ACCENTRO

REAL ESTATE AG

ANNUAL REPORT 2017

ACCENTRO Real Estate AG
ANNUAL REPORT

1 January – 31 December 2017

Overview Key Financial Data

ACCENTRO Real Estate AG

Income statement	2017 TEUR	2016 TEUR
Consolidated revenues total Group	159,299	156,232
Consolidated revenues Continuing Operation	147,341	125,105
Gross profit/loss	44,333	42,548
EBIT	36,415	33,936
EBT	27,633	28,070
Consolidated income	20,120	26,473
Interest coverage ratio (ICR)	4.08	3.84

ACCENTRO Real Estate AG

Balance sheet ratios	31 December 2017 TEUR	31 December 2016 TEUR
Non-current assets	22,179	18,897
Current assets	325,605	259,949
Shareholders' equity	153,697	136,835
Equity ratio	44.2%	45.5%
Total assets	347,785	300,546
Loan to value (LtV)	39.4%	43.5%

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 2017	24,924,903 units
Free float	13.88 %
Highest price (1 January – 31 December 2017)*	EUR 12.05
Lowest price (1 January – 31 December 2017)*	EUR 7.02
Closing price on 29 December 2017*	EUR 8.41
Market capitalisation on 29 December 2017*	EUR 209,618,434

* 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 2017 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.

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Letter to the Shareholders

Dear Shareholders,
Dear Ladies and Gentlemen,

Jacopo Mingazzini

In December 2017, a new main shareholder came in, Brookline Real Estate S.à r.l., while a new member joined the Supervisory Board, Natig Ganiyev.

According to the Company's own statement, our new main shareholder is planning neither to modify the business activities of ACCENTRO, nor to take ACCENTRO AG off the stock market. The change of the principal shareholder and the severance from the ADLER Real Estate AG group actually presents new growth opportunities for ACCENTRO.

The 100-million-euro bond we successfully placed in January 2018 was one of these new possibilities. The bond put our intention to step up the pace of our ongoing expansion in the coming years on solid footing. The newly gained funding will permit us to move ahead much faster and to act more flexibly than we used to.

That being said, the 2017 financial year was very event- and successful in many other ways: We were able to continue to expand. After three transactions, we now own more than 400 flats outside Berlin, particularly in the greater Leipzig area. The development of Leipzig is nothing short of amazing, both in terms of demographic growth and as far as the economic conditions go. The residential units bought in that city are selling faster than expected. And so Leipzig is sure to remain in our focus going forward.

Some of our key performance indicators climbed to new peak levels: Revenues in the core business went up from 125 to 147 million euros—yet we managed to increase our total assets from 301 to 348 million euros. Earnings before interest and tax (EBIT) went up from 34 to 36 million euros. The shareholders' equity is now—despite our first-time dividend payment—at 154 million euros, up from 59 million euros just five years ago (start of 2012).

As far as we can see, the parameters will remain auspicious for our business in 2018. Especially the interest level and the growth of the metro regions are unlikely to see any major adverse changes. In addition, the partners of the incoming Grand Coalition government have agreed on federal measures that will work to our advantage, especially the child tax credit for first-time home buyers.

Accordingly, we have every reason to take a bright view of the future, and nothing would please us more than to have you aboard for the journey forward.

The Management Board

Jacopo Mingazzini

Report of the Supervisory Board

Dear Shareholders,
Dear Ladies and Gentlemen,

In the 2017 financial year, the Supervisory Board of ACCENTRO Real Estate AG has continuously and conscientiously performed its duties according to the law and the Articles of Association. Regular meetings and individual meetings were held. The Supervisory Board was also available to the Management Board in an advisory capacity outside the meetings and supervised the Management Board's activities. The Supervisory Board was at all times involved in important decisions at an early stage by the Executive Board, informed itself about the course of business, the plans for expanding business and all relevant issues affecting the Company, and took the necessary decisions. The Supervisory Board was directly involved in all decisions of fundamental importance for the Company.

Changes in the Supervisory Board and the Management Board

In the 2017 financial year, the following change in membership occurred in the Supervisory Board. Supervisory Board member Mr Carsten Wolff resigned from the Supervisory Board on 30 November 2017 with effect from 8 December 2017. By a court order of 8 December 2017, Mr Natig Ganiyev was appointed new member of the Supervisory Board.

There were no changes in membership of the Management Board of ACCENTRO Real Estate AG in the financial year 2017. Since 1 September 2014, Mr Jacopo Mingazzini has been the sole member of the Company's Management Board. He is also CEO of the privatization subsidiary ACCENTRO GmbH.

Meetings

The Management Board reports to the Supervisory Board at regular joint meetings.

In the period under review, the Supervisory Board held four meetings, i.e. on 2 March, 15 May, 4 December and 19 December 2017, and there was also a constant exchange of views between the Management Board and the Supervisory Board outside of these regular Supervisory Board meetings. All decisions and measures requiring the approval of the Supervisory Board were discussed in detail and resolutions were adopted on the basis of the deliberations and the resulting proposals for resolutions submitted by the Management Board.

The Supervisory Board hence performed its duties according to the law and the Articles of Association. No Supervisory Board member attended fewer than half of the meetings. No conflicts of interest of Management Board and Supervisory Board members were reported or occurred in the past fiscal year.

In addition, the Management Board informed the Supervisory Board in written quarterly reports about the course of business and the situation of the Company, the business policy pursued and other fundamental questions of business planning.

In view of the fact that the Company's Supervisory Board consists of three members in accordance with the Articles of Association, the Supervisory Board did not set up any committees. As part of their activities, all members of the Supervisory Board dealt with the totality of the tasks of the Supervisory Board.

Corporate Governance

The Supervisory Board and the Management Board of ACCENTRO Real Estate AG jointly believe that the German Corporate Governance Code (GCGC) contains nationally and internationally recognized standards of good and responsible corporate governance that serve to manage and supervise German listed companies.

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG), the Management Board and Supervisory Board of a listed company must issue an annual declaration stating to what extent the recommendations of the "Government Commission on the German Corporate Governance Code" have been and are being complied with. The declaration refers to the Code in its version of 7 February 2017, which was published in the Federal Gazette on 24 April 2017. The wording of the declaration is published on the Company's website www.accentro.ag and in this annual report.

In addition, the declaration of compliance together with the annual financial statements and the management report as well as the other documents to be disclosed are published in the Federal Gazette and submitted to the company register.

Annual and Consolidated Financial Statements

The Annual General Meeting appointed Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, as auditors for the financial year from 1 January to 31 December 2017.

The annual financial statements of the Company and the consolidated financial statements, including the management report and the group management report for the 2017 financial year submitted by the Management Board, were audited by the appointed auditor and issued with an unqualified audit opinion.

The annual financial statements, the consolidated financial statements, including the management report and the group management report, the auditor's reports for the audit of the annual financial statements and the consolidated financial statements, as well as the proposal of the Management Board regarding the use of the distributable profit were submitted to the Supervisory Board in good time. At its balance sheet meeting on 8 March 2018, the Supervisory Board discussed in detail with the Management Board the documents relating to the annual financial statements and the reports, in particular the issues relating to the valuation of current and non-current assets.

At this meeting, the auditor reported on the main results of the audits and was available to the Supervisory Board for additional information. On the basis of its own examination of the annual financial statements, the consolidated financial statements, the management reports for the AG and the group, the Supervisory Board agrees with the auditor's findings and found that no objections were raised according to the final results of its examinations. By a resolution of 8 March 2018, the Supervisory Board approves the annual financial statements, which are thus adopted in accordance with Section 172 AktG, as well as the consolidated financial statements.

Dependency Report 2017

The Supervisory Board examined and approved the report on relations with affiliated companies prepared by the Management Board in accordance with Section 312 AktG. Based on the final result of its examination, the Supervisory Board raised no objections to the statement of the Executive Board at the end of its report pursuant to Section 312 AktG.

In its capacity as auditor, Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, did not raise any objections in its audit of this report; the audit result corresponds to the findings of the Supervisory Board. The auditor issued an unqualified audit certificate for this purpose:

"On the basis of our audit and judgment in accordance with professional standards, we confirm that
1. the facts shown in the report are correct,
2. the services provided by the companies were not unreasonably high for the legal transactions shown out in the report."

Members of the Supervisory Board

In accordance with Section 96 AktG, the Supervisory Board is composed of shareholder representatives.

The Supervisory Board would like to thank the Management Board and all employees of ACCENTRO Real Estate AG for their achievements, their high level of commitment and their loyalty.

Berlin, 8 March 2018

Axel Harloff
Chairman of the Supervisory Board

Corporate Governance Report

Declaration of Conformity 2018

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG), the Management Board and Supervisory Board of a listed company must issue an annual declaration stating to what extent the recommendations of the Government Commission on the German Corporate Governance Code have been and are being complied with. The following declaration refers to the Code in its version of 7 February 2017, which was published in the Federal Gazette on 24 April 2017. The wording of the declaration is published on the Company's website www.accentro.ag.

The Management Board and the Supervisory Board of ACCENTRO Real Estate AG herewith declare the following:

"Since issuing its last declaration of compliance in March 2017, ACCENTRO Real Estate AG has complied with the recommendations of the German Corporate Governance Code in its current version with the following exceptions and intends to comply with the Code's recommendations in the coming financial year with the following exceptions:

Code Section 2.3.3 (Broadcast on the Internet)
The Company did not broadcast the 2017 Annual General Meeting and does not intend to broadcast the 2018 Annual General Meeting using modern communication media.

Code Section 3.8 (D&O Insurance)
The D&O policy taken out as a group policy does not currently provide for a deductible for the members of the Supervisory Board. The Company is of the opinion that such a deductible is not necessary for the members of the Supervisory Board in order to motivate them to perform their supervisory function properly.

Code Section 4.1.3 (Compliance-Management- and Whistleblower-System)
The Management Board is currently refraining from setting up a compliance-management-system and a whistleblower-system. In view of the low degree of complexity of Company structures and business processes as well as flat hierarchies, the necessity of a compliance management and whistleblower-system is relatively low so far. The close involvement of the Management Board in key business transactions and projects as well as corporate processes ensures ongoing monitoring of any risks with regard to possible legal infringements within the Company. There is a regular exchange between employees and the Management Board, with an internal trust culture being maintained in this way.

Code Section 4.1.5 (Diversity)
The Management Board of ACCENTRO Real Estate AG is determined to promote women and to recruit more women for executive positions. However, the Management Board believes that the diversity aspect, which includes the consideration of women, should not be the only decisive criterion for filling executive positions. In the interest of the Company, key requirements are leadership and management skills as well as professional competence in the respective areas of business and responsibility as well as the professional experience gained.

Code Section 4.2.1 (Composition of the Management Board)
In deviation from Section 4.2.1 of the Code, the Management Board of ACCENTRO Real Estate AG currently consists of only one person. The Supervisory Board and the Management Board are of the opinion that the size of the company justifies this. Notwithstanding this, the Management Board and the Supervisory Board regularly examine whether the development of the company requires an increase in the number of Management Board members.

Code Section 4.2.3 (Compensation)
The total compensation of the Management Board currently comprises fixed and variable components, but does not include any compensation components with a long-term incentive effect and risk character. In addition, the recommendation not to take into account a negative development of the Company's performance with regard to the variable components of the total compensation was not and will not be complied with. In the opinion of the Supervisory Board, neither is necessary to ensure the loyalty of the Management Board and its commitment to the Company. There are currently no upper limits on the amount of the compensation or a severance payment cap for retiring members of the Management Board since the Supervisory Board does not consider this to be necessary.

Code Section 5.1.2 (Composition of the Management Board, Age Limit, and Succession Planning)
In view to the age structure of the Management Board, no age limit or long-term succession planning has been set at this time.

The Supervisory Board and the Management Board expressly welcome all efforts to counteract gender-based and other forms of discrimination and to promote diversity appropriately. When appointing members to the Management Board, the Supervisory Board focuses solely on the competence, qualifications and experience of candidates, and any other attributes, such as gender or national affiliation, were and are therefore irrelevant for this decision.

Code Sections 5.3.1, 5.3.2 and 5.3.3 (Committees)
The Supervisory Board has so far refrained from setting up committees, in particular the establishment of an audit and nomination committee, and will continue to do so in the future, because the Supervisory Board believes that, given the number of three members, efficient work can also be carried out in overall representation and that the creation of committees, which must comprise at least two and, in the case of a quorum, at least three persons, does not appear to be appropriate for a Supervisory Board of this size.

Code Section 5.4.1 (Composition of the Supervisory Board)
The Code's recommendation on the definition of concrete targets for the composition of the Supervisory Board (and a profile of responsibilities for the entire Board) and their publication in the Corporate Governance Report, which also includes an appropriate participation of women in particular, is currently not being complied with. The legal requirements for achieving a specified minimum participation of women will be complied with in the forthcoming elections to the Supervisory Board. In the opinion of the Supervisory Board, neither the age limit nor the limitation of the term as member are necessary for the effective and successful work of the Supervisory Board. The Supervisory Board will examine the extent to which these recommendations can be complied with in the future.

Code Section 5.4.2 (Composition of the Supervisory Board)
The current Supervisory Board member Dr. Dirk Hoffmann is Chairman of the Supervisory Board of Westgrund AG, Berlin, and ADLER Real Estate AG, Berlin, as well as Chairman of the Supervisory Board of SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main. Mr Axel Harloff is Chairman of the Supervisory Board of CONSUS Real Estate AG Aktiengesellschaft, Berlin. Mr Natig Ganiyev is not a member of the Supervisory Board of any public limited company.

Since mid-2012, the Supervisory Board should not have any members who hold board functions at major competitors. This could have been the case for all three Supervisory Board members. However, no major conflicts of interest arose.

Code Section 7.1.2 (Discussion of Interim Reports by the Supervisory Board and Publication of Interim Reports)
At present, quarterly reports are not discussed with the Supervisory Board prior to publication. The Management Board informs the Supervisory Board in writing on a quarterly basis about the situation of the Company and the course of business.

ACCENTRO Real Estate AG generally publishes its interim reports 45 days after the end of the reporting period. In exceptional cases, there may be a minor delay due to special organizational processes. The legal requirements according to Section 37w of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG) are met in any case.

Berlin, 1 March 2018

Management Board and Supervisory Board
ACCENTRO Real Estate AG

ACCENTRO Real Estate AG Stock Performance

Notwithstanding influencing factors such as the widening "Dieselgate" emissions scandal, the military bluster of North Korea, Europe's rocky relationship with Turkey, the independence referendum in Catalonia and the slow progress of the Brexit negotiations, 2017 proved to be a banner year at the stock exchange. Stable economic growth in the eurozone, especially in Germany, positive signals from the US stock markets, and the outcome of the presidential elections in France and the general elections in Germany paved the way for another record-breaking rally of the German DAX stock index.

Due to the European Central Bank's accommodative monetary policy and the resulting low interest level, both the real estate market and property stocks continued to experience strong demand. By raising dormant potential, the German real estate industry managed, boosted by the low costs of financing, to put high-yield investment opportunities on the market.

While ACCENTRO Real Estate AG benefited from the upbeat sentiment on the real estate market, its performance was not reflected in the share price as its upward movement lagged slightly behind the growth rate of the DAX.

