO Real Estate AG in which third parties hold significant but non-controlling interests:

| Name | Capital share of the non-controlling interests in % (voting rights, in %) | Consolidated income representing non-controlling interests | Book value of the non-controlling interests as of 31 Dec. 2016 | Dividends paid out to the non-controlling interests during the reporting period |
|---|---|---|---|---|
| | % | TEUR | TEUR | TEUR |
| **Corporations** | | | | |
| Phoenix F1 Neubrandenburgstrasse GmbH | 5.1 | 108 | 439 | 9 |
| Uhlandstraße 79 Immobilien GmbH | 50<br>–1 vote | –38 | 177 | – |
| RELDA Bernau Wohnen Verwaltungs GmbH (Discontinued Operation) | 6 | 165 | 407 | – |
| Kantstraße 130b/ Leibnizstraße 36, 36a Immobilien Gesellschaft mbH | 59 | –54 | –54 | – |
| Diverse minority interests in the special purpose entities of ACCENTRO Gehrensee | 5.1 | 0 | 789 | – |
| Total | | 181 | 1,758 | |
| **Partnerships** | | | | |
| Kantstraße 130b/ Leibnizstraße 36, 36a GbR* | 61 | 473 | 439 | – |

* Recognised among the financial liabilities

Listed below are the summarised financial details of subsidiaries in which ACCENTRO Real Estate AG holds substantial but non-controlling interests as of 31 December 2016 and as of 31 December 2015:

| 31 December 2016 Continuing Operation | Phoenix F1 Neu-brandenburg-strasse GmbH | Uhlandstraße 79 Immobilien GmbH | Kantstraße 130b/Leib-nizstraße 36, 36a GbR | Kantstraße 130b/Leib-nizstraße 36, 36a Immobilien Gesellschaft mbH | Diverse minority interests in the special purpose entities of ACCENTRO Gehrensee |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| Total of current assets | 13,425 | 1,405 | 1,620 | 522 | 40,661 |
| Total of non-current assets | 0 | 17 | 30 | 4 | 0 |
| Total of current liabilities | 4,799 | 1,069 | 1,131 | 618 | 14,358 |
| Total of non-current liabilities | 0 | 0 | 245 | 0 | 3,689 |
| **Earnings/revenues** | **9,922** | **1,139** | **4,245** | **0** | **0** |
| **Annual net income/net loss** | **2,114** | **–76** | **803** | **–92** | **0** |
| thereof attributable to the shareholders of ACCENTRO Real Estate AG | 2,006 | –38 | 329 | –38 | 21,245 |
| thereof attributable to the non-controlling interests | 108 | –38 | 473 | –54 | 1,269 |

The minority interests of non-controlling companies of the partnership are recognised as profit or loss in the consolidated income statement.

| 31 December 2015 | Phoenix F1 Neu-brandenburg-strasse GmbH | Uhlandstraße 79 Immobilien GmbH | RELDA Bernau Wohnen Ver-waltungs GmbH (Discontinued Operation) | Kantstraße 130b/Leib-nizstraße 36, 36a GbR | Kantstraße 130b/Leib-nizstraße 36, 36a Immobilien Gesellschaft mbH |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| Total of current assets | 13,412 | 2,646 | 2,661 | 4,287 | 522 |
| Total of non-current assets | 0 | 54 | 13,434 | 0 | 0 |
| Total of current liabilities | 6,179 | 2,271 | 2,157 | 4,342 | 523 |
| Total of non-current liabilities | 721 | 0 | 9,898 | 0 | 0 |
| **Earnings/revenues** | **5,462** | **6,031** | **819** | **145** | **0** |
| **Annual net income/net loss** | **–75** | **336** | **–12** | **–143** | **–26** |
| thereof attributable to the shareholders of ACCENTRO Real Estate AG | –71 | 168 | –11 | –55 | –11 |
| thereof attributable to the non-controlling interests | –4 | 168 | –1 | –88 | –15 |

### 6.1.5 Equity Interests Accounted for Using the Equity Method

The equity interests accounted for using the equity method performed as follows:

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| **Start of financial year** | **1,593** | **1,068** |
| Disposals | –1,635 | 0 |
| Amortisations | 0 | –122 |
| Shares in gains and losses | 514 | 647 |
| **End of financial year** | **472** | **1,593** |

The section below lists the summarised financial information for the associates and joint ventures of significance for ACCENTRO Real Estate AG along with a reconciliation to the book value of the interest held by ACCENTRO Real Estate AG as of 31 December 2016 and 31 December 2015, appraised according to the equity method:

| 31 December 2016 | Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH | SIAG Sechzehnte Wohnen GmbH & Co. KG | Wohneigentum Berlin GbR (joint venture) |
|---|---|---|---|
| | TEUR | TEUR | TEUR |
| Earnings/revenues | 679 | 0 | 7,377 |
| Profit/loss for the year, overall performance | –65 | 0 | 1,634 |
| Total of current assets | 116 | 0 | 2,296 |
| Total of non-current assets | 0 | 0 | 0 |
| Total of current liabilities | 98 | 0 | 880 |
| Total of non-current liabilities | 0 | 0 | 0 |
| Net assets of the associates | 18 | 0 | 1,416 |
| ACCENTRO Real Estate AG's interest in net assets of the associate | 49.82 % | 47 % | 33.33 % |
| Book value of ACCENTRO Real Estate AG's interest, appraised using the equity method | 0 | 0 | 472 |

| 31 December 2015 | Malplaquetstr. 23 Grundstücks-verwaltungs-gesellschaft mbH | SIAG Sechzehnte Wohnen GmbH & Co. KG | Wohneigentum Berlin GbR (joint venture) |
|---|---|---|---|
| | TEUR | TEUR | TEUR |
| Earnings/revenues | 1,565 | 0 | 7,428 |
| Profit/loss for the year, overall performance | 142 | –263 | 1,734 |
| Total of current assets | 886 | 118 | 7,931 |
| Total of non-current assets | 0 | 0 | 0 |
| Total of current liabilities | 718 | 161 | 3,668 |
| Total of non-current liabilities | 0 | 0 | 0 |
| Net assets of the associates | 186 | –48 | 4,527 |
| ACCENTRO Real Estate AG's interest in net assets of the associate | 49.82 % | 47 % | 33.33 % |
| Book value of ACCENTRO Real Estate AG's interest, appraised using the equity method | 83 | 0 | 1,509 |

For the risks and constraints to which ACCENTRO Real Estate AG is exposed by each of the associates and joint ventures, please see the elaborations in section 6.24.

### 6.1.6 Equity Investments

The 5.1 % interest in the company Immeo Berlin C GmbH in a book value of TEUR 1,188 that was recognised in this line item last year was disposed of through a purchase and transfer agreement dated 27 July 2016. The resulting profits for the Group amounted to TEUR 137.

In Q4 2016, ACCENTRO Real Estate AG acquired TEUR 26 worth of cooperative shares in the Berliner Volksbank.

## 6.2 Inventory Properties

The company's inventory include available-for-sale properties and down-payments for such properties. The item breaks down as follows:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Ready-for-sale properties | 216,080 | 155,337 |
| Advanced payments | 7,485 | 784 |
| **Total** | **223,565** | **156,121** |

Inventory properties with a carrying value of TEUR 99,667 (prior period: TEUR 76,652) are expected to be sold after more than twelve months.

The properties are measured at initial costs plus subsequent expenditures to restore their marketability. There was no income from reversals of impairments for properties held as inventory assets during the 2016 financial year. The recognised properties serve as collateral for financial liabilities in the amount of TEUR 211,344.

