ACCENTRO

REAL ESTATE AG

ANNUAL REPORT 2018

ACCENTRO Real Estate AG

ANNUAL REPORT

1 January – 31 December 2018

Overview Key Financial Data

ACCENTRO Real Estate AG	2018	2017
Income statement	**TEUR**	**TEUR**
Consolidated revenues total Group	205,608	159,299
Consolidated revenues without Gehrensee revenues (2017: consolidated revenues for Continuing Operation)	163,033	147,341
Gross profit/loss (interim result)	43,162	44,319
EBIT	32,864	36,401
EBT	23,975	27,633
Consolidated income	18,301	20,317
Interest coverage ratio (ICR)	3.89	4.08

ACCENTRO Real Estate AG	31 December 2018	31 December 2017
Balance sheet ratios	**TEUR**	**TEUR**
Non-current assets	81,109	22,179
Current assets	393,096	325,605
Shareholders' equity	199,104	153,697
Equity ratio	42.0%	44.2%
Total assets	474,205	347,785
Loan to value (LtV)	50.6%	39.4%

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 2018	32,437,934
Free float	12.1%
Share price high (1 January – 31 December 2018)*	EUR 11.50
Share price low (1 January – 31 December 2018)*	EUR 7.62
Closing price on 28 December 2018*	EUR 9.48
Market capitalisation on 28 December 2018*	EUR 307,511,614

* Closing prices in Xetra trading

This annual report includes the consolidated financial statements of ACCENTRO Real Estate AG and the combined management report and Group management report for the 2018 financial year.

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

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

Content

Object: Riehmers Hofgarten, Berlin-Kreuzberg, Großbeerenstr. 56e

Reports

Letter to the Shareholders

Dear Shareholders,
Dear Ladies and Gentlemen,

Jacopo Mingazzini

During the year under review, we successfully continued our capital market activities and pushed forward with our expansion across Germany.

Having issued a bond over the amount of EUR 100 million in January 2018, we completed a capital increase of EUR 20 million in October. The funds were used to keep enlarging our portfolio in Leipzig, among other purposes. Apart from setting up a branch office in Leipzig, we acquired a total of 504 residential units in the course of six transactions, some of which we already resold, generating tidy contributions to operation income. We set up another branch office in the Ruhr, where we hold a 75% stake in a joint venture with Ruhrwert Immobilien und Beteiligungs GmbH. It acquired its first asset in the region in Ratingen near Düsseldorf, while other properties in Cologne are owned outright by us.

Equally significant were two major joint ventures, one in Hamburg and one in Berlin, in which we hold a minority stake each and whose properties sales we will handle. Due to our accounting and covenant structure, we would have had a hard time closing these property transactions under our own steam. The approach chosen instead secured the marketing volumes for us while limiting our equity capital commitment. It is an approach that we intend to keep using with selected partners whenever we become aware of lucrative portfolios that would be too large for us on our own (for the time being).

This strategy—combined with our stepped-up commitment in the field of new-build property development—will substantially increase our service sector. As it is, the net income in this business unit more than doubled during the year under review, jumping from less than one million to EUR 2.2 million. What matters to us in the new-build construction segment is to steer clear of classic property development risks and to limit our exposure essentially to marketing risks. We are firmly convinced that new-build construction will play a key role in Germany's metro regions over the next ten years. In fact, we intend to capitalise on it.

Once again, we managed to increase our portfolio of inventory assets, which grew from EUR 304 million to EUR 345 million – and this despite a record sales volume of EUR 206 million. The increase lays the foundation for a continued sound performance going forward. Meanwhile, our net income fell slightly short of the forecast for 2018 as we ended the year with an EBIT of EUR 32.9 million rather than the targeted minimum of EUR 36 million. We are less than happy about that. Venturing forecasts, however, is never easy in our line of business which depends to 90% on sales and not on stable rental income. This being said only to put things in perspective.

Another highlight of the past year was the acquisition of an office building for owner-occupancy – after a two-year search. The vacancy rate for commercial real estate in Berlin is now down to 2%. Demand outpaces supply by far. Rents and prices are skyrocketing. We are glad to be in a position to benefit from the trend rather than being hurt by it. Sometime around year-end 2019, we will move into our new premises. We are very much looking forward to it.

The Management Board

Jacopo Mingazzini
CEO

Report of the Supervisory Board

Dear Shareholders,
Dear Ladies and Gentlemen,

Throughout the 2018 financial year, the Supervisory Board of ACCENTRO Real Estate AG conscientiously fulfilled the tasks assigned to it by law and by the Company's articles of association. Both regular meetings and one-off meetings were convened. The Supervisory Board assisted the Management Board in an advisory capacity, and monitored its activities. The Supervisory Board was always included comprehensively and promptly in important decision-making processes by the Management Board, was briefed on the business performance, the plans for expanding the business and all relevant issues concerning the Company, and made the necessary decisions. In fact, the Supervisory Board was directly involved in every decision of material significance for the Company.