ACCENTRO Share Price Performance from 1 January to 31 December 2017

The ACCENTRO share price, which was quoted at EUR 7.39 on the first trading day of 2017 (Xetra), gained 13.8 % in value in the course of the year. The closing price on the last trading day of 2017 was EUR 8.41, representing a market capitalisation of EUR 209.62 million.

The average daily trading volume (Xetra) of ACCENTRO stock during the 2017 financial year was 12,595 units. Overall, 2.64 million shares of ACCENTRO Real Estate AG were traded in the Xetra trading system between 2 January and 29 December 2017. The rather low trading volume is mainly due to the fact that the Company's free float is relatively low at 13.88%.

Aside from the largely favourable conditions on the overall market, the share performance of the ACCENTRO stock was also buoyed by the higher income forecast for the 2016 financial year published in January 2017, and by the fact that the 2016 annual report, published in March 2017, reported the most successful year in the Company's history to date.

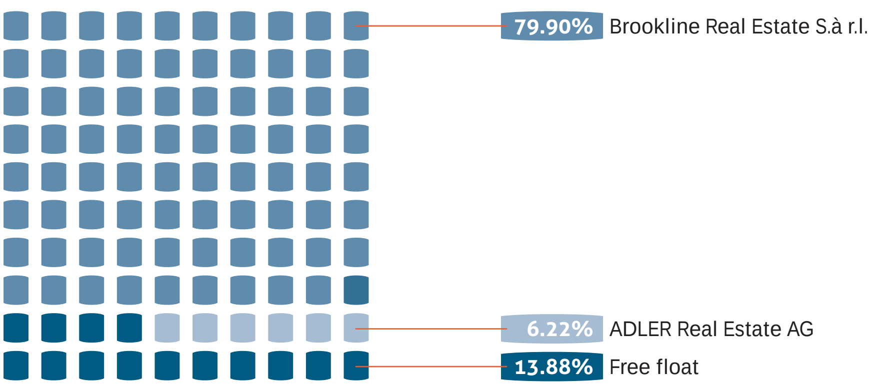
The announcement of the early termination of the 2013/2018 bond in March 2017 had a positive impact on the share price. However, sales of disproportionately large volumes compared to the relatively small-scale free float during the summer months prompted a trend reversal. As the year progressed, the share price regained its positive momentum, specifically after the sale of the property portfolio in Berlin for a selling price of EUR 43.78 million in October 2017, and the takeover bid by Brookline Real Estate S.à r.l. in late October 2017. Finally, the announcement of the intended acquisition of a real estate portfolio of centrally located assets in Berlin for a price of c. EUR 34 million in December 2017 prompted a modest year-end rally.

ACCENTRO share price development in the financial year 2017

Shareholder Structure

By the end of the financial year on 31 December 2017, the subscribed capital of ACCENTRO Real Estate AG totalled EUR 24.93 million. It broke down into 24,924,903 no-par value bearer shares. This is up from 24,734,031 shares and a share capital of EUR 24,734,031 at the start of the financial year on 1 January 2017.

The chart below provides an overview of the shareholding structure:



Shareholder structure on 31 December 2017 (figures based on shareholder disclosures)

ACCENTRO Shares at a Glance

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 2017	24,924,903 units
Free float	13.88 %
Highest price (1 January – 31 December 2017)*	EUR 12.05
Lowest price (1 January – 31 December 2017)*	EUR 7.02
Closing price on 29 December 2017*	EUR 8.41
Market capitalisation on 29 December 2017*	EUR 209,618,434

* Closing prices in Xetra trading

Investor Relations Activities

During the 2017 financial year, as in previous years, regular disclosures and the dialogue with the capital market were chief priorities.

In March 2017, ACCENTRO Real Estate AG presented itself to the most influential players of the international real estate sectors at the MIPIM real estate fair in Cannes/France. In addition, the Company took advantage of the Expo Real trade fair in Munich in October to expand its networking reach.

ACCENTRO Real Estate AG made face-time available to stock analysts at the ODDO 11th German Conference in Frankfurt am Main in February 2017, and at the 8th DVFA spring conference hosted by the German Association for Financial Analysis and Investment Consultancy in Frankfurt in May 2017.

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:

- 9 November 2017: SMC Research, stock rating: "Buy", upside target EUR 11.60
- 17 August 2017: SMC Research, stock rating: "Buy", upside target EUR 11.50
- 17 May 2017: SMC Research, stock rating: "Buy", upside target EUR 11.40

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 euros (EUR). Both individual and total figures represent values 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. Since the disposal of its proprietary portfolio, which was initiated during the 2016 financial year and concluded in the 2017 financial year, ACCENTRO has focused its business activities on the trading of residential property within the framework of apartment retailing. Associated with this line of business is the management of the residential property holdings.

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. In this line of business, the focus is on tenant-sensitive housing privatisations. At the same time, 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, and for 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 consists of several property holding companies directly managed by ACCENTRO AG that own the property holdings of the ACCENTRO Group plus the Gehrensee property development that is held through several project companies. All of the companies are consolidated in the consolidated financial statements of ACCENTRO AG, so that there are no non-consolidated subsidiaries. For a list of the individual subsidiaries and associates of ACCENTRO AG, please see the notes to the consolidated financial statements.

After the discontinuation of the Portfolio segment, the obligation to report by segment is no longer applicable, as ACCENTRO AG is active in only one segment. In accordance with IFRS 5, the practice of distinguishing between Continuing and Discontinued Operation has been continued from last year.

ACCENTRO Real Estate AG uses the consolidated earnings before interest and taxes (EBIT) as financial performance indicator for corporate controlling purposes. Here, the key control variable is the sales performance of the properties, definitive factors including the number of condominium reservations placed by potential buyers, among others, and the actual selling 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. An integral part of this control is the continuous measurement of the liquidity flows on the level of each company.

In conjunction with its successful issue of a corporate bond over EUR 100 million, ACCENTRO Real Estate AG has moreover agreed to observe certain financial covenants. For this reason, the loan-to-value ratio (LtV), the interest coverage ratio (ICR) and the debt ratio of unsecured financing to equity will be added to the key ratios reported.*

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

In a press release on 11 January 2018, the Federal Statistical Office described the economic situation in Germany as follows: "The business cycle in Germany in 2017 was characterised by strong economic growth. According to provisional calculations by the Federal Statistical Office (Destatis), the gross domestic product (GDP) grew by 2.2% year on year in 2017 when adjusted for inflation. This means that the German economy grew for the eighth consecutive year."

Due to the European Central Bank's continued accommodative monetary policy and the resulting low interest level, both the real estate market and property stocks continued to experience persistent demand.

The German real estate markets benefit from the favourable economic parameters and from the generally positive sentiment prevailing at the moment. Low interest rates and a bright outlook encourage a constantly widening consumer base to consider homeownership. As a provider of condominiums, ACCENTRO Real Estate AG directly benefits from the trend.

2.2 Developments of the German Housing Market

According to the "bulwiengesa-Immobilienindex 1975-2017," the latest survey by real estate service provider bulwiengesa AG from January 2018, "Germany's real estate market was defined by low interest rates, strong liquidity positions on the player side, and a shortage in zoned land throughout the year 2017. As a result, the bulwiengesa Real Estate Index gained for the thirteenth time in as many years, and registered its steepest growth since 1990-1992. The 5-year average improved to a striking annual rate of +4.6%. The run on the housing markets in the country's metro regions is driven by incoming migration, while the economic indices present a very robust picture, and the labour market is booming. All of this bolsters the keen demand for housing and places of business, and boosts real estate as a sought commodity on the investment market."

* Definition pursuant to the bond terms of the 2018/2021 bond (ISIN DE000A2G87E2)

A survey of the German house and apartment market that was published by Deutsche Bank Research (DB Research) in January 2018 concluded: "Germany's metropolises are booming. In the ongoing real estate cycle, which started in 2009, house and apartment prices have been quick to rise in many cities. In some cities, condominium prices have actually doubled. Demand in many cities is driven by a brisk demographic and employment growth and by eroding unemployment rates. The supply elasticity is low everywhere. Housing construction is only being stepped up gradually. Vacancy rates are dropping. Rent growth is gathering momentum. It is unlikely that the housing shortage can be managed by regulatory means. Prices and rents can be expected to see substantial growth in 2018."

According to Deutsche Bank Research, house and apartment prices in Berlin, which is the core market for ACCENTRO, went up by around 10% year on year in 2017. Unemployment rates were dropping to record lows, while the employment growth is strong. The building activity remains sluggish. The wide gap between the number of planning permits issued and the number of actual completions is here to stay. For prices and rents, 2018 is likely to be another year of unchecked growth.

According to the above-quoted survey by DB Research, the brisk price dynamics in Berlin is fuelled by the conspicuous lack of apartments, with lack of zoned land one of the main reasons that is cited for the housing shortage: "The latest Housing Market Barometer for Berlin suggests that affordable housing in the medium-price segment, and even more so in the bottom segment, is in particularly short supply. Experts for Berlin's housing market estimate that it will take until the end of the decade to ease the strained market situation.

The official completion figures do not suggest that the situation will ease any time soon. In 2016 (the last year for which stats are available), only 13,700 flats were completed, which means that 0.7% of the housing stock were replaced. The official stats also show that the divergence between the number of planning permits issued and actual completions persists. Specifically, a total of 25,100 planning permits are matched by just 13,700 completions. No other German metropolis shows a greater imbalance between approved construction projects and project completions (the ratio of 1.83 in Berlin comparing to 1.78 in Düsseldorf, 1.4 in Hamburg, 1.3 in Frankfurt and Munich, and to 1.2 in Cologne and Stuttgart). Between 2011 and 2015 (the last year for which stats are available), the population grew by around 200,000 in Berlin and the number of households by around 125,000. The keen demand is driven by the robust situation on Berlin's job market. The employment growth of around 4% in 2016 continued unchecked throughout 2017, and is just as impressive as the overall job growth of nearly 30% since 2009. As a result, the unemployment rate has been going down for years, and dropped to 8.4% by December 2017. It is the lowest figure since 1984.

The dynamic of Berlin's economy is expected to maintain its present pace, with city hall projecting a demographic growth of over 250,000 new residents by 2030. The steady increase in housing demand is therefore likely to be matched with an inelastic housing supply for many years yet. Especially in Berlin with its notoriously low homeownership rate (15.6% acc. to the 2011 census, compared to 20% in other metropolises and to 45.9% nationwide), there are strong stimuli for tenants to buy homes of their own. The fast-paced dynamics of rental growth has reinforced these stimuli throughout the cycle. The rental uplift further accelerated in 2017 with a one-year growth of 11% (up from 7% in 2016 and 2.5% in 2015). So there are many factors that point to a super-cycle in Berlin that could extend well beyond the year 2020. As a result of this development, Berlin could turn into one of the most expensive German metropolises or cities in general (it currently ranks 15th by prices for existing condominiums). The hypothesis is supported by the particularly dynamic price growth over the past three years. Residential prices for existing schemes in Berlin soared by around 36%, while other German metropolises reported a growth of around 30%."

All of these factors are good reasons for ACCENTRO AG with its large stock of flats in Berlin to face the future with confidence.

Not wishing to limit our product spectrum to the city of Berlin, we will continue the efforts we initiated in 2017 to expand into other German metropolises and swarm cities.

2.3 Business Performance

Key Events During the 2017 Financial Year

The anticipated positive business performance of the ACCENTRO Group in the 2017 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.

In the prior year's forecast report, we made an EBIT prediction in the range of EUR 34 million to EUR 36 million combined with a significant increase in revenues. The actual figures slightly exceeded the EBIT and revenue forecasts. The ACCENTRO Group succeeded in keeping its profit for the year on the high level of the previous year. The Discontinued Operation no longer made a positive contribution to operating income in 2017, so that the consolidated income fell short of the prior-year figure overall.

Following the sale of four properties during the 2017 financial year and the reclassification of one properties with the inventory assets, the portfolio business is now a thing of the past. In December 2017, additional shares in Magnus-Relda Holding Vier GmbH, the parent company of nine property holding companies, were sold. As of 31 December 2017, only a marginal equity stake in the single-digit range remained with ACCENTRO AG, which is recognised among the "Equity investments." The statements of account of future years will therefore no longer recognise the Discontinued Operation.

By acquiring 1,289 units in the course of the 2017 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 former Portfolio Business Unit in the 2017 Consolidated Financial Statements of ACCENTRO Real Estate AG

The "Portfolio" segment was discontinued in the 2016 financial year. However, not all of the business activities had been wound up by 31 December 2016, so that the figures for the 2017 financial year continue to recognise profits and losses, as the case may be, from Discontinued Operation. Assets held for sale and liabilities that had been separately recognised the previous year were derecognised or reassigned to another purpose in the course of the 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 for the years 2017 and 2016. 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. The line items of 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.

Four of the properties held for sale were disposed of in the course of the 2017 financial year. One property and the debt associable with it were reclassified as inventory asset and financial liabilities, respectively. The minority interest in Magnus-Relda Holding Vier GmbH was reduced further and is now down to about six percent. As of 31 December 2017, the shares are recognised in the "Equity investments" balance sheet item. The Discontinued Operation is no longer itemised in the balance sheet as of 31 December 2017. For the last time, the current income from the Discontinued Operation are reported separately in the income statement and in the cash flow statement for the 2017 financial year. Starting with the 2018 financial year, this presentation will be omitted.

Earnings Position

The ACCENTRO Group's key revenue and earnings figures developed as follows during the 2017 financial year:

	2017 financial year	2016 financial year
	EUR million	EUR million
Revenues	147.3	125.1
EBIT	36.4	33.9
Consolidated income from Continuing Operation	20.3	20.7
Consolidated income from Discontinued Operation	–0.2	5.8
Consolidated income	20.1	26.5

The consolidated revenues from the Continuing Operation were increased as planned by EUR 22.2 million or 17.8% during the 2017 financial year. The growth in revenues is the result of the expanded sales activities in apartment retailing. The number of condominiums sold through retailing was raised from 271 to 488 (based on transfers of rights and duties in 2017) during the 2017 financial year. The net rental income experienced modest growth as a result of the continued portfolio expansion by EUR 0.9 million. The net service income experienced a modest increase from the poor prior-year result. Here, the collaborative ventures in the marketing of new-build flats are beginning to pay off.

The other operating income in the amount of EUR 3.3 million rose by the significant amount of EUR 1.0 million year on year. The key figure here was the release of provisions in the amount of EUR 1.3 million due to agreements on warranty and guarantee issues, and the elimination of tax risks. The derecognition of statute-barred liabilities contributed EUR 0.9 million to the other operating income.

Among other items, the other operating expenses of the Continuing Operation in the amount of EUR 4.5 million (reference period: EUR 4.6 million) include, as they did in the prior period, 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 3.3 million by the end of the reporting period, which implies a one-year increase by EUR 0.3 million (2016 financial year: EUR 3.0 million). This was caused by the continued, if moderate, expansion of the workforce, so that 6 more staff (FTE: 5.4) were on the payroll by 31 December 2017 than had been by year-end 2016, although not all of the jobs created represent full-time positions.

The net interest result of the Continuing Operation equalled EUR –8.8 million for the 2017 financial year, after EUR –6.4 million for the previous year 2016. The increase by EUR –2.4 million includes one-off effects in the amount of EUR 1.2 million from the premature repayment of loans and of the 2013/2018 bond. The other increase in interest expense in the amount of EUR –1.2 million is mainly attributable to the continued expansion of the inventory assets which was to some extent debt-financed. Moreover, the interest coverage ratio (EBITDA/net interest expense) improved from 3.84 to 4.08 year on year.