## 6.3 Trade Receivables and Other Receivables

Trade receivables represent purchase price receivables and into rent receivables. The development of trade receivables is shown in the following table:

| | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| | TEUR | TEUR |
| Trade receivables (gross) | 2,068 | 10,926 |
| Allowances | –58 | –504 |
| **Trade receivables (net)** | **2,010** | **10,422** |

The table below lists the trade receivables by maturity:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Trade receivables | 2,010 | 10,422 |
| thereof neither impaired as of the reporting date nor overdue | 158 | 1,980 |
| thereof not impaired as of the reporting date nor overdue for another 30 days | 54 | 1,347 |
| thereof not impaired as of the reporting date nor overdue for another 31 to 60 days | 207 | 514 |
| thereof neither written down as of the reporting date nor overdue for another 61 to 90 days | 60 | 370 |
| thereof neither written down as of the reporting date nor overdue for another 91 to 180 days | 87 | 297 |
| thereof neither written down as of the reporting date nor overdue for another 181 to 360 days | 342 | 1,261 |
| thereof neither written down as of the reporting date nor overdue for more than 360 days | 1,044 | 4,545 |
| Net value of written-down trade receivables | 58 | 108 |

The default risk on accounts receivable from tenants and customers is considered negligible because the credit worthiness of either group is regularly verified. To the extent that accounts receivable are subject to a default risk, they are adjusted in value. Accounts receivable with a maturity of more than 360 days are fully secured by pledged shares in listed companies.

The one-off allowances for trade receivables developed as follows:

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| **As of 1 January** | **504** | **274** |
| Change in consolidated group | –1,338 | –1 |
| Additions (write-downs) | 1,128 | 327 |
| Reversals | –235 | –93 |
| Derecognition | 0 | –4 |
| **As of 31 December** | **58** | **504** |

The miscellaneous receivables and other assets include:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Loan to Münchener Baugesellschaft mbH (related party) | 13,044 | 0 |
| Receivables from operating costs not yet invoiced | 4,261 | 9,843 |
| Sales tax receivables | 975 | 975 |
| Restricted-use cash in banks | 142 | 2,898 |
| Receivables from investment companies | 0 | 426 |
| Miscellaneous other receivables | 329 | 743 |
| **Total** | **18,751** | **14,885** |

The loan granted to the related party Münchener Baugesellschaft mbH, a subsidiary of ADLER Real Estate AG, could be liquidated any time, and is therefore of short-term nature. The loan was created within the framework of a swap of shares in subsidiaries as elaborated under section 2.e Consolidated Group.

The accounts receivable from operating costs not yet settled and the cash in banks subject to restraints on disposal were transferred in conjunction with the disposal of the shares in the Magnus-Relda Vier portfolio, and are therefore substantially reduced year on year.

The receivables from investment companies recognised last year were collected during the year under review.

The sales tax refund claim vis-à-vis the inland revenue office in the amount of TEUR 975 (previous year: TEUR 975) is based on a tax reclaim in connection with the latest tax law rulings concerning developer projects and the area of governance subject to Section 13b, Turnover Tax Act (UStG). This account receivable is matched by accounts payable in the amount of TEUR 975. With a view to applicable statutory rules and regulations, ACCENTRO Real Estate AG assumes that the inland revenue authorities will request corrected invoices from former suppliers.

Other receivables are subject to allowances in the amount of TEUR 442 (previous year: TEUR 442).

The accounts receivable are of short-term nature.

## 6.4 Cash and Cash Equivalents

Cash and cash equivalents are primarily composed of small amounts of cash and bank balances predominantly held at call.

## 6.5 Available-for-Sale Financial Assets and Liabilities

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Interest in Magnus-Relda Vier subgroup held at equity | 9,455 | 0 |
| Properties | 12,010 | 17,149 |
| Miscellaneous | 235 | 0 |
| **Sum total of the assets available for sale** | **21,700** | **17,149** |
| **Liabilities and deferred taxes connected to the property held for sale** | **6,192** | **14,421** |

Property valuations as of the valuation key date of 30 November 2016 are available for real estate in a book value of TEUR 9,210. The adjustment of individual parameters in the property valuations would have no material effects on the assets, financial and earnings position because of the generally negligible significance of this balance sheet item. For an assets held for sale worth TEUR 2,800 already recognised the previous year, a sale and purchase agreement was concluded in the course of the year but not closed until January 2017 with the payment of the purchase price, so that it was still recognised as held for sale by 31 December 2016. All other assets available for sale the previous year were disposed of during the year under review.

The interest held at equity was carried at cost as of 31 December 2016.

## 6.6 Equity Capital

As of 31 December 2016, the issued capital (share capital) of ACCENTRO Real Estate AG amounted to EUR 24,734,031.00. It was composed of 24,734,031 no-par value bearer shares. There are no different stock classes. At the start of the 2016 financial year, the share capital amounted to EUR 24,678,200 and increased by EUR 55,831 during the reporting period when the conversion rights from a convertible bond issued by ACCENTRO Real Estate AG were exercised. Other than that, we refer to the Group management report for the mandatory disclosures pursuant to Section 315 (4), German Commercial Code (HGB).

### Contingent Capital and Authorised Capital

Based on the resolutions of the Annual General Meetings of past years, the following Contingent and Authorised Capital is available:

**Contingent Capital 2014 (Redemption of Convertible Bonds)**
A resolution passed by the Annual General Meeting on 27 February 2013 authorised the Management Board, subject to the Supervisory Board's approval, to issue – up to and including 26 February 2018 – one or more convertible bonds and/or warrant bonds with or without conversion or pre-emptive rights in an aggregate minimal amount of up to EUR 200,000,000.00 with a maximum maturity of 20 years, and to grant the bearers of these debenture bonds conversion or pre-emptive rights for up to 25,000,000 no-par-value bearer shares in the company, equal to a proportionate share in the share capital in a total amount of up to EUR 25,000,000.00. The authorisation by the Annual General Meeting of 13 December 2010, as amended by the resolution of the Annual General Meeting on 9 December 2011, the authorisation by the Annual General Meeting of 16 February 2010, as well as the authorisation by the Annual General Meeting of 20 February 2009, concerning the issuance of convertible

bonds, warrant bonds and/or participation rights were repealed, to the extent that these had not been exercised yet, through a resolution by the Annual General Meeting on 27 February 2013. Pursuant to a resolution passed by the Annual General Meeting on 10 January 2014, the share capital was conditionally increased by up to EUR 4,136,631 through the issue of up to 4,136,631 new no-par-value bearer shares in order to redeem the conversion and pre-emptive rights arising from these debenture bonds ("Contingent Capital 2014").

In March 2014, the company issued convertible bonds in a total nominal volume of EUR 15,000,000. The exercise period for the conversion right commenced on 1 July 2014.

A resolution by the Annual General Meeting of 16 June 2015 restructured the Contingent Capital 2014 as follows: The share capital has been conditionally increased by up to EUR 10,534,529.00 through the issuance of up to 10,534,529 new registered shares (Contingent Capital 2014). The Contingent Capital increase will only be implemented to the extent that

I. the bearers of convertible and/or warrant bonds and/or participation rights with conversion or pre-emptive rights that were issued by the company or its subordinate Group companies on the basis of the authorisation resolution by the Annual General Meeting of 27 February 2013 exercise their conversion or pre-emptive rights and the company decides to redeem the conversion or pre-emptive rights from this Contingent Capital, or
II. the bearers of convertible and/or warrant bonds and/or participation rights with conversion or pre-emptive rights with a conversion obligation that were issued by the company or its subordinate group companies on the basis of the authorisation resolution by the Annual General Meeting on 27 February 2013 satisfy their obligation and the company decides to redeem the conversion or pre-emptive rights from this Contingent Capital. The share issuance shall proceed in line with the provisions of the authorisation resolution by the Annual General Meeting of 27 February 2013, i.e. in particular at a price equal to no less than 80 % of the average stock market price of the company shares in the opening auction in Xetra trading (or a successor system) on the last ten trading days before the resolution by the Management Board to issue the respective bonds, taking into account adjustments pursuant to the dilution protection regulations of the resolution by the Annual General Meeting of 27 February 2013 under agenda item 8 lit. g).

The Supervisory Board is authorised to amend the Articles of Association to reflect the respective scope of the share capital increase through the Contingent Capital 2014.

Exercised conversion rights in convertible bonds reduced the revised Contingent Capital 2014 by EUR 55,831 down to EUR 10,478,298 during the 2016 financial year.