Changes in the Supervisory Board and the Management Board

The composition of the Supervisory Board remained unchanged during the 2018 financial year.

Nor were there any senior staff changes on the Management Board of ACCENTRO Real Estate AG during the 2018 financial year. Jacopo Mingazzini has been the sole member of the Company's Management Board since 1 September 2014.

Meetings

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

During the reporting period, the Supervisory Board convened four meetings, specifically on 8 March, 15 May, 20 September and 4 December 2018. A continuous exchange of views between the Supervisory Board and the Management Board was maintained beyond the regularly scheduled meetings of the Supervisory Board. All decisions and actions requiring approval were discussed in depth, while resolutions were made on the basis of consultations and the resulting resolution proposals by the Management Board. The Supervisory Board therefore fulfilled its tasks and duties in accordance with the law and the Articles of Association. All members of the Supervisory Board attended at least half of the board meetings. Conflicts of interests were neither identified nor did any materialise for members of the Management Board and of the Supervisory Board during the financial year concluded.

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

Under the articles of association, the Supervisory Board consists of three members. With this in mind, the Supervisory Board refrained from forming any committees. All members of the Supervisory Board were involved in all of the functions performed by the Board.

Corporate Governance

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

Pursuant to Sec. 161, German Stock Corporation Act (AktG), the management board and supervisory board of a public company are required to issue an annual statement ("Declaration of Conformity") concerning the extent to which the company has been, and continues to be, in compliance with the recommendations issued by the Government Commission on the German Corporate Governance Code. The declaration refers to the Code of 7 February 2017 as amended, and as published in the electronic Federal Gazette ("Bundesanzeiger") on 24 April 2017. The full-length version of the declaration is available on the Company's homepage at www.accentro.ag and is moreover reprinted in this annual report.

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

Individual and Consolidated Financial Statements

The General Meeting elected the auditing firm Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, as auditor for the financial year beginning 1 January and ending 31 December 2018.

The auditor reviewed the company's annual financial statements submitted by the Management Board and the consolidated financial statements including the management report and the Group management report for the 2018 financial year, and issued an unqualified audit certificate for these.

The Management Board submitted the financial statements and the management report, the consolidated financial statements and the Group management report, the independent auditors' report regarding the audits of the financial statements and the consolidated financial statements along with the Management Board's proposal for the appropriation of net retained profits to the Supervisory Board in due time for its review. At its balance sheet meeting on 14 March 2019, the Supervisory Board deliberated and discussed the documents underlying the financial statements and reports with the Management Board at length, focusing on issues relating to the valuation of current and non-current assets.

The auditor briefed the meeting on the essential findings of the audits, and was on hand to answer additional questions raised by the Supervisory Board. Based on its independent review of the separate financial statements, the consolidated financial statements and the management reports for the Company and the Group, the Supervisory Board approves the auditor's audit findings, and declares that, based on the conclusive findings of its examinations, it has no objections to raise. By resolution dated 14 March 2019, the Supervisory Board approved the annual financial statements, which are thereby adopted pursuant to Sec. 172, AktG, and the consolidated financial statements.

Dependency Report 2018

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

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

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

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

Members of the Supervisory Board

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

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

Berlin, 14 March 2019

Axel Harloff
Chairman of the Supervisory Board

Corporate Governance Report

Declaration of Conformity 2019

Pursuant to Section 161, German Stock Corporation Act (AktG), the management board and supervisory board of a public company are required to issue an annual statement ("Declaration of Conformity") concerning the extent to which the company has been, and continues to be, in compliance with the recommendations issued by the Government Commission on the German Corporate Governance Code. The subsequent Declaration refers to the Code of 7 February 2017 as amended, and as published in the Federal Gazette ("Bundesanzeiger") on 24 April 2017. For the full-length version of the Declaration, please go to the Company's homepage at www.accentro.ag.

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

"Since the last declaration of conformity was issued in March 2018, ACCENTRO Real Estate AG has complied with the recommendations of the German Corporate Governance Code as amended, with exceptions detailed below, and intends to continue to comply with the Code recommendations in the coming year, with the following exceptions:

Code Section 2.3.3 (Broadcast over the Internet)
The Company did not transmit the 2018 Annual General Meeting, nor does it intend to transmit the 2019 Annual General Meeting through modern communication media.

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

Code Section 4.1.3 (Compliance-Management- and Whistleblower-System)
The Management Board has opted not to set up a compliance-management-system and whistleblower-system at this time. Considering the manageable scope of the company structures and business processes as well as flat its hierarchies, the need for a compliance management and whistleblower system has been relatively low so far. The close involvement of the Management Board in the main business transactions and projects as well as in the corporate workflows helps to ensure that emerging risks are monitored on an ongoing basis. The Company maintains a regular exchange between employees and the Management Board, and cultivates an internal trust-based corporate culture.