The earnings before taxes in the Continuing Operation equalled EUR 27.6 million, and were thus more or less on a level with the previous financial year (EUR 28.1 million). The income tax expense for the Continuing Operation equalled EUR 7.3 million during the reporting period, thus matching the prior-year level. Expenses from deferred tax effects were down to c. EUR 0.05 million.

With EUR –0.2 million or –0.9% (previous year: EUR 5.8 million or 21.9%), the Discontinued Operation contributed a slightly negative amount to the total consolidated income of 2017 in the amount of EUR 20.1 million (previous year: EUR 26.5 million). The significant share that the Discontinued Operation had in the prior-year result was owing to the fact that the measurement of the property portfolio was grouped with the Discontinued Operation. Starting with the 2018 financial year, the Discontinued Operation will no longer be recognised in the accounts because four properties from this division were sold in 2017 and one property was earmarked for privatisation and thus reclassified as inventory asset. This latter asset will be sold in the course of the 2018 financial year. On top of that, ACCENTRO AG divested itself of the bulk of its residual interest in the company Magnus-Relda Holding Vier GmbH (for details, see page 24 of the 2016 annual report). At this time, ACCENTRO Real Estate AG retains only about 6% of the interest that was recognised in the item "Non-current assets held for sale" the previous year.

For more details on the composition and amount of the income and expenses, please see the notes to the consolidated financial statements, section 5.16.

Financial Position

Key Figures from the Cash Flow Statement

	2017 financial year EUR million	2016 financial year EUR million
Cash flow from operating activities		
Continuing Operation	–26.3	20.3
Discontinued Operation	1.1	1.4
Cash flow from investment activities		
Continuing Operation	0.1	1.2
Discontinued Operation	9.2	20.9
Cash flow from financing activities		
Continuing Operation	–4.2	–5.9
Discontinued Operation	13.3	–24.8
Net change in cash and cash equivalents	–6.7	13.2
Decrease in cash and cash equivalents from the disposal of fully consolidated companies (Discontinued Operation)	–0.6	–5.1
Cash and cash equivalents at the beginning of the period	15.1	7.0
Cash and cash equivalents at the end of the period	7.9	15.1

The high cash inflow from the disposal of inventory properties was reinvested in its entirety to keep expanding the trading portfolio during to 2017 financial year. The inventory assets increased by EUR 80.5 million, of which EUR 8.9 million had no cash effect due to the reclassification of assets from the Discontinued Operation as inventory assets.

The cash flow from operating activities came to EUR –25.2 million during the 2017 financial year (2016 financial year: EUR 21.7 million). It breaks down into cash flow from operations in the amount of EUR 46.6 million (previous year: EUR 48.6 million), thereof EUR 1.1 million from the Discontinued Operation (previous year: EUR 1.4 million). The sum is matched by investments in inventory assets in an amount of EUR 71.8 million (previous year: EUR 26.9 million), resulting in a negative cash flow from operating activities on the bottom line.

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. For more details on the amount and composition of the Group's cash flows, please see the consolidated cash flow Statement and the notes to the consolidated financial statements, section 5.20.

As in the previous year, 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 sold in prior years, produced a robust cash flow from investment activities in the Discontinued Operation in the amount of EUR 9.2 million (2016 financial year: EUR 20.9 million). The low positive cash flow from investment activities of the Continuing Operation in the amount of EUR 0.1 million (reference period: EUR 1.2 million) is attributable almost exclusively to distributions from corporate investments consolidated at equity, which contributed a cash inflow of EUR 0.4 million, and to interest received for belated purchase price payments.

The positive cash flow from financing activities in the amount of EUR 9.1 million (2016 financial year: EUR –30.7 million) essentially reflects the repayment of a loan by the property companies whose final deconsolidation was already concluded in 2016. Accordingly, this payment must be grouped with the Discontinued Operation, which is on the books with a financing cash flow of EUR 13.3 million. Payments-out for interest and redemptions in the Continuing Operation were on a level with borrowings during the 2017 financial year. The negative cash flow from financing activities in the Continuing Operation in the amount of EUR 4.2 million is almost entirely due to the dividend payment in May 2017, when EUR 3.7 million were paid out to the shareholders of ACCENTRO Real Estate AG.

Structure of Assets and Capital

	31 December 2017		31 December 2016	
	EUR million	%	EUR million	%
Assets	**347.8**	**100.0%**	**300.5**	**100.0%**
Non-current assets	22.2	6.4%	18.9	6.3%
Current assets less liquid assets*	317.7	91.3%	266.5	88.7%
Cash and cash equivalents	7.9	2.3%	15.1	5.0%
Debt and equity	**347.8**	**100%**	**300.5**	**100.0%**
Equity	153.7	44.2%	136.8	45.5%
Non-current liabilities	43.4	12.5%	65.2	21.7%
Current liabilities*	150.7	43.3%	98.5	32.8%

* 2016 figures including assets and liabilities held for sale

The change of the principal shareholder and the concomitant takeover of ACCENTRO Real Estate AG by Brookline Real Estate S.à r.l. from ADLER Real Estate AG as of 30 November 2017 triggered several change-of-control mechanisms. A number of facility agreements as well as the 2014/2019 convertible bond issued by ACCENTRO Real Estate AG were subject to break options on the part of the creditors that remains effective beyond the balance sheet date of 31 December 2017, while the convertible bond was subject to an amended subscription right effective through 31 January 2018. Consequently, ACCENTRO AG had to reclassify the convertible bond as well as the relevant non-current liabilities as current liabilities in the consolidated accounts as of 31 December 2017 in line with applicable IFRS regulations. The reclassification will be reversed during the first quarter of 2018. But for the time being, the statement of financial position is distorted in this regard. Lenders refrained from exercising their break options as of 8 March 2018.

The debt-to-equity ratio (debt capital/total capital) matched the previous year's level of 55.8% at the end of the reporting year (prior-year period: 55.5%), which is mainly explained by a percentage-wise largely uniform increase in shareholders' equity (EUR +16.9 million) compared to the trend in liabilities (EUR +30.4 million). Similarly, the loan-to-value ratio (LtV)* improved to 39.4% year on year (2016 financial year: 43.5%).

At 2.3%, the ratio of cash and cash equivalents to total assets was significantly below the level of the prior year balance sheet date (5.0%). This is due, on the one hand, to a significant increase in assets and, on the other hand, to a reduction in cash and cash equivalents compared to 2016.

* Definition pursuant to the 2018/2021 bond terms: net financial liabilities/gross asset values. Because of its favourable conversion price, the 2014/2019 convertible bond was rated as equity capital.

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. On 26 January 2018, meaning after the balance sheet date, ACCENTRO Real Estate AG successfully placed a corporate bond in a volume of EUR 100 million.

Due to the shifts between non-current and current liabilities that were caused by the change-of-control event outlined above, a direct comparison of the maturities in the liabilities section with the figures of the previous period would be less than meaningful. See the notes to the consolidated financial statements for a more detailed drilldown of the liabilities that ignores the accounting effects of the change of control.

Premature repayment of the corporate bond as of 30 June 2017 and the conversion of 190,872 bonds into equity caused liabilities from the convertible bonds and corporate bonds issued in previous years to drop from a total of EUR 21.8 million as of 31 December 2016 to EUR 12.1 million as of 31 December 2017.

Cash and cash equivalents amounted to EUR 7.9 million as of 31 December 2017, compared to EUR 15.1 million by 31 December 2016. ACCENTRO Real Estate AG assumes that all of the loans to be renegotiated during the 2018 financial year will be renewed on a rotating basis or repaid. Considering the cash inflow from the corporate bond placed in January 2018, ACCENTRO Real Estate AG deems its financing requirements secured for the 2018 financial year. No financing in foreign currency was taken out by ACCENTRO Real Estate AG.

The consolidated net income of 2017 and the balance of the net retained profits of 2016 carried forward to new account resulted in a further increase in shareholders' equity from EUR 136.8 million at year-end 2016 to EUR 153.7 million by 31 December 2017. At 44.2%, the equity ratio was more or less kept on the prior-year level (previous year: 45.5%) despite a 15.7% increase in total assets and a reduction in equity due to the dividend payment in the amount of EUR 3.7 million in May 2017.

Asset Position

Total assets increased significantly by EUR 47.2 million (15.7%) to EUR 347.8 million (31 December 2016: EUR 300.5 million). The increase is explained by the ongoing effort to build up the inventory assets as planned. Material changes to each balance sheet item are detailed in the summary below, and are subsequently elaborated.

	31 December 2017	31 December 2016	Change
	EUR million	EUR million	EUR million
Non-current assets	**22.2**	**18.9**	**+3.3**
Other non-current assets	22.2	18.9	+3.3
Current assets	**325.6**	**259.9**	**+65.7**
Inventories	304.0	223.6	+80.4
Trade receivables	1.2	2.0	–0.8
Other current assets	20.4	34.4	–14.0
Non-current assets held for sale	**0**	**21.7**	**–21.7**
Shareholders' equity	**153.7**	**136.8**	**+16.9**
Non-current liabilities	**43.4**	**65.2**	**–21.8**
Financial liabilities	42.4	42.7	–0.3
Other non-current liabilities	1.0	22.5	–21.5
Current liabilities	**150.7**	**92.3**	**+58.4**
Current financial liabilities and bonds	98.9	64.8	+34.1
Other current liabilities and accrued expenses	51.8	27.5	24.3
Liabilities associated with assets held for sale	**0**	**6.2**	**–6.2**

The non-current assets include essentially a non-depreciable goodwill in the amount of EUR 17.8 million, non-current purchase price receivables in the amount of EUR 2.5 million, and corporate investments in non-consolidated companies in the amount of EUR 1.5 million.

Current assets increased by EUR 65.7 million to EUR 325.6 million (prior period: EUR 259.9 million), and represent primarily the trading portfolio properties recognised in inventories. During the 2017 financial year, roughly EUR 151.8 million were spent on the acquisition of 1,289 residential units. Sale and purchase agreements for another 376 assets with a selling price of EUR 63.0 million have been signed, but the transfer of possession, benefits and burdens is to take place in 2018. At the same time, 992 residential units worth c. EUR 99.8 million in initial costs were sold, so that the inventory assets, taking into account a reclassification from the Discontinued Operation and the refurbishment measures completed in the course of the year, increased by EUR 80.5 million.

Current trade receivables decreased mainly due to the purchase price payments received. The remaining purchase price payments still outstanding from the sale of investment properties toward year-end 2014 were settled in full during the 2017 financial year.

The other receivables and other assets were composed as follows during the 2017 financial year: The accounts receivable from operating costs not yet invoiced add up to EUR 6.0 million (EUR 4.3 million). Toward the end of 2017, a property vehicle based in Berlin-Kreuzberg was acquired. ACCENTRO Real Estate AG holds an 80% equity interest in the company. This transaction is subject to an indemnification claim against the minority shareholder and the notary who handled the notarisation over an amount of EUR 3.3 million from a notarial trust account. Rent receivables add up to EUR 0.5 million. The remaining accounts receivable break down into a variety of smallish amounts. Together with the Magnus-Relda Holding Vier portfolio sold as of 31 December 2016, 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 in the amount of EUR 12.7 million, which sum was fully repaid during the 2017 financial year.

General Statement on the Group's Business Situation

In the previous year's Group management report, we predicted a significant increase in sales in the double-digit percentage range, and moderate growth in EBIT in the bandwidth of EUR 34 million to EUR 36 million. With the EBIT of EUR 36.4 million that the Continuing Operation achieved in the 2017 financial year, the Company slightly topped the forecast bandwidth, but if you look at the consolidated revenues, including the Discontinued Operation, the EBIT came to EUR 38.1 million and were thus significantly above forecast.

The Continuing Operation achieved a top line sales growth of 17.8%. Revenues grew by EUR 22.2 million from EUR 125.1 million during the 2016 financial year to EUR 147.3 million by the end of the reporting period. This performance clearly demonstrates the productivity of ACCENTRO Real Estate AG.

The Management Board is satisfied with the earnings performance. The prerequisites for a sustained positive financial performance of the ACCENTRO Group were put in place during the 2017 financial year through the continued expansion of the trading portfolio.

Despite dividend payments and an increase in total assets, the equity ratio remained stable on a high level of 44.2% (prior period: 45.5%).

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 recently 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 2017. 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 in terms of either their scope or their general trend. The material risks to which ACCENTRO Group believes it is exposed are explained in the Opportunity and Risk Report.

For 2018, Deutsche Bank Research predicts again a fast-paced dynamic for prices and rents. The supply shortage on the housing market and the outperforming labour market remain the dominant price drivers. Demand in 2018 will be muted by the high prices, which will probably prompt some leads to quit the market. Similarly, rising capital market rates and, as a result, slightly higher mortgage interest are likely to slow demand a little.

The brisk price dynamics of 2017 and the persistent supply shortage, which will take many years to roll back, has seriously increased the risk of a bubble developing in the current cycle, although Berlin takes exception to the threat.

As in the 2017 financial year, the corporate strategy and operating activities of the coming years will focus on the privatisation of residential real estate, and on the creation of home-ownership options for a broad-based population cohort. In this line of business, 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 another significant, double-digit increase in revenues in 2018 combined with a moderate growth in earnings before interest and tax (EBIT) in the single-digit percentage range somewhere between EUR 36 million and EUR 40 million. Based on the completed expansion of the trading portfolio, and given the exclusive focus on privatisation activities, the earnings performance is expected to remain largely stable.

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 in 2018 again because these investments are grouped with the operational division. The cash flow was indeed negative for the operational division in 2017, as predicted by the forecast report, adding up to EUR –25.2 million. The situation is unlikely to change in the foreseeable future because ACCENTRO Real Estate AG is planning to keep pursuing its steady expansion of the trading portfolio.

Due to the increase in inventory assets, the equity ratio proved impossible to raise as expected in 2017, and equalled 44.2% by the end of the financial year (previous year: 45.5%).

The reason behind this is the disproportionate growth in total assets by 15.7% whereas the shareholders' equity increased by 12.3% only. The equity ratio will continue to decline in a controlled process during the 2018 financial year, as it is planned to keep expanding the property portfolio with the funds raised through the successful issuance of another bond in January 2018, and because it is planned to disburse a dividend.

Apart from that, the Management Board assumes that the financial covenants of the 2018/2021 bond will be observed during the 2018 financial year.

In regard to the main non-financial performance indicators, we have reason to believe that the sold units in the trading business will clearly keep going up and continue to strengthen the brand name ACCENTRO in the process. In terms of employee retention, our plans for 2018 seek to continue the current strategy of trying to retain our employees long-term and to keep the churn rate to a minimum. As projected, the workforce increased by 6 staff (FTE: 5.4), although it should be added that not all of these jobs created represent full-time positions. One person left the Company in the course of 2017. As expected, the fluctuation is negligible. The workforce is likely to keep growing at a modest pace in 2018 in order to adapt to the Company's ongoing growth.

Opportunity and Risk Report

Risk Management

The ACCENTRO Group's risk management system is geared towards securing 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 good time before significant damage is done.

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, while the Company's expectations are pinpointed and the risk awareness enhanced in the process.
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 2016 financial year remained relevant in the 2017 financial year. We believe that the subsequently listed risks constitute a rather exhaustive representation. The main risks for our business model within the current market environment include specifically sales risks and risks arising from the property selection.