**Contingent Capital 2013/II (Redemption of Stock Options)**
The Contingent Capital 2013/II was created for the purpose of settling stock options that were issued on the basis of the authorisation by the Annual General Meeting on 27 February 2013 for the period ending on 26 February 2016. Accordingly, the company's share capital was conditionally increased on the basis of the authorisation resolution by the Annual General Meeting of 27 February 2013 by up to EUR 1,400,000.00 against the issue of up to 1,400,000 no-par-value bearer shares (Contingent Capital 2013/II). The conditional capital increase went ahead only if bearers of the issued options exercise their right to subscribe shares of the company, and if the company draws on the Contingent Capital 2013/II to settle these options. Shares from the Contingent Capital 2013/II are issued at their issue price, as defined in the authorisation. The Management Board did not exercise the aforesaid authorisation. The Contingent Capital expired in the course of the year.

## Authorised Capital

**Authorised Capital 2015**

The Management Board was authorised through a resolution by the Annual General Meeting of 16 June 2015 to increase, subject to the approval by the Supervisory Board, the share capital of the company by up to EUR 12,218,232.00 by issuing, on one or several occasions, up to 12,218,232 new no-par value bearer shares in exchange for non-cash and/or cash contributions up to and including 15 June 2020 (Authorised Capital 2015). The Management Board is moreover authorised to exclude the shareholders subscription rights wholly or in part, subject to the Supervisory Board's approval. However, the exclusion of the shareholders' subscription rights is permitted in the following instances only:

I. for capital increases against cash contributions if shares in the company are traded on a stock market (regulated market or OTC or the successors to these segments), the capital increase does not exceed 10 % of the share capital and the issue price of the new shares does not significantly undercut the market price of shares in the company of the same class and features already traded on the stock market within the meaning of Art. 203 Sections 1 and 2, and Art. 186, Sec. 3, Sent. 4, German Stock Corporation Act (AktG). The amount of 10 % of the share capital must include the amount relating to shares issued or disposed of on the basis of a different corresponding authorisation with pre-emptive rights ruled out under direct or implicit application of Art. 186, Sec. 3, Sent. 4, AktG, if such inclusion is required by law. For the purposes of this authorisation, the issue price for the purchase of new shares by an intermediary with the simultaneous obligation of such intermediary to offer the new shares for purchase by one or more third parties designated by the company is deemed to be the amount that must be paid by the third party or third parties;

II. for capital increases against non-cash contributions, particularly for the acquisition of companies, parts of companies and investments in companies, industrial property rights, such as e.g. patents, brands or licences to these, or other product rights or other non-cash contributions, including debenture bonds, convertible bonds and other financial instruments;

III. to the extent required in order to grant holders or creditors of the debenture bonds with warrant or conversion rights or obligations issued by the company or Group companies subscription rights to new shares to extent to which they would be entitled to these after exercising their option or conversion privileges or after having fulfilled their warrant or conversion obligations, or

IV. for fractional amounts arising from subscription ratios; or

V. in other cases in which the exclusion of subscription rights is understood to be in the company's best interest.

## 6.7 Financial Liabilities

The following table shows the Group's current and non-current financial liabilities:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| **Non-current financial liabilities** | | |
| Liabilities to banks | 42,716 | 154,562 |
| Bond liabilities | 21,644 | 21,338 |
| Shareholder loans | 0 | 2,824 |
| **Total non-current financial liabilities** | **64,360** | **178,724** |
| **Current financial liabilities** | | |
| Liabilities to banks | 64,807 | 63,804 |
| Bond liabilities | 138 | 137 |
| **Total current financial liabilities** | **64,945** | **63,941** |
| **Total financial liabilities** | **129,305** | **242,665** |

### Liabilities to Banks

The book value of non-current financial liabilities to banks can be broken down into parts of loans with a remaining term of between one and five years (TEUR 42,716; previous year: TEUR 37,388) and those with a remaining term of more than five years (TEUR 0; 2015 financial year: TEUR 117,175).

The drop in non-current liabilities to banks in the amount of TEUR 111,846 is essentially explained by the deconsolidation of the portfolio properties from the subgroup Magnus-Relda Holding Vier, which caused financial liabilities in the amount of TEUR 104,899 to be derecognised.

The modest rise in current financial liabilities by TEUR 1,003 is primarily explained by the fact that inventory properties were earmarked for sale in the 2017 financial year by the company's sales planning, and that this implies prepayment of the associated loan debt. The share of repayments from property sales itemised among the current financial liabilities amounts to a projected total of TEUR 64,807 for the 2017 financial year.

### Bond Liabilities

On 5 March 2014, the company issued 6,000,000 convertible bonds with a par value of EUR 2.50 each (2014/2019 convertible bond). The original par value of the bearer bonds was TEUR 15,000. The convertible bond draws an interest of 6.25 % and will mature on 27 March 2019. The company bought back 600,000 bonds by 31 December 2016, and converted 60,325 bonds into shares. Out of the book value of the bond liabilities, the 2014/2019 convertible bond with a remaining term of 3 years accounts for TEUR 11,936 (2015 financial year: TEUR 11,768).

The current financial liabilities include outstanding interest on bonds in the amount of TEUR 136 (reference period: TEUR 137).

In addition, the bond liabilities include a corporate bond with a five-year maturity in a volume of EUR 10 million that was placed in November 2013. The bond has a denomination of EUR 1,000.00 per bond. The interest rate paid for the loan is 9,25 %. The bond will mature on 14 November 2018, and is fully recognised in the non-current financial liabilities. The bond has a book value of TEUR 9,708 (previous year: TEUR 9,570).

### Shareholder Loan

ACCENTRO Real Estate AG was granted a credit line facility in the amount of TEUR 30,000 by its majority shareholder ADLER Real Estate AG, the loan being earmarked for the acquisition of real estate portfolios. By 31 December 2016, TEUR 0 out of the total amount of TEUR 30,000 had been drawn down (31/12/2015: TEUR 2,824). Funds from a credit line facility possibly drawn down will have to be repaid in full by 30 June 2017. The shareholder loan has an interest rate of 5 % p.a on the amount drawn down. The shareholder loan is collateralised through hypothecation of the shares in the company Accentro Wohneigentum GmbH.

### Securities and Financial Covenants

Liabilities to banks are secured by the property stock in a book value of TEUR 211,344 (previous year: TEUR 155,044) for whose funding they were incurred, and by the rent and sale receivables resulting from them. The property portfolio consists of properties from the inventory assets. Moreover, there are restricted cash assets in the amount of TEUR 142 (prior period: TEUR 2,898).

In addition, financial liabilities worth TEUR 33,548 are subject to contractual covenants to maintain certain financial benchmarks (financial covenants). The financial indicators refer essentially to so-called debt service cover ratios, meaning the capacity to sustain the anticipated debt service from rents collected. Whenever apartments are sold, the Group member companies are moreover obliged to repay the relevant loans prematurely. All financial covenants were upheld during the 2016 financial year.

### Interest Expenses

For liabilities toward banks and non-bank lenders, interest expenses recognised in income in an amount of TEUR 4,483 (previous year: TEUR 6,163) were incurred in the Continuing Operation, while the bonds caused another TEUR 2,212 (previous year: TEUR 2,341) in interest expenses recognised in income and other expenses. The interest expense was matched by TEUR 298 (previous year: TEUR 306) in interest earned in the Continuing Operation segment.

## 6.8 Provisions

Provisions developed as follows during the 2016 financial year:

| | 31 Dec. 2015 | Net cash outflow from business disposals | Consumed | Dissolved | Added | 31 Dec. 2016 |
|---|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Provision for warranty obligations | 1,052 | 0 | 152 | 10 | 750 | 1,640 |
| Provisions for payroll costs | 15 | 0 | 8 | 1 | 209 | 216 |
| Provision for miscellaneous costs | 1,473 | 30 | 540 | 108 | 380 | 1,174 |
| Provision for record-keeping obligations | 17 | 0 | 0 | 0 | 0 | 17 |
| **Total** | **2,557** | **30** | **700** | **119** | **1,339** | **3,047** |

The allocation of funds toward the provisions for warranty obligations include a guarantee to the buyer that arises from the disposal of ESTAVIS Berlin Hohenschönhausen GmbH in the amount of TEUR 1,528, which resulted in additional expenditures in the amount of TEUR 500 during the year under review. Moreover, a provision for warranty services in the amount of TEUR 250 was set aside against risks of loss arising from the sale of shares in the limited partnership ESTAVIS Filmfabrik GmbH & Co. KG that was concluded during the previous financial year.