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

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

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

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

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

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

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

Code Section 5.4.2 (Composition of the Supervisory Board)
Dr. Dirk Hoffmann, currently member of the Supervisory Board, is chairman of the supervisory board of Adler Real Estate AG, Berlin, as well as chairman of the supervisory board Westgrund Aktiengesellschaft, Berlin, and of Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main. Axel Harloff is chairman of the supervisory board of Consus Real Estate AG, Berlin, and member of the management board of ERWE Immobilien AG, Frankfurt am Main. Natig Ganiyev is not a supervisory board member of any stock corporation.

The Supervisory Board should have no members who serve in supervisory bodies of key competitors. This could have been the case with Dr. Dirk Hoffmann and Axel Harloff. However, there have been no signs of material conflicts of interest.

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

ACCENTRO Real Estate AG principally publishes its interim reports 45 days after the end of the reporting period. In exceptional circumstances there may be a slight delay due to special organisational processes. The legal requirements set out in Sec. 115, German Securities Trading Act (WpHG), are complied with in any case."

Berlin, 1 March 2019

Management Board and Supervisory Board
ACCENTRO Real Estate AG

ACCENTRO Real Estate AG Stock Performance

The year 2018 was marked by uncertainties regarding the growing geopolitical and economic tensions among the global powers. The trade row between the United States and China as well as with Europe, the inconclusive discussions about the looming Brexit and the uncertainty of Italy's economic development made investors more cautious.

The prospect of rising lending rates remained a cause for concern throughout the 2018 financial year. In December 2018, the European Central Bank under Mario Draghi ended its bond purchases, but left the key lending rate unchanged at 0%.

The subdued sentiment on the financial markets was reflected in the performance of the German DAX stock index. Yet while the DAX lost 18% of its value as the year progressed, the ACCENTRO stock more or less bucked the trend and reported a growth of 16.2% by the end of the 2018 financial year.

ACCENTRO Share Price Performance from 1 January to 31 December 2018

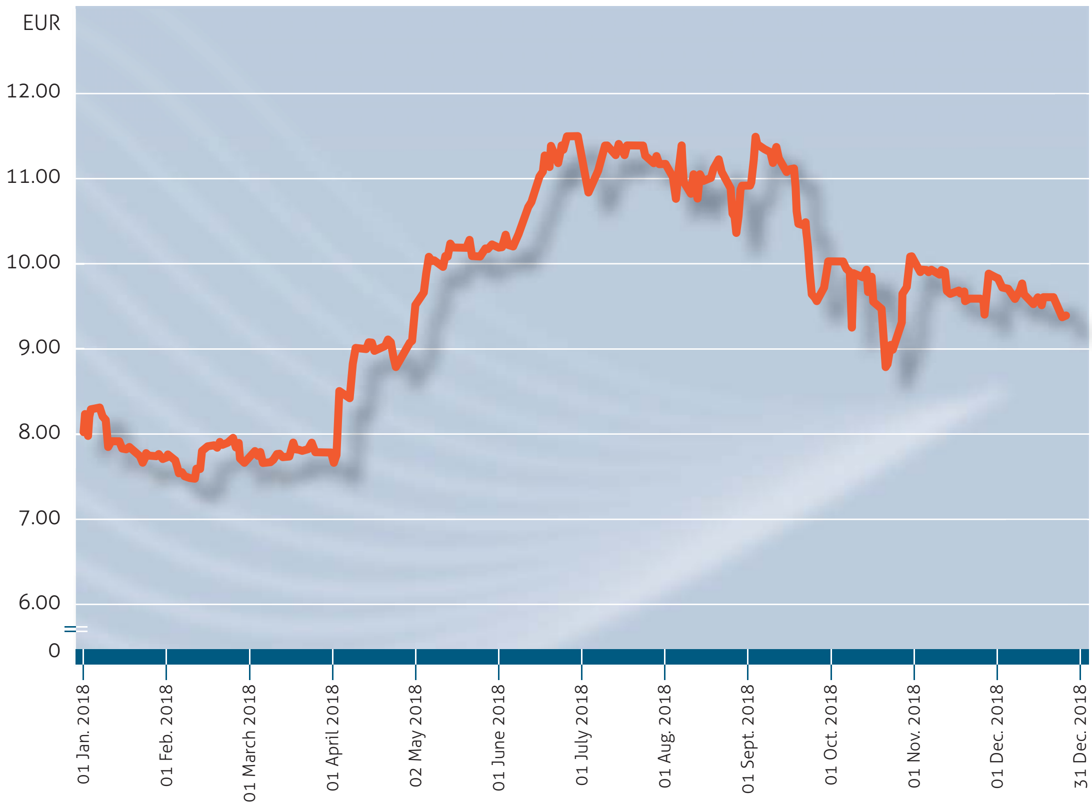
The ACCENTRO share price was EUR 8.16 on the first trading day of 2018 (Xetra), increased by 16.2% over the course of the year and closed at EUR 9.48 on 28 December 2018, the last trading day of the 2018 financial year.

The average daily trading volume (Xetra) of the ACCENTRO stock was 4,036 units during the 2018 financial year. Overall, 1.02 million shares of ACCENTRO Real Estate AG were traded in the Xetra trading system between 2 January and 28 December 2018. The relatively low trading volume is mainly explained by the Company's rather small free float of 12.1%.