Letting-related risks for the Company have also been significantly reduced since the rental property portfolio was dissolved for good. Accordingly, ACCENTRO Real Estate AG is currently exposed only to risks arising from the housing privatisation business, including a certain letting risk to which the portfolio of inventory properties is exposed. The fact that retail privatisations of vacant flats are more profitable than the privatisations of tenant-occupied flats represents a converse aspect in the risk assessment.

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 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 own housing stock, the Company has also engaged in costly major refurbishments and topping-up developments involving occupied real estate in several locations since 2016. This sort of activity is subject to noticeably higher coordination and investment requirements. The residential portfolio with a total of 675 flats that was acquired in December 2016 is currently not in a marketable state. To develop the project into a marketable state, it was transferred into a joint venture in January 2018. The project planning was completely overhauled and now targets the delivery of more than 1,000 new-build flats. Applications for the necessary planning permissions will be filed in the course of 2018. According to current understanding, this will require extensive investments in excess of EUR 100.0 million that will have to be borne by the project company.

ACCENTRO AG hired employees with relevant experience to address these risks, and will continue to expand the staff capacity in this division going forward.

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 by keeping a large property stock on hand.

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, for one thing, 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 success of the business activities 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 21.7 million (previous year: EUR 33.5 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 bond issued is subject to credit terms that, were they to eventuate, could cause a liquidity risk. If certain credit terms were introduced, 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 2017 financial year. Although all original financial covenants were observed, the change of the principal shareholder resulted in several change-of-control clauses in financing agreements, which grant the respective lenders rights to terminate for good cause. None of the lenders called their loans to demand immediate payment.

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 the privatisation sector, 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 only 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 Group 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 the moment, this risk is considered negligible.

Adequate provisions have been set aside for the legal risks to which the Group is currently exposed. Any other legal risks, particularly risks arising from legal disputes that could have a significant adverse effect on the financial position of the ACCENTRO Group, do not exist at present.

h) Internal Risks
The senior management roles of the ACCENTRO Group that supervise the business performance are staffed with a comparatively small number of employees. Any loss of these employees, especially of the sole member of the Management Board, would significantly impact the business performance.

Market-specific Risks

a) Economic Risks
The ACCENTRO Group has so far generated its revenues exclusively inside Germany. Accordingly, 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 also indirectly affected by global economic trends. In 2018, it will closely watch the interest rate development in the USA, because it will also have ramifications for the European Central Bank's (ECB) interest rate policy and thus for interest levels in Europe.

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.

The demand for condominiums in Germany depends, in addition to the absolute and possibly negative demographic growth, on the trend in the number of persons per household.

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 political decisions for our core market in Berlin, most notably the developments in the area of historic district protection. With a view to federal politics, it remains to be seen in particular how the intentions concerning housing development and tenant protection that were defined in the coalition agreement of 7 February 2018 between the Christian Democrat bloc and the Social Democrats will pan out.

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 remain slightly short of the headline 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. In its monthly report for February 2018, the Bundesbank warned against excessive pricing in the major cities, yet demand for flats in Berlin continues to soar.

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 could thus indirectly impair the future business performance of the ACCENTRO Group.

Assessment of the Overall Risk

The ACCENTRO Group's financing structure was further optimised in the period under review by redeeming the 2013/2018 corporate bond prematurely. Doing so has noticeably improved the risk situation of the ACCENTRO Group in regard to financing. 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 placement of a corporate bond in a volume of EUR 100 million in January 2018, ACCENTRO Real Estate AG believes that its plans to keep buying real estate are now on a safe basis.

New perspectives also opened after the ACCENTRO Gehrensee GmbH property development company was transferred into a joint venture project with a Berlin-based property developer in January 2018. The idea is to largely revise the existing plans, which projected the development of 675 flats, and instead to create the potential to develop more than 1,000 new-build flats. Based on the current market situation in Berlin and the assumption that the current demand backlog on the city's housing market is not likely to be accommodated in the short term, ACCENTRO AG expects the project to be completed in the early 2020s and to deliver a substantial contribution to operating income. In accordance with the commercial-law principle of prudence, however, certain financial assets had to be written down because, from our point of view, the high income opportunity is offset by complex planning legislation.

Meanwhile, the ACCENTRO Group continued to expand its trading portfolio by acquiring new property during the 2017 financial year. Buying activities extend nationwide and include cities in Bavaria, the metro regions Hamburg and Leipzig, as well as the major cities Cologne, Hanover 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.

Moreover, the federal body politic has rediscovered the subject of homeowner subsidies, the most recent evidence of it being the coalition agreement signed between the Christian Democrat bloc and the Social Democrats on 7 February 2018. 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 keep facilitating fundraising efforts both on the capital markets and among banks in the future.

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 properties, particularly in condominiums, that are acquired either as buy-to-let investment or (in the case of owner-occupiers) as an integral component of a private pension plan. The latter aspect, by the way, is bound to gain in significance, and substantially so.

The ACCENTRO Group 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.

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 bringing in external consultants.

Starting in the 2016 financial year, an internal audit system was implemented on the Group level of ACCENTRO Real Estate AG to improve the efficiency of the business processes. 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. Two internal audits were carried out during the 2017 financial year, and another two internal audits are being prepared for the 2018 financial year.

The consistency of accounting processes of the subsidiaries included in the consolidated financial statements is guaranteed by 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 Sections 289a, 315a, German Commercial Code (HGB)

ACCENTRO AG is a stock corporation (Aktiengesellschaft) based in Germany and has issued voting shares that are listed on an organised market as defined by Sec. 2 Art. 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 Articles 76, 84 and 85, German Stock Corporation Act (AktG), in conjunction with Sec. 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 that principally has to be passed pursuant to the provisions of Section 84, 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.

On 8 February 2018, the Supervisory Board resolved to appoint Jacopo Mingazzini as CEO of ACCENTRO Real Estate AG for another three years.

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 Sec. 11, Art. 2, of the Articles of Association.

In accordance with Sec. 133 and 179, AktG, in conjunction with Sec. 13, Art. 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 2017, the issued capital (share capital) of ACCENTRO Real Estate AG amounted to EUR 24,924,903.00. It was composed of 24,924,903 no-par value bearer shares. There are no different stock classes. At the start of the 2017 financial year, the share capital amounted to EUR 24,734,031.00 and increased during the reporting period when the conversion rights from a convertible bond issued by ACCENTRO Real Estate AG were exercised.

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") over a total nominal amount of up to EUR 200 million and with maturities of 20 years or less 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 a total amount of EUR 25,000,000 or less. 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 Sec. 186, Art. 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 hypothetical 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 Sec. 186, Art. 3, Sent. 4, AktG, if such inclusion is required by law;
III. to offer 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 the extent that this is necessary, to grant bearers of conversion or pre-emption rights granted by the Company or companies in the Group to shares of the company pre-emption rights to bonds issued under this authorisation in the amount they would be entitled to after exercising their conversion or pre-emption rights or after satisfying any conversion obligation (dilution protection), or
V. if bonds are issued in exchange for non-cash contributions and the disapplication of pre-emption 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 to Implement a 2017 Stock Option Program

Moreover, the Management Board was authorised through a resolution passed by the Annual General Meeting on 15 May 2017 to issue on one or more occasions before 14 May 2020 up to 1,800,000 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 no-par value bearer shares in ACCENTRO Real Estate AG (2017 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 options issued under the 2017 stock option program can only be exercised within 10 years of the date on which they may be exercised for the first time.

The Management Board of ACCENTRO Real Estate AG is authorised, assuming the Supervisory Board's consent—and the Supervisory Board alone being authorised if the Management Board itself is concerned—to specify the structural details of the 2017 stock option program. These include specifically:

I. defining the number of options issued to individual or groups of beneficiaries,
II. regulating the handling of options in special cases (e. g. maternity/paternity leave or parental leave of a beneficiary),
III. regulating other expiration reasons, exceptions to the expiration reasons, as well as the specific expiration rules,
IV. adjusting the share subscription/dilution protection in the context of corporate actions and conversion of ACCENTRO Real Estate AG,
V. specific issues concerning the departure of the beneficiary,
VI. retirement or demise of the beneficiary, etc.,
VII. the Company's possibilities for terminating the options, and
VIII. the proprietary investment of the beneficiary in subscribed shares.

In the notes to the annual financial statements or in the annual report, the Management Board must report on the utilization of the 2017 stock option program and the options granted to the beneficiaries in this context for each financial year in accordance with relevant statutory provisions. During the 2017 financial year, the Management Board did not take advantage of its authorisation to use the 2017 stock option program.

Contingent Capital

Contingent Capital 2014 (Redemption of Convertible Bonds)
Pursuant to a resolution passed by the Annual General Meeting on 10 January 2014, the share capital was conditionally increased by up to EUR 4,136,631.00 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 to reflect the respective scope of the share capital increase through the Contingent Capital 2014.

Further exercise of the conversion rights in convertible bonds reduced the Contingent Capital 2014 by EUR 190,872.00 down to EUR 10,287,426.00 during the 2017 financial year.

Contingent Capital 2017 (Redemption of 2017 Stock Option Program)
To deliver on its stock option program, within whose framework options are granted until 14 May 2020 based on the authorisation by the Annual General Meeting of 15 May 2017, the Company's share capital is increased by up to EUR 1,800,000.00 through the issuance of up to 1,800,000 new no-par-value bearer shares (Contingent Capital 2017). The Contingent 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 2017 to settle these options.

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 Sec. 203, Art. 1 and 2, and Sec. 186, Art. 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 Sec. 186, Art. 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 patents, brands or licenses 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 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 the 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 are 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 2017 carry full voting rights and each grant the holder one vote at the Annual General Meeting.

Equity Interests and Rights of Control

As of 20 October 2017, the Company was notified that ADLER Real Estate AG and Brookline Real Estate S.à r.l. signed an agreement concerning the sale of an equity interest of about 80% in ACCENTRO Real Estate AG and of about 92% of the 2014/2019 convertible bond.

Since the agreement has yet to be finalised, Brookline Real Estate S.à r.l. has been granted expectancy rights to the ACCENTRO share sold by ADLER Real Estate AG and is entitled even before the full payment of the purchase price and the concomitant acquisition of the unencumbered ownership to exercise its voting rights in the sold ACCENTRO shares at the Annual General Meeting of ACCENTRO Real Estate AG at its sole discretion and without instructions by ADLER Real Estate AG. The adoption of resolutions on certain measures specified in the share purchase agreement requires the approval of ADLER Real Estate AG until the purchase price has been paid in full.

None of the shares issued by ACCENTRO Real Estate AG carry special 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 86,971,000 were subject to change-of-control provisions. On occasion of the change of control that occurred on 30 November 2017, ACCENTRO Real Estate AG notified the relevant lenders about the fact. So far, none of the lenders have exercised their break option.

Convertible Bond

In addition to financing agreements, the convertible bond 2014/2019 with an outstanding nominal value of EUR 12,064,798.36 as at 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.

In conjunction with the announcement of the change of control in December 2017, ACCENTRO Real Estate AG notified the noteholders of their right to repayment of not exercised debenture bonds and of the adjustment of the conversion price due to the change of control.

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 289f, German Commercial Code (HGB)

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

7 Remuneration Report

The service contract with CEO Jacopo Mingazzini effective during the 2017 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. On 30 November 2017, a change-of-control event did occur. Jacopo Mingazzini, CEO, did not exercise his 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 remuneration 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 notes to the consolidated financial statements and the Corporate Governance Report.

Berlin, 8 March 2018

Jacopo Mingazzini
CEO

Consolidated Financial Statements

Consolidated Balance Sheet

ACCENTRO Real Estate AG

Assets	Notes	31 Dec. 2017 TEUR	31 Dec. 2016 TEUR
Non-current assets			
Goodwill	5.1.1	17,776	17,776
Other intangible assets		18	31
Property, plant and equipment		205	186
Long-term trade receivables	5.3	2,477	0
Equity investments	5.1.4	1,247	26
Equity interests accounted for using the equity method	5.1.3	264	472
Deferred tax assets	5.11	193	408
Total non-current assets		**22,179**	**18,897**
Current assets			
Inventory properties	5.2	304,027	223,565
Trade receivables	5.3	1,152	2,010
Other receivables and other current assets	5.3	11,568	18,751
Current income tax receivables	5.17	984	480
Cash and cash equivalents	5.4	7,875	15,143
Total current assets		**325,605**	**259,949**
Non-current assets held for sale	5.5	0	21,700
Total assets		**347,785**	**300,546**

Consolidated Balance Sheet

ACCENTRO Real Estate AG

	Notes	31 Dec. 2017	31 Dec. 2016
Equity		TEUR	TEUR
Subscribed capital	5.6	24,925	24,734
Capital reserves	5.6	53,462	53,180
Retained earnings	5.6	73,576	57,164
Attributable to parent company shareholders	5.1.2	151,963	135,077
Attributable to non-controlling interest	5.1.2	1,734	1,758
Total equity		**153,697**	**136,835**

Liabilities		TEUR	TEUR
Non-current liabilities			
Provisions	5.8	17	17
Financial liabilities	5.7	42,439	42,716
Bonds	5.7	0	21,644
Deferred income tax liabilities	5.11	969	851
Total non-current liabilities		**43,426**	**65,228**
Current liabilities			
Provisions	5.8	2,271	3,030
Financial liabilities	5.7	86,882	64,807
Bonds	5.7	12,065	138
Advanced payments received	5.9	19,613	8,503
Current income tax liabilities	5.10	14,591	9,269
Trade payables	5.9	2,236	3,365
Other liabilities	5.9	13,005	3,180
Total current liabilities		**150,662**	**92,292**
Liabilities associated with assets held for sale		0	6,192
Total equity and liabilities		**347,785**	**300,546**

Consolidated Income Statement

for the Financial Year Beginning on 1 January and Ending 31 December 2017

ACCENTRO Real Estate AG	Notes	1 Jan. 2017–31 Dec. 2017	1 Jan. 2016–31 Dec. 2016
		TEUR	TEUR
Revenues from sales of inventory properties	5.12	137,859	116,920
Expenses from sales of inventory properties	5.13	–103,167	–80,543
Capital gains from property sales		**34,692**	**36,377**
Letting revenues	5.12	7,769	6,597
Letting expenses	5.13	–2,335	–2,032
Net rental income		**5,434**	**4,565**
Revenues from services		1,714	1,588
Expenses from services	5.13	–766	–979
Net service income		**947**	**608**
Other operating income	5.16	3,260	997
Gross profit or loss		**44,333**	**42,548**
Total payroll and benefit costs	5.14	–3,339	–2,986
Depreciation and amortisation of intangible assets and property, plant and equipment		–114	–114
Impairments of inventories and accounts receivable	5.15	0	–951
Other operating expenses	5.16	–4,465	–4,561
EBIT (earnings before interest and income taxes)		**36,415**	**33,936**
Net income from associates	5.1.3	–14	514
Other income from investments	5.1.4	35	18
Interest income	5.23	304	298
Interest expenses	5.23	–9,107	–6,695
Net interest income		**–8,803**	**–6,397**
EBT (earnings before income taxes)		**27,633**	**28,070**
Income taxes	5.17	–7,316	–7,390
Consolidated income from Continuing Operation		**20,317**	**20,680**
Earnings after taxes of Discontinued Operation	5.18	–197	5,792
Consolidated income		**20,120**	**26,473**
thereof attributable to non-controlling interests		–24	181
thereof attributable to shareholders of the parent company		20,144	26,291