The provisions for payroll costs that existed as of 31 December 2016 concern essentially bonus and premium payments as well as holiday accruals.

Provisions for miscellaneous costs include essentially provisions for building work yet to be completed in the amount of TEUR 539, provisions for bonus payments in the amount of TEUR 268, as well as provisions for Supervisory Board remunerations in the amount of TEUR 129.

Other provisions with a book value of TEUR 2,649 (previous year: TEUR 2,540) are expected to result in a cash outflow during the coming twelve months.

The other provisions are appraised in an amount that would have to be paid, according to reasonable assumptions, to settle the obligation by the balance sheet date or would have to be paid at the time of transfer if the obligation was transferred to a third-party. Risks and uncertainties are taken into account by applying adequate appraisal methods while also considering the probability of occurrence.

During the 2015 financial year, the provisions developed as follows:

| | 31 Dec. 2014 | Net cash outflow from business disposals | Consumed | Dissolved | Added | 31 Dec. 2015 |
|---|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Provisions for warranty obligations | 10 | 0 | 0 | 0 | 1,042 | 1,052 |
| Provisions for payroll costs | 377 | 0 | 371 | 0 | 9 | 15 |
| Provisions for miscellaneous costs | 1,679 | 12 | 655 | 134 | 595 | 1,473 |
| Provisions for recordkeeping obligations | 30 | 0 | 0 | 16 | 3 | 17 |
| **Total** | **2,096** | **12** | **1,026** | **150** | **1,648** | **2,557** |

## 6.9 Trade Payables, Down-Payments Received, and Other Liabilities

The development of trade payables as well as of other liabilities is listed in the following table:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Trade payables | 3,365 | 4,114 |
| Down-payments received | 8,503 | 9,253 |
| Liabilities pursuant to Art. 13, UStG | 975 | 975 |
| Liabilities to related parties | 17 | 346 |
| Miscellaneous other liabilities | 2,186 | 2,334 |
| **Total** | **15,046** | **17,022** |

The down-payments received break down into operating costs not yet invoiced in the amount of TEUR 4,087 (previous year: TEUR 8,581) and down-payment for plots available for sale in the amount of TEUR 4,416 (previous year: TEUR 672).

Liabilities in the amount of TEUR 975 (previous year: TEUR 975) are matched by a recognised sales tax refund claim vis-à-vis the inland revenue office that is based on a tax reclaim in connection with the latest tax law rulings concerning developer projects and the area of governance subject to Section 13b (6.3), Turnover Tax Act (UStG). With a view to applicable statutory rules and regulations, ACCENTRO Real Estate AG assumes that the inland revenue authorities will request corrected invoices from former suppliers.

The miscellaneous other liabilities add up to TEUR 2,186. They include, inter alia, liabilities to partners in the amount of TEUR 327, liabilities from year-end closing and audit costs in the amount of TEUR 445 and liabilities from security deposits in the amount of TEUR 199.

## 6.10 Current Income Tax Liabilities

The current income tax liabilities in the amount of TEUR 9,269 (previous year: TEUR 2,014) include corporation tax liabilities in the amount of TEUR 4,590 (previous year: TEUR 967) and trade tax liabilities in the amount of TEUR 4,679 (previous year: TEUR 1,047).

## 6.11 Deferred Taxes

The balance sheet contains the following deferred taxes:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Deferred tax assets | 408 | 465 |
| Deferred tax liabilities | 851 | 7,288 |

Deferred taxes developed as follows:

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Deferred tax liabilities | –7,288 | –11,086 |
| Deferred tax assets | 465 | 1,227 |
| **Balance of deferred taxes at start of financial year** | **–6,823** | **–9,859** |
| Expense (–)/income (+) reported under tax expense | –1,651 | –1,034 |
| Disposals from the deconsolidation of property vehicles | 7,840 | 4,070 |
| Reclassification as non-current assets held for sale | 314 | 0 |
| Additions from the initial consolidation of property vehicles | –123 | 0 |
| **Balance of deferred taxes at end of financial year** | **–443** | **–6,823** |

The deferred taxes break down as follows:

| Differences relating to | investment properties | inventory property | miscel-laneous receivables | miscel-laneous items | losses carried forward | Total |
|---|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| **31 December 2015 (prior to closing) – deferred tax liabilities** | **–8,336** | **–1,780** | **0** | **–1,319** | **0** | **–11,435** |
| **31 December 2015 (prior to closing) – latent tax assets** | **0** | **56** | **0** | **1,062** | **3,495** | **4,613** |
| **31 December 2015 (after closing)** | | | | | | **–6,823** |
| Amounts recognised under tax expense | –2,155 | 1,724 | 0 | –1,330 | 110 | –1,651 |
| Disposals from the deconsolidation of property vehicles | 10,045 | 0 | 0 | 745 | –2,950 | 7,840 |
| Reclassification as non-current assets held for sale | 446 | – | – | – | –132 | 314 |
| Additions from the initial consolidation of property vehicles | – | –123 | – | – | – | –123 |
| **31 December 2016 (prior to closing) – deferred tax liabilities** | **0** | **–123** | **0** | **–1,029** | **–** | **–2,859** |
| **31 December 2016 (prior to closing) – latent tax assets** | **0** | **0** | **0** | **187** | **523** | **2,417** |
| **31 December 2016 (after closing)** | | | | | | **–443** |

The deferred tax liabilities result essentially from deviations between tax valuations and IFRS-based valuations of financial liabilities (effective interest method).

Deferred tax assets from tax loss carryforwards are carried at the amount of future taxable profit that is expected to be required to realise the corresponding tax benefits.

## 6.12 Revenues

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Revenues from sales of inventory properties | 116,920 | 31,429 |
| Revenues from transactions fees | 1,588 | 2,314 |
| Rental income from investment property | 6,597 | 5,754 |
| **Total Continuing Operation** | **125,105** | **39,497** |
| Rental income from investment property | 11,401 | 15,748 |
| Revenue from sales of investment property | 19,726 | 101,779 |
| **Total Discontinued Operation** | **31,127** | **117,527** |
| **Total** | **156,232** | **156,979** |

Revenues from sales of inventory properties increased by TEUR 85,491 since the 2015 financial year. Definitive for this increase was the disposal of three large property portfolios in a combined sales volume of TEUR 75,200.

The rental income from properties held in the "Continuing Operation" grew by TEUR 843. The background is the expansion of the trading portfolio as planned by adding inventory properties. The rental income from the "Discontinued Operation" segment dropped by TEUR 4,347 compared to the prior-year period. One key reason for this is the absence of rental income from the property stock in Berlin-Hohenschönhausen that was sold in the course of 2015, and which still contributed TEUR 2,322 to the prior year revenues, as well as the absence of the rental income from properties sold during the 2016 financial year.

TEUR 19,726 in revenue from the disposal of investment property held in the "Discontinued Operation" segment represent exclusively revenues generated in conjunction with portfolio optimisations. The optimisation involved the disposal of unprofitable properties or smaller properties in unprofitable stand-alone locations. The reference period in 2015 was defined by the revenue from the sale of the company ESTAVIS Berlin Hohenschönhausen GmbH with its residential property portfolio of 1,174 units overall and a combined usable area of 76,386 $m^2$.

## 6.13 Cost of Materials

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Acquisition costs for properties sold and construction costs | 80,543 | 25,876 |
| Services contracted for brokerage transactions | 979 | 942 |
| Management costs of investment property | 2,032 | 1,453 |
| **Total Continuing Operation** | **83,554** | **28,271** |
| Management costs of investment property | 7,432 | 8,287 |
| Expenses from sales of investment property | 19,883 | 86,004 |
| **Total Discontinued Operation** | **27,315** | **94,291** |
| **Total** | **110,869** | **122,562** |

The increased turnover in the "Continuing Operation" segment is also reflected in the initial costs of the properties sold and in the construction costs.