In November 2018, ACCENTRO Real Estate AG announced that it would acquire up to 10,200 units of its own stock at a maximum total consideration of EUR 112,200 as part of a stock-based employee compensation plan. Between 26 November 2018 and 14 December 2018, a total of 6,887 units were bought back. The remaining 3,313 units were acquired after the end of the 2018 financial year in January 2019. The units are issued to the Company's employees as free employee shares.

The market capitalisation of ACCENTRO AG rose by EUR 97.9 million during the 2018 financial year, climbing from EUR 209.6 million to EUR 307.5 million. Apart from the 16.2% growth in share price, the increase is mainly due to the conversion of the bulk of the 2014/2019 convertible bond issued in March 2014 and to the cash capital increase by EUR 2.12 million undertaken in October 2018. The same factors explain the surge in the number of shares in circulation by 7,513,031 units.

Considering this 30.1% percent increase in the number of units since the beginning of the year, the 16.2% share price hike during the 2018 financial year is a reassuring sign.



ACCENTRO share price development in the financial year 2018

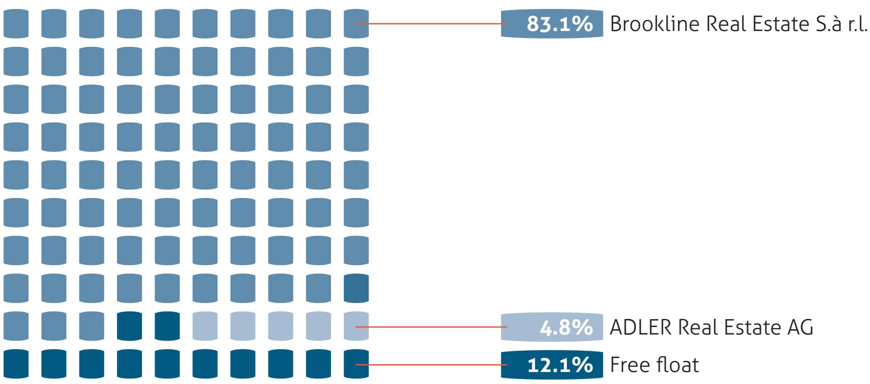
Shareholder Structure

By the end of the 2018 financial year, the subscribed capital of ACCENTRO Real Estate AG totalled EUR 32.44 million. It represents 32,437,934 no-par value bearer shares.

This is up from 24,924,903 shares and a share capital of EUR 24,924,903 at the start of the financial year on 1 January 2018.

As of 31 December 2018, a total of 83.1% of the ACCENTRO AG stock was held by Brookline Real Estate S.à r.l., while ADLER Real Estate AG owned 4.8% and the free float accounted for 12.1%.

The chart below provides an overview of the shareholding structure:



Shareholder structure on 31 December 2018 (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 2018	32,437,934
Free float	12.1%
Share price high (1 January – 31 December 2018)*	EUR 11.50
Share price low (1 January – 31 December 2018)*	EUR 7.62
Closing price on 28 December 2018*	EUR 9.48
Market capitalisation on 28 December 2018*	EUR 307,511,614

* Closing prices in Xetra trading

Investor Relations Activities

Special priority was given to regular disclosures and the dialogue with the capital market during the 2018 financial year. In that same 2018 financial year now concluded, ACCENTRO Real Estate AG attended the following financial analyst events:

- 7 June 2018: Quirin Champions Conference 2018, Frankfurt am Main
- 6 September 2018: SRC Forum Financials & Real Estate, Frankfurt am Main
- 27 September 2018: 7th Baader Investment Conference, Munich
- 26–28 November 2018: German Equity Forum, Frankfurt am Main
- 11/12 December 2018: Munich Capital Markets Conference, Munich

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 2018: Quirin Privatbank, stock rating: "Buy", upside target EUR 13.40
- 8 November 2018: SMC Research, stock rating: "Buy", upside target EUR 12.70
- 7 November 2018: ODDO BHF, stock rating: "Hold", upside target EUR 10.70
- 6 November 2018: Baader Helvea Equity Research, stock rating: "Buy", upside target EUR 13.10
- 6 November 2018: SRC Research, stock rating: "Buy", upside target EUR 13.00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Object: Berlin-Lichtenberg, Irenenstr. 4

Combined Management Report and Group Management Report

Preliminary Remarks

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

All monetary figures in this report are stated in Euro (EUR). Both individual and total figures represent values with the smallest rounding difference. Accordingly, adding the values of the individual line items may result in minor differences to the reported totals.

1 Basic Structure of the Group

1.1 Group Business Model, Objectives and Strategies

ACCENTRO AG is a listed property company focusing on residential real estate located in Germany. The business activities of ACCENTRO AG and its subsidiaries (hereinafter "ACCENTRO AG" or "ACCENTRO Group") are limited, geographically speaking, to real estate in Germany, particularly in economically attractive locations.