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ACCENTRO Real Estate AG	Notes	1 Jan. 2017 – 31 Dec. 2017	1 Jan. 2016 – 31 Dec. 2016
		EUR	EUR
Earnings per share (comprehensive income)	**5.19**		
Basic net income (24,924,903 shares; prior year: 24,734,000 shares)		0.82	1.09
Diluted net income per share (30,368,566 shares; prior year: 30,039,000 shares)		0.72	0.90
Earnings per share (Continuing Operation)	**5.19**		
Basic net income (24,924,903 shares; prior year: 24,734,000 shares)		0.81	0.87
Diluted net income per share (30,368,566 shares; prior year: 30,039,000 shares)		0.70	0.72

Consolidated Cash Flow Statement

for the Financial Year Beginning on 1 January and Ending 31 December 2017

ACCENTRO Real Estate AG		1 Jan. 2017–31 Dec. 2017	1 Jan. 2016–31 Dec. 2016
		TEUR	TEUR
	Consolidated income (Continuing and Discontinued Operation)	20,120	26,473
+	Depreciation/amortisation of non-current assets	114	114
–/+	Net income from associates carried at equity/investment income	1,832	–532
+/–	Increase/decrease in provisions	–759	520
+/–	Changes in the fair value of investment property held for sale	–381	–9,702
+/–	Other non-cash expenses/income	9,766	11,393
+/–	Interest expense/interest earned on purchase prices current assets	–31	0
–/+	Increase/decrease in trade receivables and other assets that are not attributable to investing or financing activities	–5,874	8,133
+/–	Increase/decrease in trade payables and other liabilities that are not attributable to investing or financing activities	24,743	13,032
–/+	Income from disposal of investment property	–35	157
–/+	Gains/losses from disposals of subsidiaries	–327	–275
+/–	Other income tax payments	–2,584	–721
=	**Operating cash flow before de-/reinvestment in trading assets**	**46,583**	**48,592**
–/+	Increase/decrease in inventories (trading properties)	–71,783	–26,877
=	**Cash flow from operating activities**	**–25,200**	**21,715**
	thereof Continuing Operation	**–26,274**	**20,311**
	thereof Discontinued Operation	**1,074**	**1,404**
+	Proceeds from disposal of investment property (less costs of disposal)	5,119	23,371
+	Interest received	424	61
–	Cash outflows for investments in intangible assets	–5	–14
–	Cash outflows for investments in property, plant and equipment	–116	–96
–	Cash outflows for investments in investment properties	–181	–2,440
–	Cash outflows for investments in non-current assets	–106	–26
+	Cash received from distributions/sales of shares consolidated at equity	4,200	1,314
=	**Cash flow from investment activities**	**9,336**	**22,170**
	thereof Continuing Operation	**162**	**1,239**
	thereof Discontinued Operation	**9,174**	**20,931**

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ACCENTRO Real Estate AG		1 Jan. 2017–31 Dec. 2017 TEUR	1 Jan. 2016–31 Dec. 2016 TEUR
–	Dividend payments to shareholders	–3,731	0
+	Payments from issuing bonds and raising (financial) loans	115,667	87,702
–	Repayment of bonds and (financial) loans	–109,595	–107,923
–	Interest paid	–6,771	–10,916
+	Interest received	209	20
+	Repayment of loans granted	13,343	435
=	**Cash flow from financing activities**	**9,121**	**–30,682**
	thereof Continuing Operation	**–4,248**	**–5,841**
	thereof Discontinued Operation	**13,369**	**–24,841**
	Net change in cash and cash equivalents	–6,743	13,204
+	Increase in cash and cash equivalents from investments in fully consolidated companies	0	94
–	Decrease in cash and cash equivalents from the disposal of fully consolidated companies	–525	–5,133
+	Cash and cash equivalents at the beginning of the period	15,143	6,981
=	**Cash and cash equivalents at the end of the period**	**7,875**	**15,143**

Consolidated Statement of Changes in Equity

for the Financial Year Beginning on 1 January and Ending 31 December 2017

ACCENTRO Real Estate AG	Subscribed capital	Capital reserve	Retained earnings	Non-controlling interests	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
As of 1 January 2017	**24,734**	**53,180**	**57,164**	**1,758**	**136,836**
Consolidated income	–	–	20,144	–24	20,120
Other comprehensive income	–	–	0	0	0
Total consolidated income	–	–	20,144	–24	20,120
Convertible bonds converted	191	282	–	–	473
Dividend payments	–	–	–3,731	–	–3,731
As of 31 December 2017*	**24,925**	**53,462**	**73,576**	**1,734**	**153,696**

* 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 2016

ACCENTRO Real Estate AG	Subscribed capital	Capital reserve	Retained earnings	Non-controlling interests	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.

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 2017, ACCENTRO Real Estate AG acts as the operating holding company for a number of property vehicles.

On 30 November 2017, Brookline Real Estate S.à r.l. made a public announcement that it had taken control of ACCENTRO Real Estate AG pursuant to Sec. 35 , Art. 1, i.c.w. Section 29, Art. 2, and Sec. 30, Art. 1, German Act on Securities Acquisition and Takeovers (WpÜG). As a result of having acquired 19,915,333 no-par value shares from ADLER Real Estate AG, Brookline Real Estate S.à r.l. now holds 79.95% of the voting rights.

These consolidated financial statements will probably be released for publication at the end of the Supervisory Board meeting on 8 March 2018.

All amounts in the notes and tables are quoted in thousands of euros (TEUR) unless stated otherwise. Both individual and total figures represent values 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 details the accounting policies applied in preparing the consolidated financial statements.

2.1 Principles

The consolidated financial statements for the 2017 financial year of ACCENTRO Real Estate AG were prepared in accordance with the 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.

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 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 of the maturity-matching presentation of financial liabilities, 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 2016 were based, except for certain changes elaborated below.

Accounting Guidance Applied for the First Time during the 2017 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 2017 financial year:

Standard/interpretation		Amended/new
IAS 7	Cash flow statement	amended
IAS 12	Recognition of deferred tax assets for unrealised losses	amended

IAS 7 – Cash Flow Statement
The purpose of the amendments is to provide additional information for an enhanced understanding into the changes in liabilities arising from a company's financing activities. For the notes to the consolidated financial statements of ACCENTRO Real Estate AG as of 31 December 2017, a representation in the form of reconciliation accounts was chosen.

IAS 12 – Income Taxes
The amendment to IAS 12 clarifies various issues relating to the recognition of deferred tax assets, in particular for unrealised losses.

The requirements of the IFRS whose application became mandatory in the EU as of 1 January 2017 have no effects on the consolidated financial statements of ACCENTRO Real Estate AG, except for the additional requirement to disclose financial liabilities under IAS 7.

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 during the preparation of 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 – no material effects anticipated
IFRS 15	Revenue from contracts with customers	1 January 2018	yes	no material effects anticipated
IFRS 2	Clarifications of classification and measurement of share-based payment transactions	1 January 2018	no	none
IAS 40	Classification of property under construction	1 January 2018	no	none
IFRS 4	Application of IFRS 9 and IFRS 4 on insurance contracts	1 January 2018	yes	none
IASB 2014-2016	Improvement process IFRS 1, IFRS 12 and IAS 28	1 January 2018	no	none
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018	no	none
IFRS 16	Leasing	1 January 2019	yes	no material effects anticipated
IFRIC 23	Interpretation concerning the accounting for uncertainties in income taxes	1 January 2019	no	none
IAS 28	Long-term equity investments in associates and joint ventures	1 January 2019	no	none
IFRS 9	Prepayment features with negative compensation	1 January 2019	no	none

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.

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 the ACCENTRO Group at the moment, the application of IFRS 9 is not expected to result in material adjustments. IFRS 9 will result in additional notes disclosures.

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.

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.

IFRS 16 – Leasing
IFRS 16 eliminates the previous distinction between operating and finance leases for the lessee. The lessee recognises for all leases a right to use an asset and a lease liability. The right of use is written down over the lease term in accordance with the regulations for intangible assets. The lease liability is accounted for in accordance with the provisions of IAS 39 or, in the future, IFRS 9 for financial instruments. The disclosure in the income statement is shown separately as write-downs on the asset value and interest from the liability. For short-term leases and leased assets of low value, accounting requirements are relaxed. The disclosures in the notes will be expanded and should enable the addressee to assess the amount, timing and uncertainties in the context of leasing agreements. In line with its business model, the ACCENTRO Group does not enter into any major medium- or long-term rental/lease agreements. The other financial obligations listed in section 5.21 exist amounted to a total of c. TEUR 300 in 2017 and mainly relate to office space rent. We therefore assume that the first-time adoption of IFRS 16 will have no material effects.

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 recognised at their fair value as of the 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 5.1.2.

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 two joint ventures (previous year: one) which are 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.

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 5.1.3. The summarised financial information for joint ventures and associates that are, on an individual basis, immaterial are presented in aggregate form.

e) Consolidated Group

As of 31 December 2017, the consolidated financial statements of ACCENTRO Real Estate AG included 28 (previous year: 24) subsidiaries, two joint ventures (previous year: one), and two associates (previous year: twelve). The consolidated Group changed as follows since 31 December 2016:

Formation of New Subsidiaries

During the 2017 financial year, the consolidated Group was expanded to include seven property holding companies that were formed for the privatisation segment, one of which (ACCENTRO 9. Wohneigentum GmbH) was sold again during the fourth quarter of 2017.

Subsidiaries Sold

The equity interest in the company ACCENTRO 9. Wohneigentum GmbH, which had been formed during Q1 2017, was sold in Q4 2017. In addition, ACCENTRO Real Estate AG signed a sale and purchase agreement on 4 October 2017 selling its equity interest in the property holding companies ACCENTRO 4. Wohneigentum GmbH and ACCENTRO 7. Wohneigentum GmbH with a combined residential property portfolio of 129 units and a total useful area of 10,025 m².

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

List of Equity Interests in Subsidiaries in Which Either ACCENTRO Real Estate AG or One of Its Subsidiaries Holds a Majority of the Capital Shares

Company	Domicile	31 Dec. 2017 Interest in net assets (in %)*	31 Dec. 2016 Interest in net assets (in %)*
ESTAVIS Wohneigentum GmbH	Berlin	100%	100%
ESTAVIS 43. Wohnen GmbH & Co. KG	Berlin	100%	100%
ACCENTRO GmbH	Berlin	100%	100%
ACCENTRO Wohneigentum GmbH	Berlin	100%	100%
ACCENTRO 5. Wohneigentum GmbH	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	Berlin	100%	100%
ACCENTRO 3. Wohneigentum GmbH	Berlin	100%	100%
ACCENTRO 6. Wohneigentum GmbH	Berlin	100%	100%
ACCENTRO 8. Wohneigentum GmbH (set up in Q1 2017)	Berlin	100%	–
ACCENTRO 10. Wohneigentum GmbH (set up in Q1 2017)	Berlin	100%	–
Quartier Hasenheide GmbH (formerly Cuvrystraße 44, 45 Bestand GmbH, set up in Q3 2017)	Berlin	100%	–
ACCENTRO 11. Wohneigentum GmbH (set up in Q4 2017)	Berlin	100%	–
ACCENTRO 12. Wohneigentum GmbH (set up in Q4 2017)	Berlin	100%	–
ACCENTRO 13. Wohneigentum GmbH (set up in Q4 2017)	Berlin	100%	–
ACCENTRO Gehrensee GmbH	Berlin	100%	100%
Subsidiaries with Non-Controlling Interests			
WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH	Berlin	94.9%	94.9%
WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH	Berlin	94.9%	94.9%
WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH	Berlin	94.9%	94.9%
WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH	Berlin	94.9%	94.9%
WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH	Berlin	94.9%	94.9%
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			
ACCENTRO 4. Wohneigentum GmbH	Berlin	100%	100%
ACCENTRO 7. Wohneigentum GmbH	Berlin	100%	100%
ACCENTRO 9. Wohneigentum GmbH (set up in Q1 2017)	Berlin	100%	–

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

List of Equity Interests Accounted for Using the Equity Method

Company	Domicile	31 Dec. 2017 Interest in net assets (in %)	31 Dec. 2016 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%
Urbanstraße 5 Projekt GmbH (joint venture) (acquired in Q2 2017)	Berlin	49%	

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 Sec. 264, Art. 3, 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 5. Wohneigentum GmbH	Berlin
ACCENTRO 6. Wohneigentum GmbH	Berlin
ACCENTRO 8. Wohneigentum GmbH	Berlin
ACCENTRO 10. Wohneigentum GmbH	Berlin
Quartier Hasenheide GmbH	Berlin

Group Affiliation

Until 30 November 2017, the ACCENTRO Group was included in the consolidated financial statements of ADLER Real Estate AG, Berlin, which was its top-tier parent company. Through the change of control effective on 1 December 2017, Brookline Real Estate S.à r.l. took control of the ACCENTRO Group.

In the year under review, more than 10% of the sales revenues were generated by trading with a single customer, which is explained by a major portfolio sale. This does not constitute a dependency on individual clients.

2.3 Segment Reporting

In the course of the strategic realignment to focus on the trade with residential real estate within a housing privatisation framework, the final consolidation of the majority of portfolio properties as of 31 December 2016, and the wind-down of the remaining activities in the former Portfolio segment, the distinction between a Trade segment and a Portfolio segment, which was still made in the previous financial year, has become obsolete.

The internal reporting to the ACCENTRO Real Estate AG Management Board, which is the highest management body as defined by IFRS (management approach) includes no drilldowns by regions or segments. 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 euros (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 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.

2.7 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.

2.8 Financial Instruments

2.8.1 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 transaction 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 reference period, only financial assets in the categories loans and receivables and available-for-sale financial assets were recognised.

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. An impairment of trade receivables recognised whenever 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.

To the extent that rental claims are subject to a default risk, they are adjusted in value. As soon as it becomes evident that a rental claim may not be recovered, the full amount is derecognised in income.

Overdue rent receivables were written down by 40% whenever they involved incumbent tenants. Rent arrears of tenants already moved out are written down by 90%.

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.

2.8.2 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 inputs of Levels 1, 2 and 3.

2.9 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 in the marketability of the properties 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.

From time to time, the condominium retailing business necessitates a breakdown of the acquisition costs incurred by each flat when buying the properties. The breakdown of the acquisition costs determines the gross profit resulting from the disposal of a given flat. The purchase price is broken down on the basis of the anticipated relative retail prices, the expectation being that the breakdown will show a constant margin for the flats.

2.10 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.

2.11 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.

2.12 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 if 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.

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 were adjusted accordingly.

2.13 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."

2.14 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 among "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.

2.15 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."

2.16 Leases

Certain Group companies act as lessees. All leases in the Group are structured 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 5.22 for information on accounting for rental income.

2.17 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.