The management costs of the properties in the "Discontinued Operation" segment as well as the management costs in the "Continuing Operation" segment developed in sync with the evolving portfolio size of each property stock.

The expenses from the disposal of investment properties represent exclusively expenditures incurred when disposing of properties from the "Discontinued Operation" segment to optimise the latter's portfolio.

## 6.14 Staff Costs

The Group employed an average of 33 people (previous year: 30) during the 2016 financial year. The Group's workforce no longer includes employees in marginal employment situations (previous year: 3).

The total payroll and benefit costs break down as follows:

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Salaries and other benefits | 2,688 | 2,051 |
| Employer contributions to statutory social insurance | 298 | 205 |
| **Total** | **2,986** | **2,256** |

The rise in payroll and benefit costs by TEUR 730 since the 2015 financial year is due, on the one hand, to the increased workforce and, on the other hand, to participation in the employee profit-sharing plan. The entire staff is employed in the "Continuing Operation" segment.

Contributions to the statutory pension insurance scheme during the 2016 financial year added up to TEUR 144 (previous year: TEUR 107).

## 6.15 Impairments of Inventories and Accounts Receivable

The impairments of inventories and accounts receivable in the "Continuing Operation" segment in the amount of TEUR 951 (previous year: TEUR 884) have included no allowances for rent receivables since 1 January 2016 because these expenses from allowances in the amount of TEUR 138 were posted with the management costs of the inventory assets for the 2016 financial year. The prior-year amount of TEUR 305 was not reallocated because of the low total. The impairments result entirely from impairment allowances for other receivables and assets (previous year: TEUR 574), and essentially concern the devaluation of purchase price receivables associated with the wind-up of the former "Other Trade" segment.

## 6.16 Other Operating Income and Expenses

Other operating income can be broken down as follows:

| | 2016 Continuing Operation | 2016 Discontinued Operation | 2015 Continuing Operation | 2015 Discontinued Operation |
|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR |
| Income from the dissolution of provisions and deferred liabilities | 281 | 1 | 383 | 132 |
| Income from the dissolution of allowances | 230 | 5 | 57 | 37 |
| Income from deconsolidation | 0 | 1,665 | 0 | 0 |
| Miscellaneous other operating income | 486 | 360 | 851 | 649 |
| **Total** | **997** | **2,031** | **1,291** | **818** |

Earnings from the deconsolidation of the "Discontinued Operation" concern the disposal of the Magnus-Relda Holding Vier portfolios through a share exchange in return for the ACCENTRO Gehrensee portfolio.

Other operating expenses can be broken down as follows:

| | 2016 Continuing Operation | 2016 Discontinued Operation | 2015 Continuing Operation | 2015 Discontinued Operation |
|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR |
| Legal and professional fees | 1,178 | 153 | 1,264 | 267 |
| Provision for losses from special purpose entities sold in previous years | 750 | 0 | 0 | 0 |
| Information, advertising and entertaining expenses | 658 | 5 | 818 | 1 |
| Expenses for compiling and auditing the financial statements | 367 | 9 | 425 | 9 |
| EDP expenses | 289 | 0 | 337 | 0 |
| Rental expenses | 232 | 0 | 233 | 0 |
| Miscellaneous other operating expenses | 1,087 | 76 | 106 | 1,244 |
| **Total** | **4,561** | **243** | **3,183** | **1,521** |

The advisory costs for general advisory services in the amount of TEUR 1,178 break down mainly into tax advisory services, capital market transactions, property transactions, legal counsel and general consultancy on strategic issues.

The expenditure toward the provision for losses from shares sales realised in prior years is associable with industry-standard tax exemption clauses and comparable provisions.

The remaining other operating expenses in the "Continuing Operation" in the amount of TEUR 1,087 (reference period: TEUR 1,244) include essentially expenditures for things like office supplies, travel expenses, motor vehicle costs, and continued professional development costs in an aggregate amount of TEUR 314 plus expenses for members of the Supervisory Board in the amount of TEUR 107.

## 6.17 Valuation Result for Investment Properties

This item includes the profits and losses from the valuation of the investment properties at fair value. For more details, please see the elaborations under section 6.1.3. This position is entirely associated with the "Discontinued Operation" segment.

## 6.18 Income Tax

The income tax expense recognised for the "Continuing Operation" in the income statement consists of current and deferred taxes as follows:

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Current income tax expense | 7,998 | 1,453 |
| Deferred income tax expense | –608 | 77 |
| **Total** | **7,390** | **1,530** |

The current income tax expense for the "Continuing Operation" includes TEUR 512 for prior years (reference period: TEUR 197).

The reported tax expense differs from the theoretical amount calculated by applying the Group's average income tax rate to its earnings before taxes:

**Tax Reconciliation**

| Continuing Operation | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Pre-tax profit | 28,070 | 814 |
| Taxes calculated on the basis of the parent company's income tax rate (30.175 %) | 8,470 | 246 |
| Trade tax effects | –244 | 142 |
| Account balance of tax-free income/non-deductible expenses | 491 | 1,133 |
| Value adjustment/non-recognition of deferred tax assets | 278 | 0 |
| Write-up/subsequent recognition of deferred tax assets | –2,389 | 0 |
| Taxes for previous years | | |
| Deferred taxes | 0 | 0 |
| Original taxes | 512 | 9 |
| Other factors | 272 | 0 |
| **Reported income tax expense** | **7,390** | **1,530** |

The imputed tax rate of 26.3 % (previous year: 188.1 %) is essentially defined by the controlling interest/profit and loss transfer agreement signed between ACCENTRO Real Estate AG and ACCENTRO Wohneigentum GmbH in November 2016, which permits the exploitation of the tax loss carryforwards that exist for ACCENTRO Real Estate AG.

## 6.19 Earnings after Taxes of Discontinued Operation

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Revenue from sales of investment property | 19,726 | 101,779 |
| Expenses from sales of investment property | –19,882 | –86,004 |
| **Capital gains from investment property** | **–156** | **15,775** |
| Letting revenues | 11,401 | 15,703 |
| Letting expenses | –7,432 | –8,287 |
| **Net rental income** | **3,969** | **7,416** |
| Other operating income | 2,031 | 818 |
| Measurement of investment property | 9,702 | 10,465 |
| **Gross profit or loss** | **15,546** | **34,474** |
| Impairments of inventories and accounts receivable | –3 | –117 |
| Other operating expenses | –243 | –1,521 |
| **EBIT (earnings before interest and income taxes)** | **15,300** | **32,836** |
| Net interest income | –7,184 | –8,117 |
| **EBT (earnings before income taxes)** | **8,116** | **24,719** |
| Income taxes | –2,324 | –1,217 |
| **Consolidated income from discontinued operation** | **5,792** | **23,502** |

## 6.20 Earnings per Share

Basic earnings per share are calculated as the ratio of the net profit attributable to the shareholders of the parent company to the average number of shares in circulation during the financial year, not including treasury shares held by the company.

| | 2016 Continuing Operation | 2016 Comprehensive income | 2015 Continuing Operation | 2015 Comprehensive income |
|---|---|---|---|---|
| Consolidated income | TEUR | TEUR | TEUR | TEUR |
| Net profit before minority interests – basic | 20,680 | 26,291 | –716 | 22,638 |
| Interest expenses for bonds | 816 | 816 | 612 | 612 |
| Consolidated income before minority interests – diluted | 21,496 | 27,107 | –104 | 23,250 |
| Number of shares | in thousands | in thousands | in thousands | in thousands |
| Unweighted number of shares outstanding | 24,734 | 24,734 | 24,678 | 24,678 |
| Weighted number of shares outstanding – basic | 24,699 | 24,699 | 24,534 | 24,534 |
| Effect of the conversion of convertible bonds | 5,340 | 5,340 | 5,396 | 5,396 |
| Weighted number of shares – diluted | 30,039 | 30,039 | 29,930 | 29,930 |
| Earnings per share (EPS) | EUR | EUR | EUR | EUR |
| unweighted – basic | 0.87 | 1.09 | 0.00 | 0.92 |
| weighted – basic | 0.87 | 1.09 | 0.00 | 0.92 |
| weighted – diluted | 0.72 | 0.90 | 0.00 | 0.78 |

The 2014/2019 convertible bond issued by the company is detailed in sections 6.6 and 6.7. As of the balance sheet date, a total of 5,339,675 conversion rights existed in conjunction with the 2014/2019 convertible bond that may dilute the earnings per share.