The business activities of the ACCENTRO Group include the operation and trading of residential properties and individual apartments, especially the retailing of apartments to owner-occupiers and buy-to-let investors within the framework of retail privatisations of housing portfolios. The focus here is on tenant-sensitive housing privatisations. At the same time, the ACCENTRO Group transacts block sales of residential units to institutional investors (portfolio sales) in order to exploit opportunities. 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 delivery 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 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 in which the real estate assets of the ACCENTRO Group are held. 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.

ACCENTRO AG holds several strategic investments in property development companies which are not controlled by ACCENTRO AG and which are therefore not included as subsidiaries in its consolidated financial statements. The pro-rata net income of these companies is reported as at-equity income in the income statement. Wherever the equity interest amounts to less than 20%, its contribution to operating income is reported as investment income.

The ACCENTRO AG Group's reporting to the Management Board makes no distinction by segments because the Group activities are limited exclusively to the buying and selling of residential real estate in Germany. Just like last year, this annual report therefore includes no segment reporting.

ACCENTRO AG uses the consolidated earnings before interest and taxes (EBIT) as financial performance indicator for corporate management 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. The other factors that the control system takes into account includes the operating income of each subportfolio or of each property. In addition, control variables such as the number of new clients, viewings, and reservations serve as early indicators of the Company's performance. For the purposes of management reporting, EBIT and sales are taken as basis, since the other control variables are used for the individual management of each property and cannot be aggregated at company level.

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.

Moreover, ACCENTRO AG has agreed to observe financial covenants, which are elaborated in the notes to the consolidated financial statements, in conjunction with its successful issuance of a corporate bond over EUR 100 million. For this reason, the ratios "loan to value" (LtV), "interest coverage" and the "debt-to-equity" for unsecured financing arrangements are included as control variables.*

2 Economic Report

2.1 Macro-economic Development

The German economy grew by another 1.5% in 2018 year on year, according to a press release the Federal Statistical Office published on 15 January 2019. The growth of the gross domestic product (GDP), adjusted for inflation, which has been sustained for the past nine years, was said to have slowed down while still exceeding the ten-year average of +1.2%. The Federal Statistical Office went on to say that positive growth impulses in 2018 originated primarily inside Germany again. Private consumer spending (+1.0%) and government spending (+1.1%), although they did increase year on year, grew at a significantly slower rate than they had over the past three years.

The development of the German real estate market during the 2018 financial year benefited from the European Central Bank's accommodative monetary policy. Economic experts do not expect to see that bank's initial interest rate hike before the end of 2019, at the earliest, and the real estate sector will continue to benefit from the persistently favourable financing conditions.

2.2 Developments of the German Housing Market

According to a survey on the real estate price trend in Germany that bulwiengesa AG published in January 2019, the housing market remains the driving force in the bulwiengesa Real Estate Index. The residential sub-index, which covers the most important market for ACCENTRO AG, continued to rise sharply in 2018, albeit at a slower rate than the previous year (6.8%, down from +8.3%). Prices of condominiums, terraced houses and land outpaced the rent growth everywhere in Germany, yet according to bulwiengesa the market evidence suggests in no way that the market is overheating nationwide. The real estate sector benefited from the stable labour market, the positive demographics in the cities and the accommodative monetary policy of the European Central Bank, which ensured favourable terms of financing.

Driven by an intensifying housing shortage, the low supply elasticity drove up real estate prices in the metropolises. According to the Federal Statistical Office, the construction of 274,600

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

new flats was approved during the first eleven months of 2018, a year-on-year increase by 1.3% only or 3,600 flats in absolute terms. To cover the growing demand for residential accommodation, it is estimated that 400,000 new flats would have to be completed annually. The incumbent Federal Government had actually written the completion of around 1.5 million new flats until the year 2021 into its coalition agreement, which would break down into roughly 375,000 flats completed per year.

From our point of view, the discrepancy between required and actually completed flats is explained not least by the strained capacities of building authorities because it often takes months or indeed up to a year to obtain a planning permit. Staff shortages and tightening legal requirements are also factors prolonging the permit procedure by the competent authorities. Moreover, the lack of building land, high construction costs and a short supply in skilled labour in the construction industry are delaying the construction of urgently needed housing.

Still, German residential real estate remains as popular as ever among domestic and foreign investors despite the steady price growth. The sustained demand is attributable, on the one hand, to terms of financing made attractive by the low level of interest rates and, on the other hand, to the lack of alternative investment opportunities of comparable appeal. According to a survey compiled by BNP Paribas Real Estate, nearly EUR 12.3 billion euros had been invested in largesized German residential portfolios by the end of the third quarter of 2018, which implies an increase by more than a third over prior-year period.