2.18 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 current operations, 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 generally not transferred to the buyer until 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:

- When classifying financial liabilities as current or non-current, the latest corporate planning is used to analyse which liabilities are expected to be repaid within the next twelve months and should therefore be reported as current liabilities.The sale of any flat or a property will create an obligation to repay some of the amounts borrowed. When classifying a financial liability as a current or non-current financial liability, corporate planning is therefore used as an indicator to estimate the time when a given financial liability is due for payment.
- 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 the 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.
- 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 section 5.1.2 although the Group only holds minority stakes of 38% 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 Supplementary Notes to the Individual Items of the Financial Statements

5.1 Statement of Changes in Non-current Assets

5.1.1 Goodwill

The Company's goodwill was created by company acquisitions in the trading business during the 2007 and 2008 financial years. The recoverability of the goodwill was derived from arm's length transactions (IFRS 13.24) using the model of the fair value less costs of disposal (IAS 36.6), specifically from the acquisition of the majority of shares in ACCENTRO Real Estate AG by Brookline Real Estate S.à r.l. in the course of the year, and which refers almost exclusively to the "Trade" CGU (Cash Generating Unit).

Accordingly, the use of a valuation method that was closer to the market made it unnecessary to apply the discounted cash flow method, so that no disclosures (e. g. disclosure of capitalisation interest) were made in the notes to the financial statements.

5.1.2 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. 2017	Dividends paid out to the non-controlling interests during the reporting period
	%	TEUR	TEUR	TEUR
Corporations				
Phoenix F1 Neubrandenburgstrasse GmbH	5.1	90	530	9
Uhlandstraße 79 Immobilien GmbH	50 +1 vote	–68	154	–
Kantstraße 130b/ Leibnizstraße 36, 36a Immobilien Gesellschaft mbH	59	–29	–83	–
Diverse minority interests in the special purpose entities of ACCENTRO Gehrensee	5.1	–17	1,133	–
Total		–24	1,734	9
Partnerships				
Kantstraße 130b/ Leibnizstraße 36, 36a GbR*	61	75	–151	401

* 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 2017 and as of 31 December 2016:

31 December 2017	Phoenix F1 Neubrandenburgstrasse GmbH	Uhlandstraße 79 Immobilien GmbH	Kantstraße 130b/Leibnizstraße 36, 36a GbR	Kantstraße 130b/Leibnizstraße 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	12,724	702	315	21	42,681
Total of non-current assets	0	0	0	3	0
Total of current liabilities	2,338	393	59	166	16,506
Total of non-current liabilities	0	0	1	0	4,012
Earnings/revenues	**8,786**	**982**	**1,841**	**0**	**0**
Annual net income/net loss	**1,760**	**–135**	**224**	**–49**	**–342**
thereof attributable to the shareholders of ACCENTRO Real Estate AG	1,670	–68	149	–20	–325
thereof attributable to the non-controlling interests	90	–68	75	–29	–17

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

31 December 2016	Phoenix F1 Neubrandenburgstrasse GmbH	Uhlandstraße 79 Immobilien GmbH	Kantstraße 130b/Leibnizstraße 36, 36a GbR	Kantstraße 130b/Leibnizstraße 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

5.1.3 Equity Interests Accounted for Using the Equity Method

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

	2017	2016
	TEUR	TEUR
Start of financial year	**472**	**1,593**
Additions	6	0
Disposals	–200	–1,635
Shares in gains and losses	–14	514
End of financial year	**264**	**472**

One of the Company's subsidiaries acquired a 49% interest in the private limited company Urbanstraße 5 Projekt GmbH, Berlin, via a share purchase and transfer agreement dated 9 May 2017.

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 2017 and 31 December 2016, appraised according to the equity method:

31 December 2017	Malplaquetstr. 23 Grundstücks-verwaltungs-gesellschaft mbH	SIAG Sechzehnte Wohnen GmbH & Co. KG	Wohneigentum Berlin GbR (joint venture)	Urbanstraße 5 Projekt GmbH (joint venture)
	TEUR	TEUR	TEUR	TEUR
Earnings/revenues	1	0	1,170	40
Profit/loss for the year, overall performance	–7	0	163	–89
Total of current assets	21	0	963	3,333
Total of non-current assets	1	0	0	0
Total of current liabilities	7	0	161	564
Total of non-current liabilities	0	0	11	2,833
Net assets of the associate	15	0	792	–64
ACCENTRO Real Estate AG's interest in net assets of the associate	49.82%	47%	33.33%	49%
Book value of ACCENTRO Real Estate AG's interest, appraised using the equity method	0	0	264	0

31 December 2016	Malplaquetstr. 23 Grundstücks-verwaltungs-gesellschaft 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 associate	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

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 5.24.

5.1.4 Equity Investments

During Q1 2017, the Company acquired 5.1% interests each in two companies at initial costs of TEUR 99. The revenues earned from these during the 2017 financial year added up to TEUR 35.

On 22 December 2017, the Company concluded a purchase and transfer agreement with a subsidiary of ADLER Real Estate AG to sell a 45% interest out of its 46.91% interest in the Magnus-Relda Holding Vier GmbH. Within the framework of this sales, the indirect participations in 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, RELDA 45. Wohnen GmbH and RELDA Bernau Wohnen Verwaltungs GmbH were sold as well.

The year before, the interests had been recognised in the item "Non-current assets held for sale." The share sale yielded TEUR 1,358 in profits for the Group. The remaining book values in the amount of TEUR 1,121 are recognised in the "Equity investments" balance sheet item as of 31 December 2017.

5.2 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. 2017	31 Dec. 2016
	TEUR	TEUR
Ready-for-sale properties	285,403	216,080
Advanced payments	18,624	7,485
Total	**304,027**	**223,565**

The Company continued to invest in the expansion of the trading portfolio during the 2017 financial year. In addition, TEUR 8,860 were reclassified from "Assets held for sale" to "Inventory assets." The reclassification took place at market value and led to a measurement of investment properties in the amount of TEUR 424 in the Discontinued Operation.

Inventory properties with a carrying value of TEUR 171,959 (prior period: TEUR 99,667) are expected to be sold after more than twelve months. During the 2017 financial year, properties in a book value of TEUR 907 were sold for less than their book value, resulting in a loss of TEUR 46.

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 2017 financial year. The recognised properties serve as collateral for financial liabilities in the amount of TEUR 277,297.

During the 2017 financial year, roughly EUR 151.8 million were spent on the acquisition of 1,289 residential units. Sale and purchase agreements for another 376 assets with a selling price of EUR 63.0 million have been signed, but the transfer of possession, benefits and burdens is to take place in 2018. At the same time, 992 residential units worth c. EUR 99.8 million in initial costs were sold, so that the inventory assets, taking into account a reclassification from the Discontinued Operation and the refurbishment measures completed in the course of the year, increased by EUR 80.5 million.

5.3 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. 2017	31 Dec. 2016
	TEUR	TEUR
Trade receivables (gross)	3,725	2,068
Allowances	–96	–58
Trade receivables (net)	**3,629**	**2,010**

The table below lists the trade receivables by maturity:

	31 Dec. 2017	31 Dec. 2016
	TEUR	TEUR
Trade receivables	3,629	2,010
thereof neither impaired as of the reporting date nor overdue	3,000	158
thereof not impaired as of the reporting date nor overdue for another 30 days	149	54
thereof not impaired as of the reporting date nor overdue for another 31 to 60 days	16	207
thereof neither written down as of the reporting date nor overdue for another 61 to 90 days	142	60
thereof neither written down as of the reporting date nor overdue for another 91 to 180 days	99	87
thereof neither written down as of the reporting date nor overdue for another 181 to 360 days	160	342
thereof neither written down as of the reporting date nor overdue for more than 360 days	62	1,044
Net value of written-down trade receivables	96	58

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.

Trade receivables include long-term receivables from plot sales in the amount of TEUR 2,477 (previous year: TEUR 0). Receivables are discounted according to maturity.

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

	2017	2016
	TEUR	TEUR
As of 1 January	**58**	**504**
Change in consolidated Group	1	–1,338
Additions (write-downs)	46	1,128
Reversals	–9	–235
As of 31 December	**96**	**58**

The miscellaneous receivables and other assets include:

	31 Dec. 2017 TEUR	31 Dec. 2016 TEUR
Loan granted to Münchener Baugesellschaft mbH	0	13,044
Receivables from operating costs not yet invoiced	5,977	4,261
Down-payments on plots available for sale	3,292	0
Sales tax receivables	975	975
Receivables from investment companies	496	0
Restricted-use cash in banks	119	142
Miscellaneous other receivables	709	329
Total	**11,568**	**18,751**

The loan granted to the contractor Münchener Baugesellschaft mbH, a subsidiary of ADLER Real Estate AG, and included in last year's financial statement, was fully repaid during the year under review.

Payables from operating costs in the amount of TEUR 5,977 not yet settled are offset by advance payments received in the amount of TEUR 5,217.

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 Sec. 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.

Receivables from investment companies represent a loan in the amount of TEUR 461 disbursed to Urbanstraße 5 Projekt GmbH (an associate) and from receivables from two minority participations.

Other receivables are subject to allowances in the amount of TEUR 31 (previous year: TEUR 442).

The accounts receivable are of short-term nature.

5.4 Cash and Cash Equivalents

The cash and cash equivalents item represents predominantly bank balances held at call.

5.5 Available-for-Sale Financial Assets and Liabilities

	31 Dec. 2017	31 Dec. 2016
	TEUR	TEUR
Interest in Magnus-Relda Vier subgroup held at equity	0	9,455
Properties	0	12,010
Miscellaneous	0	235
Total of the assets available for sale	**0**	**21,700**
Liabilities and deferred taxes connected to the property held for sale	**0**	**6,192**

A property in Chemnitz with a fair value of TEUR 8,860 that used to be recognised among the investment properties was reclassified to inventory assets because the property is earmarked for privatisation. All other properties were sold off during the year under review.

The assets available for sale in the previous year included a TEUR 9,455 item representing an equity investment in Magnus-Relda Vier, a company that was almost completely sold to ADLER Real Estate AG. A residual equity investment worth TEUR 1,121 was reclassified to "Equity investments" because it is impossible from today's perspective to determine the exact time at which the residual interest was sold.

5.6 Equity Capital

As of 31 December 2017, the issued capital (share capital) of ACCENTRO Real Estate AG amounted to EUR 24,924,903.00. It was composed of 24,924,903 no-par-value bearer shares. There are no different stock classes. At the start of the 2017 financial year, the share capital amounted to EUR 24,734,031.00 and increased by EUR 190,872.00 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 Sec. 315a, 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 EUR 25,000,000.00.

Pursuant to a resolution passed by the Annual General Meeting on 10 January 2014, the share capital was conditionally increased by up to EUR 4,136,631.00 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 15,000,000.00. 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.

Further exercise of the conversion rights in convertible bonds reduced the Contingent Capital 2014 through the issuance of 190,872 no-par-value shares down to EUR 10,287,426.00 during the 2017 financial year.

Contingent Capital 2017 (Redemption of 2017 Stock Option Program)
To deliver on its stock option program, within whose framework options are granted until 14 May 2020 based on the authorisation by the Annual General Meeting of 15 May 2017, the Company's share capital is increased by up to EUR 1,800,000.00 through the issuance of up to 1,800,000 new no-par-value bearer shares (Contingent Capital 2017).

The contingent 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 2017 to settle these options.

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 Sec. 203, Art. 1 and 2, and Sec. 186, Art. 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 Sec. 186, Art. 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 patents, brands or licenses 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 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 the 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.

5.7 Financial Liabilities

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

	31 Dec. 17 (financial)	31 Dec. 2017	31 Dec. 2016
	TEUR	TEUR	TEUR
Non-current financial liabilities			
Liabilities to banks	68,822	42,439	42,716
Bond liabilities	12,065	0	21,644
Total non-current financial liabilities	**80,887**	**42,439**	**64,360**
Current financial liabilities			
Liabilities to banks	60,499	86,882	64,807
Bond liabilities	0	12,065	138
Total current financial liabilities	**60,499**	**98,947**	**64,945**
Total financial liabilities	**141,386**	**141,386**	**129,305**

Liabilities to Banks

The change of the principal shareholder that took place on 30 November 2017 and the concomitant takeover of ACCENTRO Real Estate AG by Brookline Real Estate S.à r.l. triggered the right to terminate for good cause of several facility agreements due to existing change-of-control provisions. In accordance with IAS 1.74, all financial liabilities that have not been approved by the bank as of the balance sheet date should be classified as current. This is reflected in the recognition of current financial liabilities in the amount of TEUR 86,882. As of 8 March 2018, no financial institution has taken advantage of its right to act on the change-of-control provision.

In order to present a more accurate picture of the asset and financial position, section 5.7 includes a breakdown of maturities based on a view that is consistent with the one taken the previous year. According to the latter, current financial liabilities in the amount of TEUR 60,499 would have to be recognised (column: "31 Dec. 2017 (financial)"). The book value of non-current financial liabilities to banks breaks down into parts of loans with a remaining term of between one and five years (TEUR 63,265; previous year: TEUR 42,716) and those with a remaining term of more than five years (TEUR 5,557; 2016 financial year: TEUR 0).

The modest decline in current financial liabilities by TEUR 4,308 — when ignoring the change-of-control provisions — is primarily explained by the fact that inventory properties were earmarked for sale in the 2018 financial year by the Company's sales planning, which includes prepayments 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 60,358 for the 2018 financial year.

Bond Liabilities
On 31 March 2017, ACCENTRO AG announced the early termination of the 2013/2018 corporate bond, which was recognised among the non-current financial liabilities during the previous financial year, pursuant to Sec. 3, Art. 4, of the bond terms. The full repayment of EUR 10 million was made on 26 June 2017 at a rate of 101.5% plus TEUR 462 in interest accrued on the nominal amount up to the date of the repayment.

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 would originally have matured on 27 March 2019. Since the issuance in 2014, the Company bought back 600,000 bonds (thereof 190,872 in 2017) converted 249,593 bonds into shares. Out of the book value of the bond liabilities, the 2014/2019 convertible bond accounts for TEUR 12,065 (2016 financial year: TEUR 11,936).

The change of control caused by the takeover moreover triggered the application of section 14 (1) of the bond terms of the 2014/2019 convertible bond. Pursuant to the section, note-holders were entitled to demand repayment of their debentures either in whole of in part at their face value, plus 15% and plus the interest accrued on the nominal value by the effective date, by filing a repayment request by the effective date, which was set for 31 January 2018. Accordingly, the existing book value of the convertible bonds (TEUR 12,065) is recognised among the current financial liabilities as of 31 December 2017. Since none of the noteholders submitted a repayment request within the effective period, the 2014/2019 convertible bond will be posted among the non-current financial liabilities again after the end of said effective period.

The current financial liabilities include outstanding interest on bonds in the amount of TEUR 0.5 (reference period: TEUR 136).

Securities and Financial Covenants
Liabilities to banks are secured in a book value of TEUR 277,297 (previous year: TEUR 211,344) by a real estate stock for whose financing they were taken out, and by the rent and sales receivables resulting from them. This real estate stock represents properties from the inventory assets. There are also restricted cash assets in the amount of TEUR 4,515 (prior period: TEUR 142) of which TEUR 1,390 are recognised among the "Other assets" and TEUR 3,125 among the "Liquid assets."

In addition, financial liabilities worth TEUR 21,717 (prior period: TEUR 33,548) are subject to contractual covenants toward the compliance with 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 2017 financial year.

Interest Expenses
For liabilities toward banks and non-bank lenders, interest expenses recognised in income in an amount of TEUR 6,826 (previous year: TEUR 4,483) were incurred, while the bonds generated another TEUR 2,281 (previous year: TEUR 2,212) in interest expenses recognised in income and other expenses. The interest expense was matched by TEUR 304 (previous year: TEUR 298) in interest earned.