## 6.21 Cash Flow Statement

The cash flow statement distinguishes between cash flows from current business, investing and financing activities. The cash flow from current operations is measured using the indirect method.

Application of this method returned a positive cash flow from current operations in the amount of TEUR 21,714 (previous year: TEUR –74,593), which breaks down into TEUR 20,310 from the continuing operation and TEUR –1,404 from the discontinued operation. The cash flow from current operations was definitive for the cash inflow from property sales and the continued set-up of the trading portfolio according to plan. Due to investments in the trading portfolio and disposals, changes in inventory assets amounted to TEUR 67,444 (previous year: TEUR 80,224), but only TEUR 26,877 implied an actual cash outflow. The increase of the inventory assets in the amount of TEUR 40,567 was acquired in a swap transaction which involved no cash outflow from the current business activities.

The operating cash flow was moreover adjusted for non-cash earnings and expenses from the valuation result of investment properties (TEUR 9,702; previous year: TEUR 10,465), other non-cash items (TEUR 11,393; previous year: TEUR 4,016) and the capital gains from investment properties in the amount of TEUR –156 (previous year: TEUR 15,775). The capital gains from investment properties, provided they are cash items, are recognised in the cash flow from investment activities.

The cash flow from investing activities adds up to TEUR 22,169 (previous year: TEUR 68,776) and is mainly the result of cash inflow from disposals of investment properties (less costs of disposal) in the amount of TEUR 23,371. Payments-in represent, on the one hand, purchase prices received for property companies sold the previous year in the amount of TEUR 4,150 and, on the other hand, the purchase price payments received for three portfolio properties sold in 2016. The loan receivable from Münchener Baugesellschaft mbH in the amount of TEUR 13,044 was acquired as a non-cash item through a loan swap.

The cash flow from funding activities adds up to TEUR –30,683 (reference period: TEUR 5,698) and essentially includes disbursements from the repayment of financial liabilities in the amount of TEUR 107,923 and interest payments in the amount of TEUR 10,916. This is matched by cash inflows from loan financings in the amount of TEUR 87,702 earmarked for the continued acquisition of properties for trading. Liabilities to banks were reduced in the amount of TEUR 104,899 as a result of the non-cash share swap between ACCENTRO Gehrensee and Magnus-Relda Holding Vier transacted at the end of December 2016.

During the 2016 financial year, 11 fully consolidated companies were sold, while 6 fully consolidated companies were acquired. Cash funds dropped by TEUR 5,133 in this context.

## 6.22 Other Financial Obligations and Contingent Liabilities

Pursuant to IAS 17, the company has entered into non-cancellable operating leases relating to business premises, office equipment and motor vehicles.

The future cumulative minimum lease payments under non-cancellable operating leases are as follows:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | TEUR | TEUR |
| Up to 1 year | 246 | 296 |
| Between 1 and 5 years | 181 | 341 |
| More than 5 years | 0 | 0 |

On top of that, the acquisition of 7 multi-dwelling buildings in Berlin and Brandenburg whose transfer of ownership is expected for February and June of 2017 created obligations associated with the sales contracts in the amount of TEUR 58,040.

Group member companies are liable, in their role as partners, for the debt of a civil-law partnership in the amount of TEUR 914.

ACCENTRO Real Estate AG is liable vis-à-vis one buyer of a member company for the risk associated with a lawsuit. The historic value in dispute of this lawsuit is TEUR 8,321, and could go as high as TEUR 17,845. Inversely, ACCENTRO Real Estate AG has recourse claims over the same amount, and, having sought legal counsel, considers the risk that the counterparty will claim its rights of recourse as negligible. Security for the recourse claims has been provided in the form of a cash collateral of TEUR 1,000.

## 6.23 Minimum Lease Payments from Operating Leasing Agreements

Claims to minimum lease payments from long-term operating leasing agreements are a standard aspect of letting commercial real estate. The leases signed for residential real estate, by contrast, generally specific the statutory notice period of 3 months. They include no other claims to minimum lease payments.

Disclosures on operating leasing in accordance with IAS 17.56

| | 31 Dec. 2016 | 2017 | 2018 to 2021 | from 2022 |
|---|---|---|---|---|
| | | up to 1 year | 1 to 5 years | more than 5 years |
| | | TEUR | TEUR | TEUR |
| Total of the future minimum lease payments due to non-cancellable operating lease contracts as lessor | 2,024 | 2,024 | 0 | 0 |

Disclosures on operating leasing in accordance with IAS 17.56

| | 31 Dec. 2015 | 2016 | 2017 to 2020 | from 2021 |
|---|---|---|---|---|
| | | up to 1 year | 1 to 5 years | more than 5 years |
| | | TEUR | TEUR | TEUR |
| Total of the future minimum lease payments due to non-cancellable operating lease contracts as lessor | 6,877 | 6,877 | 0 | 0 |

## 6.24 Additional Information on Financial Instruments

### a) Classes and Measurement Categories

The following tables show the reconciliation of the book values of financial instruments to the IAS 39 measurement categories and the fair values of the financial instruments with the source of measurement for each class. The figures refer to the "Continuing Operation" segment:

| 31 December 2016 | Book value | IAS 39 category | Fair value | Measurement hierarchy |
|---|---|---|---|---|
| | TEUR | | TEUR | |
| **Assets** | | | | |
| Equity investments* | 26 | AfS | 26 | Level 3 |
| Trade receivables | 2,010 | LaR | 2,010 | Level 3 |
| Miscellaneous receivables and assets | 17,776 | LaR | 17,776 | Level 3 |
| Cash and cash equivalents | 15,143 | – | 15,143 | Level 2 |
| **Total financial assets** | **34,955** | | **34,955** | |
| **Liabilities** | | | | |
| Long-term payables to banks | 42,716 | AmC | 42,716 | Level 3 |
| Bond liabilities | 21,783 | AmC | 47,818 | Level 1 |
| Short-term payables to banks** | 70,502 | AmC | 70,502 | Level 3 |
| Trade payables | 3,365 | AmC | 3,365 | Level 3 |
| Other short-term payables | 2,203 | AmC | 2,203 | Level 3 |
| **Total financial liabilities** | **140,569** | | **166,604** | |

* Since no range can be identified for the fair value measurement of equity investments, these are not categorised in the measurement hierarchy according to IAS 39 and the "at cost" valuation method, because the fair value cannot be determined with certainty, and because they are not earmarked for sale.
** This item includes liabilities associated with assets held for sale.
AfS = Available for Sale; LaR = Loans and Receivables; AmC = Amortized Cost

| 31 December 2015 | Book value | IAS 39 category | Fair value | Measurement hierarchy |
|---|---|---|---|---|
| | TEUR | | TEUR | |
| **Assets** | | | | |
| Equity investments* | 1,188 | AfS | 1,188 | Level 3 |
| Trade receivables | 10,422 | LaR | 10,422 | Level 3 |
| Miscellaneous receivables and assets | 10,497 | LaR | 10,497 | Level 3 |
| Cash and cash equivalents | 6,981 | – | 6,981 | Level 2 |
| **Total financial assets** | **29,088** | | **29,088** | |
| **Liabilities** | | | | |
| Long-term payables to banks | 154,562 | AmC | 154,562 | Level 3 |
| Bond liabilities | 21,474 | AmC | 27,637 | Level 1 |
| Shareholder loans | 2,824 | AmC | 2,824 | Level 3 |
| Short-term payables to banks** | 78,224 | AmC | 78,224 | Level 3 |
| Trade payables | 4,114 | AmC | 4,114 | Level 3 |
| Other short-term payables | 1,608 | AmC | 1,608 | Level 3 |
| **Total financial liabilities** | **262,807** | | **262,969** | |

* Since no range can be identified for the fair value measurement of the equity investments, these are not categorised in the measurement hierarchy according to IAS 39 and the "at cost" valuation method, because the fair value cannot be determined with certainty, and because they are not earmarked for sale.
** This item includes the liabilities held for sale.
AfS = Available for Sale; LaR = Loans and Receivables; AmC = Amortized Cost

Cash and cash equivalents, trade receivables and other receivables have remaining terms of short-term character. Accordingly, their book values equalled their fair value by the balance sheet date. The same applies, mutatis mutandis, to the trade payables and the other current liabilities.