In Berlin, the key market for ACCENTRO AG, prices for existing attached houses climbed by 14% year on year, according to Deutsche Bank Research (DB Research). Despite this brisk rise, the price level remains low relative to other cities in Germany. For instance, the price tag of a terraced house in the metropolises of any of the West German federal states is still around 50% higher than in Berlin at the moment. That being said, prices for existing flats have gone up by more than 15% and prices for new-build flats by over 10%. According to Numbeo, Berlin (with square-metre prices outside the inner city at EUR 3,600) ranks twentieth on the list of most expensive cities in Europe. According to DB Research, the high price dynamics in Berlin are also driven by the blatant housing shortage, which in turn is explained by demographic growth, the lack of building land and a shortage of manpower in the building trade.

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

Rather than limiting our product spectrum to Berlin, we will continue to pursue the trajectory of recent years by expanding into other German metropolises and swarm cities.

2.3 Business Performance

Key Events During the 2018 Financial Year

The clearly positive business performance of the ACCENTRO Group in the 2018 financial year evolved in a generally rather favourable market environment that was marked by keen demand for residential property, and not just in Germany's metro regions. 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 January 2018, ACCENTRO AG took advantage of the up-beat economic sentiment to obtain a bond in a nominal value of EUR 100 million on the capital market. The bond has a coupon rate of 3.75%. As early as the first quarter of 2018, the 2014/2019 convertible bond was almost fully converted so that the remaining units were cancelled. This means that the most expensive financing arrangement of the ACCENTRO Group was redeemed. In October 2018, ACCENTRO AG moreover succeeded in placing a cash capital increase of 2,120,000 shares, delivering a net cash inflow of EUR 20 million.

In the prior year's forecast report, we made an EBIT prediction in the range of EUR 36 to 40 million, matched by a significant increase in revenues. As far as the revenues go, we topped the forecast. However, the performance during the 2018 financial year narrowly missed the EBIT target at EUR 32.9 million. It fell 8.6% short of the lower forecast limit of EUR 36 million. This is explained by delays that slowed certain privatisation projects. But at EUR 18.3 million, the ACCENTRO Group's annual net income maintained a high level.

By acquiring 866 units in the course of the 2018 financial year, the Company laid the ground for continued stable revenues in its privatisation business.

2.4 Earnings, Financial Position and Assets

Earnings Position

The ACCENTRO Group's key revenue and earnings figures developed as follows during the 2018 financial year:

	2018 financial year	2017 financial year
	EUR million	EUR million
Revenues	205.6	147.3
EBIT	32.9	36.4
Consolidated income (in 2017, Continuing Operation)	18.3	20.3

As predicted, Group sales increased significantly during the 2018 financial year. The growth in sales amounted to EUR 58.3 million, which implies a year-on-year increase by 39.6%. But as planned, this brisk top line sales growth is not reflected in the net income from sales and thus not in EBIT either. The underlying reason for this is the transfer of the Accentro Gehrensee GmbH into a joint venture project for the further development of the premises and the creation of urgently needed residential accommodation. The real estate assets tied up in Accentro Gehrensee GmbH subgroup were contributed nearly at book value, which is why the revenue of c. EUR 42.3 million generated by the transaction had no material impact on net income. The plots sold (around 41,500 m² in Berlin-Lichtenberg) are earmarked for the development of residential buildings, and the zoning process for this purpose is currently under way. The sale and purchase agreement provides that ACCENTRO AG stays invested in the Accentro Gehrensee project with a 25% stake and a mezzanine loan, which means the Company will participate directly in future project planning achievements. Since the optimal exploitation of the building land necessitates a new local development plan, the project is not expected to be brought to a successful conclusion any time soon. When taking this one-off effect out of the equation, the sales total increased by around 10.8%, from EUR 147.3 million to EUR 163.3 million.

At EUR 32.9 million, the EBIT fell short of the forecast bracket of EUR 36 to 40 million quoted in the 2017 annual report. In the apartment retailing segment, the sales launch for real estate projects in Berlin were moved up into the 2019 financial year. This was due to delays in obtaining planning permits and the fact that the construction industry is operating at capacity with negative ramifications for the planning of construction work and for refurbishment projects. The volume of the retailed apartments has remained stable year on year with 487 flats sold (2017: 488 flats; 2016: 288 flats). At the same time, sales increased to EUR 73.0 million (previous year: EUR 64.5 million). The share of large-scale real estate transactions, by contrast, dropped from 62% of the sales to 40% when ignoring the Gehrensee project's contribution to sales.

The net rental income experienced another modest increase of EUR 0.7 million as a result of the continuous portfolio expansion. The net service income, by contrast, shows a significant increase by 141% over prior-year result to EUR 2.3 million. It was driven by the intensified activities with collaborative ventures in new apartment sales and by a commission in return for brokering a large property portfolio held by an associate company in Berlin.

The other operating income of EUR 1.7 million imply a significant drop by EUR 3.3 million year on year. The main factor here was the release of provisions amounting to EUR 0.7 million due to the elimination of litigation risks and warranty risks.

The other operating expenses in the amount of EUR 5.1 million (previous year: EUR 4.5 million) include, as they did the previous year, expenses for general advisory services, particularly in the areas of taxes, legal, and general strategic issues, among other expenses. 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 year-on-year increase is due to one-off effects in the amount of EUR 0.5 million that were caused by the early termination of contractual relationships with service providers.