5.8 Provisions

Provisions developed as follows during the 2017 financial year:

	31 Dec. 2016	Consumed	Dissolved	Added	31 Dec. 2017
	TEUR	TEUR	TEUR	TEUR	TEUR
Provisions for warranty obligations	1,640	0	500	0	1,140
Provisions for payroll costs	216	117	54	178	223
Provisions for miscellaneous costs	1,174	370	320	424	908
Provisions for record-keeping obligations	17	0	0	0	17
Total	**3,047**	**487**	**874**	**602**	**2,288**

Provisions for warranty obligations include a guarantee to the buyer of the company ESTAVIS Berlin Hohenschönhausen GmbH, which was sold the previous year, in the amount of TEUR 1,028 (previous year: TEUR 1,528). TEUR 500 were released to income in the year under review after agreements concerning warranty and guarantee issues were reached.

The provisions for payroll costs that existed as of 31 December 2017 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 319 (previous year: TEUR 539), provisions for bonus payments in the amount of TEUR 180 (previous year: TEUR 268), as well as provisions for Supervisory Board remunerations in the amount of TEUR 188 (previous year: TEUR 129).

Other provisions in a book value of TEUR 2,271 (previous year: TEUR 2,649) 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 2016 financial year, the provisions developed as follows:

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

5.9 Trade Payables, Down-Payments Received, and Other Liabilities

The representation below shows the development of trade payables, advance payments received and other liabilities:

	31 Dec. 2017	31 Dec. 2016
	TEUR	TEUR
Trade payables	2,236	3,365
Down-payments received	19,613	8,503
Liabilities pursuant to Art. 13, UStG	975	975
Liabilities to related parties	3	17
Miscellaneous other liabilities	12,026	2,186
Total	**34,853**	**15,046**

The down-payments received break down into operating costs not yet invoiced in the amount of TEUR 5,217 (previous year: TEUR 4,087) and down-payment for plots available for sale in the amount of TEUR 14,396 (previous year: TEUR 4,416).

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, Turnover Tax Act (UStG; Art. 6.3). 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 12,026 (previous year: TEUR 2,186). They include, inter alia, liabilities in the form of outstanding invoices from refurbishment and restructuring works in the amount of TEUR 10,587, liabilities to partners in the amount of TEUR 89, liabilities from year-end closing, tax consultancy and audit costs in the amount of TEUR 427 and liabilities from security deposits in the amount of TEUR 199.

The accounts payable represent essentially liabilities vis-à-vis third parties arising from the construction measures at the property on Koppenstraße.

5.10 Current Income Tax Liabilities

The current income tax liabilities in the amount of TEUR 14,591 (previous year: TEUR 9,269) include corporation tax liabilities in the amount of TEUR 7,159 (previous year: TEUR 4,590) and trade tax liabilities in the amount of TEUR 7,432 (previous year: TEUR 4,679).

5.11 Deferred Taxes

The following deferred taxes are recognised in the balance sheet:

	31 Dec. 2017	31 Dec. 2016
	TEUR	TEUR
Deferred tax assets	193	408
Deferred tax liabilities	969	851

Deferred taxes developed as follows:

	2017	2016
	TEUR	TEUR
Deferred tax liabilities	–851	–7,288
Deferred tax assets	408	465
Balance of deferred taxes at start of financial year	**–443**	**–6,823**
Expense (–)/income (+) reported under tax expense	–52	–1,651
Disposals from the deconsolidation of property vehicles	33	7,840
Reclassification from non-current assets held for sale to inventory properties	–314	314
Additions from the initial consolidation of property vehicles	0	–123
Balance of deferred taxes at end of financial year	**–776**	**–443**

The deferred taxes break down as follows:

Differences relating to	investment property	miscel-laneous receivables	miscel-laneous items	losses carried forward	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
31 December 2016 (prior to closing) – deferred tax liabilities	**–123**	**0**	**–1,030**		**–1,153**
31 December 2016 (prior to closing) – deferred tax assets	**0**	**0**	**187**	**523**	**710**
31 December 2016 (after closing)					**–443**
Amounts recognised under tax expense	–153	0	16	85	–52
Disposals from the deconsolidation of property vehicles	0	0	37	–4	33
Reclassification from non-current assets held for sale to inventory properties	–314	0	0	0	–314
31 December 2017 (prior to closing) – deferred tax liabilities	**–590**	**0**	**–848**	0	**–1,438**
31 December 2017 (prior to closing) – deferred tax assets	**0**	**0**	**58**	**604**	**662**
31 December 2017 (after closing)					**–776**

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 where the realisation of the corresponding tax benefits is likely to be required.

5.12 Revenues

	2017	2016
	TEUR	TEUR
Revenues from sales of inventory properties	137,859	116,920
Revenues from transactions fees	1,714	1,588
Rental income from inventory properties	7,769	6,597
Total Continuing Operation	**147,341**	**125,105**
Rental income from Discontinued Operation	334	11,401
Revenue from sales of investment property	3,783	19,726
Total Discontinued Operation	**4,117**	**31,127**
Total	**151,458**	**156,232**

The rise in revenues from sales of inventory properties was generated mainly by expanding the condominium retailing activities.

The rental income from properties in the Continuing Operation grew by TEUR 1,172. The background to this is the ongoing successful expansion of the Trading Portfolio by adding inventory properties. The rental income from the Discontinued Operation dropped by TEUR 11,067 compared to the prior-year period. The cause for this is the loss of the rental income from the portfolio properties sold in 2016, which were still included in the prior-year revenues.

TEUR 3,783 in revenue from the disposal of investment property held by the Discontinued Operation represent revenues from the sale of three portfolio properties that were sold in conjunction with the portfolio optimisation.

5.13 Cost of Materials

	2017 TEUR	2016 TEUR
Acquisition costs for properties sold and construction costs	103,167	80,543
Services contracted for brokerage transactions	766	979
Management costs of inventory properties	2,335	2,032
Total Continuing Operation	**106,268**	**83,554**
Management costs for the Discontinued Operation	182	7,432
Expenses from sales of investment property	3,752	19,883
Total Discontinued Operation	**3,934**	**27,315**
Total	**110,202**	**110,869**

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

The management costs of the properties in the Continuing Operation developed in line with the development of the portfolio size of the respective property portfolios.

The expenses from sales of investment properties include the book values of the properties sold.

5.14 Staff Costs

The Group employed an average of 37 people (previous year: 33) during the 2017 financial year.

The total payroll and benefit costs break down as follows:

	2017 TEUR	2016 TEUR
Salaries and other benefits	3,004	2,688
Employer contributions to statutory social insurance	335	298
Total	**3,339**	**2,986**

The rise in payroll and benefit costs by TEUR 353 since the 2016 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.

Contributions to the statutory pension insurance scheme during the 2017 financial year added up to TEUR 166 (previous year: TEUR 144).

5.15 Impairments of Inventories and Accounts Receivable

In the year under review, there were no impairments of inventories and accounts receivable of the Continuing Operation (previous year: TEUR 951). The allowances for rent receivables are posted in the item "Management costs of the inventory properties" and add up to a negligible sum total.

5.16 Other Operating Income and Expenses

Other operating income can be broken down as follows:

	2017 Continuing Operation	2017 Discontinued Operation	2016 Continuing Operation	2016 Discontinued Operation
	TEUR	TEUR	TEUR	TEUR
Income from the dissolution of provisions and deferred liabilities	1,234	0	281	1
Income from the dissolution of allowances	71	0	230	5
Income from deconsolidation	0	0	0	1,665
Miscellaneous other operating income	1,955	381	486	360
Total	**3,260**	**381**	**997**	**2,031**

Other operating expenses can be broken down as follows:

	2017 Continuing Operation	2017 Discontinued Operation	2016 Continuing Operation	2016 Discontinued Operation
	TEUR	TEUR	TEUR	TEUR
Legal and professional fees	1,530	20	1,178	153
Provision for losses from special purpose entities sold in previous years	0	0	750	0
Information, advertising and entertaining expenses	882	0	658	5
Expenses for compiling and auditing the financial statements	457	0	367	9
EDP expenses	379	0	289	0
Rental expenses	268	0	232	0
Miscellaneous other operating expenses	949	1	1,087	76
Total	**4,465**	**21**	**4,561**	**243**

The other operating income includes the sum of TEUR 1,054 in income from the derecognition of liabilities as a result of the statute-of-limitation defence.

The legal and professional fees for general advisory services in the amount of TEUR 1,530 (previous year: TEUR 1,178) break down mainly into tax advisory services, capital market transactions, property transactions, legal counsel and general consultancy on general strategic issues.

The remaining other operating expenses in the Continuing Operation in the amount of TEUR 949 (previous year: TEUR 1,087) include essentially expenditures for things like office supplies, travel expenses, motor vehicle costs, and continued professional development costs in an aggregate amount of TEUR 351 plus expenses for members of the Supervisory Board in the amount of TEUR 163.

5.17 Income Tax

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

	2017	2016
	TEUR	TEUR
Current income tax expense	7,355	7,998
Deferred income tax expense/income	–39	–608
Total	**7,316**	**7,390**

The current income tax expense for the Continuing Operation includes TEUR 1,164 in tax income for prior years (reference period: TEUR 512 in tax expense).

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	2017	2016
	TEUR	TEUR
Pre-tax profit	27,633	28,070
Taxes calculated based on the parent company's income tax rate (30.175%)	8,338	8,470
Trade tax effects	–27	–244
Account balance of tax-free income/non-deductible expenses	–506	491
Value adjustment/non-recognition of deferred tax assets	761	278
Write-up/subsequent recognition of deferred tax assets	–39	–2,389
Taxes for previous years	–1,164	512
Other factors	–47	272
Reported income tax expense	**7,316**	**7,390**

The imputed tax rate of 26.5% (previous year: 26.3%) is significantly influenced by the sale of two property companies in the legal form of German private limited companies (GmbH) in December 2017, which, being corporations, are not subject to income taxation of their entire profits at the time of sale. The year before, existing but not recognisable tax loss carryforwards were used.

5.18 Net Income from the Discontinued Operation

	2017 TEUR	2016 TEUR
Revenue from sales of investment property	3,783	19,726
Expenses from sales of investment property	–3,752	–19,882
Capital gains from investment property	**31**	**–156**
Letting revenues	335	11,401
Letting expenses	–182	–7,432
Net rental income	**153**	**3,969**
Other operating income incl. net income at equity	1,125	2,031
Measurement of investment property	–707	9,702
Gross profit or loss	**–139**	**15,546**
Impairments of inventories and accounts receivable	0	–3
Other operating expenses	–21	–243
EBIT (earnings before interest and income taxes)	**–160**	**15,300**
Net interest income	55	–7,184
EBT (earnings before income taxes)	**–105**	**8,116**
Income taxes	–92	–2,324
Consolidated income from Discontinued Operation	**–197**	**5,792**

5.19 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.

	2017 Continuing Operation	2017 Comprehensive income	2016 Continuing Operation	2016 Comprehensive income
Consolidated income	TEUR	TEUR	TEUR	TEUR
Net profit before minority interests – basic	20,317	20,144	20,680	26,291
Interest expenses on convertible bonds	1,422	1,422	816	816
Consolidated income before minority interests – diluted	21,739	21,566	21,496	27,107
Number of shares	in thousands	in thousands	in thousands	in thousands
Unweighted number of shares outstanding	24,925	24,925	24,734	24,734
Weighted number of shares outstanding – basic	24,895	24,895	24,699	24,699
Effect of the conversion of convertible bonds	5,444	5,444	5,340	5,340
Weighted number of shares – diluted	30,339	30,339	30,039	30,039
Earnings per share (EPS)	EUR	EUR	EUR	EUR
unweighted – basic	0.82	0.81	0.87	1.09
weighted – basic	0.82	0.81	0.87	1.09
weighted – diluted	0.72	0.70	0.72	0.90

The 2014/2019 convertible bond issued by the Company is detailed in sections 5.6 and 5.7. As of the balance sheet date, a total of 5,150,107 conversion rights existed in conjunction with the 2014/2019 convertible bond that may dilute the earnings per share.

5.20 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 negative cash flow from current operations in the amount of TEUR 25,200 (previous year: positive cash flow of TEUR 21,715), which breaks down into TEUR –26,274 (previous year: TEUR 20,311) from the Continuing Operation and TEUR 1,074 (previous year: 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 80,462 (previous year: TEUR 67,444), but only TEUR 71,783 implied an actual cash outflow. An increase of the inventory assets in the amount of TEUR 8,860 was acquired via a reclassification from the Discontinued Operation which involved no cash outflow from the current business activities.

The cash flow from current operations was moreover adjusted for non-cash earnings and expenses from the valuation result of investment properties in the amount of TEUR 381 (previous year: TEUR 9,702), other non-cash items in the amount of TEUR 9,766 (previous year: TEUR 11,393) and the capital gains from investment properties in the amount of TEUR 35 (previous year: TEUR –156). 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 9,336 (previous year: TEUR 22,170) and is mainly the result of cash inflow from disposals of investment properties (less costs of disposal) in the amount of TEUR 5,119. Payments-in represent, on the one hand, purchase prices received for property companies sold the previous year in the amount of TEUR 1,010 and interest received in the amount of TEUR 424 and, on the other hand, the purchase price payments received for portfolio properties sold in 2017.

The cash flow from funding activities adds up to TEUR 9,121 (reference period: TEUR –30,682) and essentially includes disbursements from the repayment of financial liabilities in the amount of TEUR 109,595 and interest payments in the amount of TEUR 6,771. This is matched by cash inflows from loan financings in the amount of TEUR 115,667 earmarked for the continued acquisition of properties for trading. The repayment of loans granted resulted in an inflow of TEUR 13,343. The 2017 financial year marked the first time that an outflow of funds from dividend payments was recognised, and it amounted to TEUR 3,731.

During the 2017 financial year, three fully consolidated companies were sold. Cash funds dropped by TEUR 525 in this context.

Due to the disclosure requirements under IAS 7, which are to be applied for the first time for the 2017 financial year, reconciliation accounts of the Group's financial liabilities from 31 December 2016 through 31 December 2017 are presented below:

Reconciliation Accounts

	31 Dec. 2016	cash-effective	not cash-effective	31 Dec. 2017
	TEUR	TEUR	TEUR	TEUR
Financial liabilities	107,523	18,793	3,005	129,321
Bonds	21,783	–11,525	1,807	12,065
Total debt from funding activities	**129,306**	**7,268**	**4,812**	**141,386**

The column "not cash-effective" mainly contains non-cash discount effects from the application of the effective interest rate method and non-cash conversions.

5.21 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. 2017	31 Dec. 2016
	TEUR	TEUR
Up to 1 year	244	246
Between 1 and 5 years	61	181
More than 5 years	0	0

On top of that, the acquisition of multi-family dwellings in Berlin and Leipzig whose transfer of ownership is expected between January and June of 2018 created obligations associated with the sales contracts in the amount of TEUR 69,085.

Group member companies are liable, in their role as partners, for the debt of a civil-law partnership in the amount of TEUR 171 (previous year: 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.

5.22 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 specify the statutory notice period of three months. They include no other claims to minimum lease payments.