The ACCENTRO Group's non-current and current payables vis-à-vis banks were measured at fair value on initial recognition, minus the transaction costs, the fair values always equalling the acquisition costs. The accounts payable of recently acquired companies vis-à-vis banks were measured at fair value on initial recognition.

Going forward, the book value of all long-term and short-term payables vis-à-vis banks as of the balance sheet date equals the amount that application of the effective interest method would return as amortised costs.

The valuation of the bond without conversion rights was recognised at fair value minus transaction costs on initial recognition, the value matching the initial costs including transaction costs, and thereafter at amortised costs using the effective interest method as of the balance sheet date. The bonds with conversion rights were measured at fair value on initial recognition, with a market-consistent comparative interest rate taken into account and with transaction costs deducted. This present value represents the debt component of the bonds, which is posted in the bond liabilities. Their book value represents a revaluation using the effective interest method.

Net earnings in line with IAS 39 measurement categories are therefore as follows:

| Continuing Operation | Loans and Receivables (LaR) | | Financial Liabilities measured at Amortized Cost (AmC) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | TEUR | TEUR | TEUR | TEUR |
| Interest income | 298 | 306 | – | – |
| Interest expenses | – | – | –6,695 | –6,163 |
| Gains or losses on impairments | –2,079 | –562 | – | – |
| Gains or losses on derecognition of financial instruments | 23 | 317 | – | – |
| **Net earnings** | **–1,758** | **–694** | **–6,841** | **–6,163** |

The interest income and interest expenses are shown in the corresponding items of the consolidated income statement. All other expenses and income are recognised in the items "Other operating expenses," "Other operating income" and "Impairments of inventories and accounts receivable." The impairment charge is accounted for with TEUR 1,128 (previous year: TEUR 327) by the "Trade receivables," and with TEUR 951 (previous year: TEUR 574) by the "Miscellaneous receivables." The gains on derecognition of liabilities are the result of having used to option to assert the statute of limitations defence.

**b) Financial Risks**

The Group's business activities expose it to a variety of risks. In particular, these include liquidity, default and interest rate risks. Targeted financial risk management is intended to minimise the negative effects of these risks on the Group's net asset, financial and earnings situation and cash flows. For a description of the risk management system, please see section 4 in the management report.

**Liquidity Risk**

The following tables show the undiscounted, contractually agreed interest and principal payments of the financial liabilities under the scope of application of IFRS 7:

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Book value | Total cash outflow | Cash outflow up to 1 year | Cash outflow 1 to 3 years | Cash outflow 3 to 5 years | Cash outflow after 5 years |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| **Cash outflow for financial liabilities** | **135,001** | **135,475** | **68,681** | **58,241** | **8,553** | **–** |
| Trade payables | 3,365 | 3,365 | 3,365 | – | – | – |
| Other liabilities | 2,203 | 2,203 | 2,203 | – | – | – |
| **Cash outflow for trade payables and other liabilities** | **5,568** | **5,568** | **5,568** | **–** | **–** | **–** |
| **Cash outflow for liabilities within the scope of IFRS 7** | **140,569** | **141,043** | **74,249** | **58,241** | **8,553** | **–** |

| | 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Book value | Total cash outflow | Cash outflow up to 1 year | Cash outflow 1 to 3 years | Cash outflow 3 to 5 years | Cash outflow after 5 years |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| **Cash outflow for financial liabilities** | **256,947** | **324,309** | **87,886** | **70,033** | **35,976** | **130,414** |
| Trade payables | 4,114 | 4,114 | 4,114 | – | – | – |
| Other liabilities | 1,530 | 1,530 | 1,530 | – | – | – |
| **Cash outflow for trade payables and other liabilities** | **5,644** | **5,644** | **5,644** | **–** | **–** | **–** |
| **Cash outflow for liabilities within the scope of IFRS 7** | **262,592** | **329,954** | **93,531** | **70,033** | **35,976** | **130,414** |

The interest rates at the respective balance sheet date were used to determine interest payments for interest-bearing loans with variable interest rates in future reporting periods.

The share of repayments from trading property sales itemised among the current financial liabilities and liabilities held for sale amounts to TEUR 70,999 for the 2017 financial year as planned. Short-term cash outflow in a total amount of TEUR 78,091 are anticipated next year, with interest and scheduled repayments taken into account.

The ACCENTRO Group kept cash and cash equivalents of TEUR 15,143 (previous period: TEUR 6,981) on hand as at the balance sheet data to cover its cash outflow. An additional TEUR 2,010 in trade receivables and an estimated TEUR 123,898 worth of inventory properties can be liquidated within one year. Short-term payables from operating costs in the amount of TEUR 4,087 not yet settled are matched by short-term receivables in the amount of TEUR 4,261 for operating costs not yet settled.

### Financial Covenants

The consolidated Group has taken out loans in a total amount of approximately EUR 33.5 million (previous year: EUR 175.5 million) that are subject to covenants agreed with the banks in regard to debt service coverage ratios or debt-to-equity ratios (financial covenants). Breaches of these covenants could trigger payments into blocked accounts or early repayment obligations on the basis of a contractually agreed escalation procedure.

Analogously, the convertible bonds and the one corporate bond issued are subject to credit terms that, were they to eventuate, could cause a liquidity risk. If certain credit terms eventuated, for instance in the event of a change of control, these convertible bonds and the corporate bond could be prematurely called for redemption.

Possible breaches of contract concerning the financial covenants are remedied directly with the banks, with whom the Group remains in close contact. Moreover, the Group uses appropriate monitoring methods to detect any early signs of a risk that covenants might be breached, and strives to prevent the breach through adequate countermeasures. Covenant breaches may entitle the bank to call parts of loans, which means that the company has to brace itself for unplanned cash outflows.

The main existing financial covenants are detailed in section 6.7 of the notes to the consolidated financial statements among the explanatory notes on the liabilities to banks.

### Bad Debt Risk

The book values of the financial assets represent the maximum default risk of the ACCENTRO Group. Due to the nature of its business activities, the ACCENTRO Group is not exposed to significant risks of bad debts.

### Interest Rate Risk

Interest rate risks are created by signing loan facilities with variable interest rates, through possible follow-up financing, or whenever the conditions on the capital market undergo drastic changes. Most of the variable-interest loan facilities taken out by the Group are short-term, so that the threat of increased interest payments for the incurred financial debt is rather limited.

All of the Group's current and non-current financial liabilities with variable interest rate were subjected to a sensitivity analysis in order to determine the interest rate risk, with fixed-interest periods duly taken into account. Set in relation to the financial liabilities outstanding as of 31 December 2016, an increase/decrease in loan interest by 0.5 % would have caused the interest expense to rise or fall by TEUR 456 (previous year: TEUR 459), as the case may be.

With a view to the present interest rate sensitivities, we rate the interest rate risk as moderate because of the negligible impact on book value and net income as well as because of the current conditions on the capital market, which are persistently favourable.

## 6.25 Related-Party Transactions

The ACCENTRO Group has a current liability of TEUR 17 (previous year: TEUR 17) to its associate SIAG Sechzehnte Wohnen GmbH & Co. KG. This amount resulted from settlement transactions between the two companies.

One subsidiary of ACCENTRO Group (ESTAVIS Wohneigentum GmbH) is a fully liable partner of the Wohneigentum Berlin GbR joint venture. The accounts receivable from the partnership Wohneigentum Berlin GbR that was recognised in the amount of TEUR 211 the previous year, and the account payable to Wohneigentum Berlin GbR in the amount of TEUR 329, were settled during the 2016 financial year and had ceased to exist by the reporting date.