Total payroll and benefit costs for the reporting period experienced another significant year-on-year increase by EUR 1.3 million to EUR 4.6 million (previous year: EUR 3.3 million). As previously announced in the forecast report section of the 2017 annual report, this was caused by the continued expansion of the workforce, so that 12 more staff were on the payroll by 31 December 2018 than had been by year-end 2017, although not all of the jobs created represent full-time positions. Another reason for the rise in personnel expenses is the adjustment of salaries to the general situation on the labour market, which is characterised by short supply.

The net interest result of the 2018 financial year was EUR –8.9 million, after EUR –8.8 million the previous year. Despite an increase in financial liabilities and bonds by EUR 89.9 million, net interest income remained steady. This is due to the increase in interest income and the repayment of expensive financing arrangements in the course of 2018. The reference period includes one-off effects in the amount of EUR 1.2 million from the premature repayment of loans and of the 2014/2018 bond. The interest coverage ratio* deteriorated from 4.08 to 3.89 year on year.

The earnings before taxes equalled EUR 24.0 million, thus undercutting the level of the previous financial year (EUR 27.6 million) by 13.2%. Income tax expenses amounted to EUR 5.7 million during the reporting period and were therefore significantly below the prior-year level (EUR 7.3 million). The tax ratio for the 2018 financial year equals 23.7% (previous year: 26.5%). The main reason why the actual tax rate remains below the Group tax rate is the strateg to sell real estate by way of share deals, which benefit from a lower tax regime.

For more details on the composition and amount of expenses and income, please see the notes to the consolidated financial statements, section 5.15.

* EBITDA/net interest expense

Financial Position

Key Figures from the Cash Flow Statement

	2018 financial year EUR million	2017 financial year EUR million
Cash flow from operating activities		
Continuing Operation	–48.4	–26.3
Discontinued Operation	–	1.1
Cash flow from investing activities		
Continuing Operation	–51.2	0.1
Discontinued Operation	–	22.5
Cash flow from financing activities		
Continuing Operation	111.4	–4.2
Discontinued Operation	–	0.0
Net change in cash and cash equivalents	11.8	–6.7
Increase in cash and cash equivalents from the addition of fully consolidated companies	2.7	0.0
Change in restricted cash and cash equivalents/ adjustment of cash and cash equivalents	1.1	–1.3
Decrease in cash and cash equivalents from the disposal of fully consolidated companies (2017: Discontinued Operation)	–6.7	–0.6
Cash and cash equivalents at the beginning of the period	6.5	15.1
Cash and cash equivalents at the end of the period	15.5	6.5

During the 2018 financial year, the cash flow from operating activities equalled EUR –48.4 million (previous year: EUR –25.2 million). It breaks down into cash flow from operations in the amount of EUR –0.7 million (previous year: EUR 46.6 million) and a net cash outflow toward the further expansion of the inventory assets in the amount of EUR –47.7 million (previous year: EUR –71.8 million). The negative operating cash flow is attributable to one real estate transaction for which the purchase price of EUR 11.2 million was not yet due by the balance sheet date. Liabilities decreased by EUR 9.6 million and tax payments of EUR 8.3 million impacted the operating cash flow. In addition, the prior-year result was significantly influenced by non-cash expenses.

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 5.18.

The cash flow from investing activities during the 2018 financial year was negative at EUR 51.2 million (previous year: EUR 22.6 million). EUR 23.6 million were spent on an office property in Berlin that will become the future ACCENTRO Group headquarters. EUR 9.7 million were used for the acquisition of non-consolidated corporate investments while EUR 7.9 million were granted in loans to associates and another EUR 10 million in granted loans are directly connected to a certain marketing agreement. The idea behind the latter is to develop additional sales channels.

The positive cash flow from financing activities in the amount of EUR 111.4 million (2017 financial year: EUR –4.2 million) essentially reflects the issuance of a corporate bond that resulted in a cash inflow of EUR 100.0 million (gross, before the deduction of transaction costs). A cash capital increase generated the inflow of another EUR 20.0 million in fresh cash (before the deduction of transaction costs) while bank loans account for EUR 65.3 million in debt capital. EUR 62.4 million were used for payments of interest and principal while EUR 5.2 million flowed back to the shareholders of ACCENTRO AG in dividend payments.

Structure of Assets and Capital

	31 December 2018		31 December 2017	
	EUR million	%	EUR million	%
Assets	**474.2**	**100.0%**	**347.8**	**100.0%**
Non-current assets	81.1	17.1%	22.2	6.4%
Current assets less liquid assets	377.6	79.6%	317.7	91.3%
Cash and cash equivalents	15.5	3.3%	7.9	2.3%
Debt and equity	**474.2**	**100%**	**347.8**	**100.0%**
Equity	199.1	42.0%	153.7	44.2%
Non-current liabilities	176.4	37.2%	43.4	12.5%
Current liabilities	98.7	20.8%	150.7	43.3%

The change of the principal shareholder and the concomitant takeover of ACCENTRO 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 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 reclassified 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. Yet the lenders refrained from exercising their break options. In the first quarter of 2018, the respective liabilities were reclassified as non-current liabilities again. This compromises the comparability with the prior year comparative figures.