Disclosures on operating leasing in accordance with IAS 17.56

	31 Dec. 2017	2018	2019 to 2022	from 2023
		up to 1 year	1 to 5 years	more than 5 years
	TEUR	TEUR	TEUR	TEUR
Total of the future minimum lease payments due to non-cancellable operating lease contracts as lessor	2,601	2,601	0	0

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	TEUR
Total of the future minimum lease payments due to non-cancellable operating lease contracts as lessor	2,024	2,024	0	0

5.23 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 2017	Book value	IAS 39 category	Fair value	Measurement hierarchy
	TEUR		TEUR	
Assets				
Equity investments*	1,247	AfS	1,247	Level 3
Trade receivables	1,152	LaR	1,152	Level 3
Miscellaneous receivables and assets	6,317	LaR	6,317	Level 3
Cash and cash equivalents	7,875	–	7,875	Level 2
Total financial assets	**16,591**		**16,591**	
Liabilities				
Long-term payables to banks	42,439	AmC	42,439	Level 3
Bond liabilities	12,065	AmC	41,200	Level 1
Short-term payables to banks	86,882	AmC	86,882	Level 3
Trade payables	2,236	AmC	2,236	Level 3
Other short-term payables	12,869	AmC	12,869	Level 3
Total financial liabilities	**156,491**		**180,477**	

* 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.
AfS = Available for Sale; LaR = Loans and Receivables; AmC = Amortized Cost

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 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. Taking into account the swift repayment of loans inherent in the business model, the fair value more or less matches the amortised cost in subsequent periods.

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)	
	2017	2016	2017	2016
	TEUR	TEUR	TEUR	TEUR
Interest income	304	298	–	–
Interest expenses	–	–	–9,107	–6,695
Gains or losses on impairments	–47	–2,079	–	–
Gains or losses on derecognition of liabilities	7	23	–1,054	–
Net earnings	**264**	**–1,758**	**–8,053**	**–6,695**

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 46 (prior period: TEUR 1,128) by the "Trade receivables," and with TEUR 1 (prior period: TEUR 951) by the "Other receivables." The gains on derecognition of liabilities are essentially the result of having used to option to assert the statute-of-limitation defence.

b) Financial Risks

The Group's business activities expose it to a variety of risks. These include particularly 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 Group 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 2017					
	Book value	Total cash outflow	Cash out-flow up to 1 year	Cash out-flow 1 to 3 years	Cash out-flow 3 to 5 years	Cash out-flow after 5 years
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cash outflow for financial liabilities	**141,386**	**137,782**	**68,764**	**57,640**	**7,344**	**4,034**
Trade payables	2,236	2,236	2,236	–	–	–
Other liabilities	12,869	12,869	12,869	–	–	–
Cash outflow for trade payables and other liabilities	**15,105**	**15,105**	**15,105**	**–**	**–**	**–**
Cash outflow for liabilities within scope of IFRS 7	**156,491**	**152,887**	**83,869**	**57,640**	**7,344**	**4,034**

	31 December 2016					
	Book value	Total cash outflow	Cash out-flow up to 1 year	Cash out-flow 1 to 3 years	Cash out-flow 3 to 5 years	Cash out-flow 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 scope of IFRS 7	**140,569**	**141,043**	**74,249**	**58,241**	**8,553**	**–**

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 retail property sales itemised among the current financial liabilities amounts to TEUR 60,358 for the 2018 financial year. Short-term cash outflow in a total amount of TEUR 83,869 are anticipated in 2018, with interest and scheduled repayments taken into account.

The ACCENTRO Group kept cash and cash equivalents of TEUR 7,875 (previous period: TEUR 15,143) on hand as at the balance sheet data to cover its cash outflow. An addition-al TEUR 1,152 in trade receivables and an estimated TEUR 132,068 worth of inventory properties can be liquidated within one year. Short-term payables from operating costs in the amount of TEUR 5,217 not yet settled are matched by short-term receivables in the amount of TEUR 5,977 for operating costs not yet settled.

Financial Covenants

The consolidated Group has taken out loans in a total amount of approximately EUR 21.7 million (previous year: EUR 33.5 million) that are subject to covenants agreed with the banks in regard to debt service coverage ratios, minimum annual net rents or subordinated 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 bond issued is 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, this convertible 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 5.7 of the notes to the consolidated financial statements among the explanatory notes on the liabilities to banks.

At the moment, the ACCENTRO Group is not exposed to significant risks of bad debts or interest rate risks.

5.24 Related-Party Transactions

The current liability of the ACCENTRO Group vis-à-vis its associate SIAG Sechzehnte Wohnen GmbH & Co. KG in the amount of TEUR 17 that was still recognised under this item in the 2016 financial year was now derecognised due to the lapse of the limitations period.

One subsidiary of ACCENTRO Group (ESTAVIS Wohneigentum GmbH) is a fully liable partner of the Wohneigentum Berlin GbR joint venture. As of the reporting date, no receivables and liabilities vis-à-vis the Wohneigentum Berlin GbR existed.

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

			2017			2016
	Fixed	Variable	Total	Fixed	Variable	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Jacopo Mingazzini	283	358	641	281	353	634
Torsten Cejka (until 31 August 2014)	0	0	0	0	35	35

Collectively, the total remuneration disbursed to the CEO amounted to TEUR 641 for the 2017 financial year. The remuneration include, in addition to the paid-out fixed remuneration plus non-cash remuneration in the amount of TEUR 283, the bonus claimed for previous years that were disbursed in the course of the year (TEUR 358, thereof TEUR 270 for the 2016 financial year).

The expenses for the sole member of the Management Board recognised in the consolidated financial statements amounted to TEUR 553 in the year under review, and break down into TEUR 283 (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 90 for the 2016 financial year that was recognised as expense in the 2017 financial year. The bonus for the 2017 financial year was not yet due for payment in 2017.

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

	2017	2016
	Fixed	Fixed
	TEUR	TEUR
Axel Harloff (Chairman)	60	40
Dr. Dirk Hoffmann (Deputy Chairman)	45	30
Carsten Wolff (until 8 December 2017)	27.5	20
Natig Ganiyev (since 8 December 2017)	2.5	0
Total	**135**	**90**

6 Events After the Reporting Date

On 23 January 2018, ACCENTRO Real Estate AG successfully concluded placement of a three-year corporate bond. The aggregate par value equals EUR 100 million. The corporate bond has an annual interest rate of 3.75%. The interest will be paid semi-annually. The net issue proceeds will primarily be used to finance the acquisition of new real estate assets.

In January 2018, ACCENTRO Real Estate AG sold a 75% interest in its subsidiary ACCENTRO Gehrensee GmbH. The latter owns a property of around 41,500 m² in Berlin's Lichtenberg borough. The equity stake is being sold to a Berlin-based property developer with ample experience in construction projects specifically in this borough.

On 31 January 2018, a total of 3,885,434 units of the 2014/2019 convertible bond were converted. As a result, the shareholders' equity of ACCENTRO Real Estate AG rose by c. EUR 10.2 million. The convertible bonds still outstanding in February 2018 in aggregate par value of EUR 414,737.50 were terminated prematurely by the issuer.

In February 2018, the Supervisory Board appointed the one Member of the Management Board of ACCENTRO Real Estate AG, Jacopo Mingazzini, for another three-year term ending in March 2021.

7 Other Disclosures

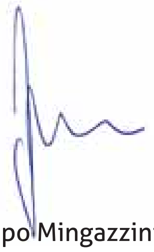
The auditor was paid the following remuneration for services provided to the ACCENTRO Group:

	2017	2016
	TEUR	TEUR
Audits of financial statements	276*	210
Other assurance services	0	0
Tax advisory services	0	0
Other services	14	9
Total	**290**	**219**

* Out of the sum total of professional fees and expenses for auditor services, TEUR 48 represent the previous year.

The declaration on the Corporate Governance Code in accordance with Sec. 161, AktG, was issued on 1 March 2018 and made permanently available to the shareholders on the homepage of ACCENTRO Real Estate AG (www.accentro.ag).

Berlin, 8 March 2018



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, 8 March 2018

Jacopo Mingazzini
Management Board

Group Auditor's Report

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of **ACCENTRO Real Estate Aktiengesellschaft, Berlin,** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the Group management report of ACCENTRO Real Estate Aktiengesellschaft, Berlin, for the financial year from January 1 to December 31, 2017. The consolidated corporate governance statement published in accordance with Section 315d HGB, which is referred to in the Group management report, was not examined in terms of content in accordance with German statutory provisions.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group management report does not extend to the content of the consolidated corporate governance statement published on the ACCENTRO Real Estate AG website in accordance with section 315 d HGB, which is referred to in Chapter 6 of the Group management report.

Pursuant to § 322 Abs. 3 Satz 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

In the following, we present what we consider to be particularly important audit matters:

1) Revenue recognition from the sale of inventory real estate, insofar as this takes place through real estate portfolio sales
2) Presentation of financial liabilities as current or non-current financial liabilities

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On 1) Revenue recognition from the sale of inventory real estate, insofar as this takes place through real estate portfolio sales.

a) Risk for the consolidated financial statements

As of December 31, 2017, the ACCENTRO Real Estate AG Group reports revenues from the sale of inventory properties in the amount of kEUR 137,859. Revenues are generated by way of individual privatization and so-called real estate portfolio sales, whereby the audit risk of these two distribution channels must be assessed differently. While single-privatization of sales realization is based on standardized purchase contracts and less judgmental and less complex accounting decisions, real estate portfolio sales generally require a case-by-case assessment based on the respective disposal agreement due to their higher level of complexity in terms of revenue recognition.

The information provided by the company for the recognition of revenue is reported in the notes to the consolidated financial statements “2.14”, “5.2” and “5.12” as well as in section 2.3 “Business Development” and 2.4 “Earnings, Financial and Net Asset Position” of the Group management report.

The Management Board makes of tax, legal and accounting expertise by third party experts use for the disposal of larger real estate portfolios. Depending on the terms of the contract, a sale may be subject to collateral agreements, be designed by way of an asset or share deal and / or the beneficial ownership of the real estate portfolio may be transferred before receipt of a purchase price, whereby the Management Board is significantly involved in the drafting of the contract.

The risk for the consolidated financial statements lies in improper realization of revenues. Taking into account the substantial impact of each real estate portfolio sale, the risk of significant errors in the realization of sales from these sales transactions is of particular importance during our audit.

b) Review procedure and conclusions

The examination of the revenue recognition of sales in real estate portfolios takes place on a case-by-case basis through critical appraisal of the contract. In 2017 19 sales were completed as so-called portfolio sales. By way of a case-by-case review, we assessed all portfolio purchase agreements, in particular with regard to revenue recognition.

The Group's appraisal of the contractual arrangements by obtaining legal advice from knowledgeable third parties is sufficiently documented and justified to substantiate the revenue recognition of real estate portfolio sales in the financial statements.

On 2) Presentation of financial liabilities as current or non-current financial liabilities

a) Risk for the consolidated financial statements

As of December 31, 2017, the ACCENTRO Real Estate AG Group reports current financial liabilities of kEUR 86,882 thousand and non-current financial liabilities of kEUR 42,439. As a rule, the loan agreements underlying these financial liabilities take into account special repayments on the sale of flats or real estate in addition to a mandatory repayment of regular payments. As a result, the Group estimates, based on a sales plan, the level of expected repayments as a result of expected disposals in the following financial year. The estimated repayment amount is shown in the consolidated balance sheet as current financial liabilities. In addition, several but not all credit agreements contain so-called change-of-control clauses. These change-of-control clauses give lenders the opportunity to call the loans immediately, as a result of the change of the majority shareholder of ACCENTRO Real Estate Aktiengesellschaft, Berlin, announced on October 20, 2017. If lenders have not waived their right to assert such extraordinary termination rights as of December 31, 2017, the entire credit amount of IAS 1.74 is shown as a current financial liability in the consolidated balance sheet.

The information provided by the Group on the presentation of financial liabilities is reported in the notes to the consolidated financial statements "2.82", "4", "5.7" and "5.23" as well as in section "2.4 Earnings, Financial and Net Asset Position" of the Group management report.

For the distinction between short-term and long-term financial liabilities, the Management Board uses corporate planning and the respective individual loan terms.

The risk for the consolidated financial statements lies in a non-IFRS-compliant statement of current and non-current financial liabilities and thus in a misrepresentation of the maturity of the repayments to be made. In light of the maturity-oriented accounting classification under IFRS and its informative value for the assessment of the Group's financial position, together with the uncertainty inherent in any estimate, the risk of material error in this area is, in our view, of particular importance in the audit.

b) Review procedure and conclusions

The examination of the appropriate classification as a current or a non-current liability took place on a case-by-case basis, based on the respective loan agreements. We have reconciled the standard and special repayment terms on which the classification is based to the loan agreements. The loan agreements were reviewed in full for existing change-of-control clauses and their significance for the maturity classification of the loan liabilities. In the case of loan agreements without a change-of-control clause, we have assessed the reliability of the plan expectations, taking into account our assessment of the planning-related internal control system. In addition to a plausibility check of the underlying assumptions, we assessed the planning accuracy by comparison with the planning of the previous year to the actual results achieved.

The division of the maturities are completed in accordance with our expectations and are comprehensible.

Other Information

The Management Board is responsible for the other information. The other information comprises:

- the consolidated corporate governance statement published on the website of ACCENTRO Real Estate AG, Berlin, pursuant to Section 315d HGB, which is referred to in Chapter 6 of the Group management report
- The confirmation pursuant to § 297 Abs. 2 Satz 4 HGB regarding the consolidated financial statements and the confirmation pursuant to § 315 Abs. 1 Satz 5 HGB regarding the Group management report.
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and Group management report and our auditor's report.

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

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

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

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the Group management report.

Sufficient assurance provides a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as Group auditor by the Annual General Meeting on May 15, 2017. We were engaged by the Supervisory Board on December 1, 2017. We have been the Group auditor of the ACCENTRO Real Estate Aktiengesellschaft, Berlin, without interruption since the short fiscal year 2014.

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

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Florian Riedl.

Hamburg, March 8, 2018

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dirk Schützenmeister	Florian Riedl
German Public Auditor	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:
  – Chairman of the Supervisory Board of CONSUS Real Estate AG, Berlin
  – Chairman of the Supervisory Board of Deutsche Technologie Beteiligungen AG, Munich

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 Westgrund Aktiengesellschaft, Berlin
  – Chairman of the Supervisory Board of SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main

Natig Ganiyev
- Member of the Supervisory Board since 8 December 2017
- Director Brookline Capital GP Limited, Guernsey

Carsten Wolff
- Member of the Supervisory Board from 1 September 2014 to 8 December 2017
- Head of Accounting and Finance at ADLER Real Estate AG
- Other mandates:
  – Member of the Supervisory Board of Westgrund Aktiengesellschaft, Berlin
  – Member of the Supervisory Board of Deutsche Technologie Beteiligungen AG, Munich

Management Board

Jacopo Mingazzini
- Initial appointment: 16 March 2012
- Current appointment ends: 15 March 2021
- 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

2018

4 May 2018	Quarterly Statement for the Period 1 January through 31 March 2018
15 May 2018	Annual General Meeting, Berlin
10 August 2018	Half year report for the Period 1 January through 30 June 2018
6 November 2018	Quarterly Statement for the Period 1 January through 30 September 2018

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

Credits

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Management Board

Jacopo Mingazzini

Chairman of the Supervisory Board

Axel Harloff, Hamburg

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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