ACCENTRO Real Estate AG was granted a credit line in the amount of TEUR 30,000 by its majority shareholder ADLER Real Estate AG, the loan being earmarked for the acquisition of real estate portfolios. By 31 December 2016, TEUR 0 out of the total amount of TEUR 30,000 had been drawn down (previous year: TEUR 2,824). The loan amount drawn down will have to be repaid in full by 30 June 2017. The loan originally had an interest rate of 6.25 % p.a. that dropped to 5 % p.a. as of 1 July 2015. The shareholder loan is collateralised through hypothecation of the shares in the company Accentro Wohneigentum GmbH.

During the 2016 financial year, ADLER Real Estate AG provided asset management services as well as legal and technical advisory services for several property vehicles within the ACCENTRO Real Estate AG consolidated Group over a total amount of TEUR 373 (previous year: TEUR 480). On top of that, a 53.09 % interest in the company Magnus-Relda Holding Vier GmbH was transferred by ACCENTRO Real Estate AG to the contractor Münchener Baugesellschaft mbH by way of a share exchange and transfer agreement. Conversely, all shares in the holding company ACCENTRO Gehrensee GmbH (formerly Magnus Siebte Immobilienbesitz und Verwaltungs GmbH) were transferred to ACCENTRO Real Estate AG, with the shares value equalling that of the transferred shares of the company Magnus-Relda Holding Vier GmbH. Thus, 94.9 % of the shares in the housing companies WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH, WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH, WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH, WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH and WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH were indirectly transferred to ACCENTRO Real Estate AG. The contractor Münchener Baugesellschaft mbH is a subsidiary of ADLER Real Estate AG.

The members of the Management Board of ACCENTRO Real Estate AG received the following compensation and benefits:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Fixed | Variable | Total | Fixed | Variable | Total |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Jacopo Mingazzini | 281 | 353 | 634 | 271 | 204 | 475 |
| Torsten Cejka (until 31 August 2014) | 0 | 35 | 35 | 280 | 47 | 327 |

Collectively, the total remuneration disbursed to the CEO amounted to TEUR 669 for the 2016 financial year. The remuneration include, in addition to the paid-out fixed remuneration plus non-cash remuneration in the amount of TEUR 281, the bonus claimed for previous years that were disbursed in the course of the year (TEUR 388, thereof TEUR 230 for the 2015 financial year).

The expenses for the sole active member of the Management Board recognised in the separate financial statement amounted to TEUR 511 in the year under review, and break down into TEUR 281 (salary and non-cash remuneration) and the bonus provision recognised in the financial statement (TEUR 180), as well as a one-off bonus payment over TEUR 50 for the 2015 financial year that was recognised as expense during the financial year under review. The bonus for the 2016 financial year was not yet due for payment in 2016.

Variable remuneration in the amount of TEUR 35 was disbursed to the board member that left the company during the 2014 short financial year. Provisions previously set aside for the purpose were thereby consumed.

The Member of the Supervisory Board were exclusively paid fixed remunerations for the financial years shown:

| | 2016 | 2015 |
|---|---|---|
| | Fixed | Fixed |
| | TEUR | TEUR |
| Axel Harloff (Chairman) | 40 | 40 |
| Dr. Dirk Hoffmann (Deputy Chairman) | 30 | 30 |
| Carsten Wolff | 20 | 20 |
| **Total** | **90** | **90** |

## 7 Events After the Reporting Date

Beyond that, no other events of major significance for the economic development of the ACCENTRO Group have occurred since the end of the 2016 financial year.

# 8 Other Disclosures

The auditor was paid the following remuneration for services provided to the ACCENTRO Group:

| | 2016 | 2015 |
|---|---|---|
| | TEUR | TEUR |
| Audits of financial statements | 210 | 302* |
| Other assurance services | 0 | 0 |
| Tax advisory services | 0 | 0 |
| Other services | 9 | 3 |
| **Total** | **219** | **305** |

* Out of the sum total of professional fees and expenses for auditor services, TEUR 63 represent the previous year. In addition, the item includes TEUR 29 representing a one-off expense in connection with the audit of the company that was sold in the course of the year, ESTAVIS Berlin Hohenschönhausen GmbH.

The declaration on the Corporate Governance Code in accordance with Section 161, German Stock Corporation Act (AktG), was issued on 2 March 2017 and made permanently available to the shareholders on the homepage of ACCENTRO Real Estate AG (www.accentro.ag).

Berlin, 2 March 2017

Jacopo Mingazzini
Management Board

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, while the Group management report includes a fair review of the development and performance of the Group's business and state of affairs, together with a description of the principal opportunities and risks associated with the Group's prospective development going forward.

Berlin, 2 March 2017

Jacopo Mingazzini
Management Board

# Group Auditor's Report

"We have audited the consolidated financial statements prepared by **ACCENTRO Real Estate AG, Berlin,** comprising the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch: German Commercial Code] and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [German Institute of Public Auditors] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development."

Hamburg, 2 March 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dirk Schützenmeister
Wirtschaftsprüfer [German Public Auditor]

Florian Riedl
Wirtschaftsprüfer [German Public Auditor]

# Further Information

# Directors and Officers

## Supervisory Board

**Axel Harloff** (Chairman)
- Member of the Supervisory Board since 1 September 2014
- Merchant
- Other mandates:
  – Deputy Chairman of the Supervisory Board of Westgrund Aktiengesellschaft, Berlin

**Dr. Dirk Hoffmann** (Deputy Chairman)
- Member of the Supervisory Board since 1 September 2014
- Attorney at law

  Other mandates:
  – Chairman of the Supervisory Board of ADLER Real Estate AG, Frankfurt am Main
  – Chairman of the Supervisory Board of SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main
  – Member of the Advisory Board of conwert Immobilien Invest SE, Vienna/Austria
  – Deputy Chairman of the Supervisory Board of Bremer Kreditbank AG, Bremen (until 31 March 2016)
  – Member of the Supervisory Board of Dexia Kommunalbank Deutschland AG, Berlin (until 30 June 2016)
  – Chairman of the Supervisory Board of Aggregate Holding SA, Luxemburg (until 21 December 2016)

**Carsten Wolff**
- Member of the Supervisory Board since 1 September 2014
- Head of Accounting and Finance at ADLER Real Estate AG
- Other mandates:
  – Member of the Supervisory Board of Westgrund Aktiengesellschaft, Berlin

## Management Board

**Jacopo Mingazzini**
- Initial appointment: 16 March 2012
- Current appointment ends: 15 March 2018
- Merchant

# Forward-looking Statements

This annual report contains specific forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events. This applies, in particular, to statements relating to future financial earning capacity, plans and expectations with respect to the business and management of ACCENTRO Real Estate AG, growth, profitability and the general economic and regulatory conditions and other factors to which ACCENTRO is exposed.

Forward-looking statements are based on current estimates and assumptions made by the company to the best of its knowledge. Such forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors that may cause the actual results including the net asset, financial and earnings situation of ACCENTRO to differ materially from or disappoint expectations expressed or implied by these statements. The operating activities of ACCENTRO are subject to a number of risks and uncertainties that may also cause a forward-looking statement, estimate or prediction to become inaccurate.

# Financial Calendar

## 2017

| | |
|---|---|
| **8–10 May 2017** | DVFA spring conference, Frankfurt |
| **12 May 2017** | Quarterly report – 1st quarter 2017 |
| **15 May 2017** | Annual General Meeting, Berlin |
| **11 August 2017** | Half year report – First six months 2017 |
| **10 November 2017** | Quarterly report – First nine months 2017 |

All dates are provisional. Please check our website www.accentro.ag for confirmation.

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## Credits

ACCENTRO
REAL ESTATE AG

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### Management Board

Jacopo Mingazzini

### Chairman of the Supervisory Board

Axel Harloff, Hamburg

### Contact

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### Concept, Editing, Layout

Goldmund Kommunikation, Berlin
www.goldmund-kommunikation.de

### Photo

Management Board: Art & Photo Urbschat, Marco Urban

ACCENTRO
REAL ESTATE AG