The debt-to-equity ratio (debt capital/total capital) largely matched the prior-year level of 58.0% by the end of the reporting year (previous year: 55.8%), which is mainly explained by a more or less uniform increase in shareholders' equity (+EUR 45.4 million) relative to the trend in liabilities (+EUR 81 million). Similarly, the loan-to-value ratio (LtV)* deteriorated in the wake of the bond issuance, rising to 50.3% year on year (2017, the previous year: 39.4%).

At 3.3%, the ratio of cash and cash equivalents to total assets was slightly above the level of the prior year balance sheet date (2.3%). This is explained by a 96.2% increase in cash and cash equivalents compared to 2017to the amount of EUR 15.5 million, while assets grew by 36.4%.

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

* 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 financing schemes of ACCENTRO AG rest on several mainstays. In addition to bank loans collateralised by land charges, the Company employs capital-market-based financing arrangements in the form of corporate bonds. On 26 January 2018, ACCENTRO AG successfully placed a corporate bond in a volume of EUR 100 million.

Due to the shifts, previously outlined in the note on comparables, between non-current and current liabilities that were caused by the change-of-control event in 2017, a direct comparison of the maturities of the accounts payable with the prior-year figures would be less than meaningful. See the notes to the consolidated financial statements for a detailed drilldown of the liabilities that ignores the accounting effects of the change of control.

The liabilities from the convertible bonds issued in foregoing years were fully repaid through conversion and early redemption of the convertible bond in the amount of EUR 12.7 million. Cash and cash equivalents amounted to EUR 15.5 million as of 31 December 2018, compared to EUR 7.9 million by 31 December 2017. ACCENTRO AG assumes that all of the loans to be renegotiated during the 2019 financial year will be renewed on a rotating basis or repaid. Considering the cash inflow from the corporate bond placed in January 2018 and the funds from the cash capital increase of October 2018, ACCENTRO AG believes that its funding needs are secured for the 2019 financial year as well. No financing arrangements in foreign currencies were taken out by ACCENTRO AG.

In addition to the consolidated net income of 2018, the conversion of the 2014/2019 convertible bond and the cash capital increase undertaken in October 2018 led to a further increase in the shareholders' equity from EUR 153.7 million at the end of 2017 up to EUR 199.1 million as of 31 December 2018. At 42.0%, the equity ratio was more or less kept level with the prior-year figure (previous year: 44.2%) despite a 36.4% increase in total assets and a reduction in equity due to the dividend payment in the amount of EUR 5.2 million in May 2018.

Asset Position

Total assets increased significantly by EUR 126.4 million (36.4%) to EUR 474.2 million (31 December 2017: EUR 347.8 million). Material changes to each balance sheet item are detailed in the summary below, and are subsequently elaborated.

	31 December 2018	31 December 2017	Change
	EUR million	EUR million	EUR million
Non-current assets	**81.1**	**22.2**	**+58.9**
Owner-occupied properties and buildings	23.4	0	+23.4
Non-current other receivables and other assets	28.8	0	+28.8
Other non-current assets	28.9	22.2	+6.7
Current assets	**393.1**	**325.6**	**+67.5**
Inventory properties	345.2	304.0	+41.2
Trade receivables	18.6	1.2	+17.4
Other current assets	29.3	20.4	+8.9
Equity	**199.1**	**153.7**	**+45.4**
Non-current liabilities	**176.4**	**43.4**	**+133.0**
Financial liabilities	175.3	43.4	+132.9
Other non-current liabilities	1.1	1.0	+0.1
Current liabilities	**98.7**	**150.7**	**–52.0**
Current financial liabilities and bonds	55.9	98.9	–43.0
Other current liabilities and accrued expenses	42.8	51.8	–9.0

The non-current assets increased by EUR 58.9 million. The sum total includes EUR 23.4 million for an office building in Berlin that was acquired in the summer of 2018 and that will serve as ACCENTRO AG's new head office following structural alterations and customisation to meet the Company's needs. The Company is also in the process of procuring a planning consent for open areas on the property so as to permit their future development.

Non-current other receivables and other assets essentially comprise lendings to companies that are associated with ACCENTRO AG via equity investments or marketing agreements. Since ACCENTRO AG does not control these companies, they are not fully consolidated in the consolidated financial statements of ACCENTRO AG.

The other 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 2.4 million, and corporate investments in non-consolidated companies in the amount of EUR 7.7 million.

Current assets increased by EUR 67.5 million to EUR 393.1 million (previous year: EUR 325.6 million), and represent primarily the trading portfolio properties recognised in inventories. For 866 residential units acquired for a combined purchase price of EUR 163.3 million during the 2018 financial year, the transfer of benefits and burdens took place in 2018. For another 177 residential units acquired for a purchase price of EUR 32.7 million, the sale and purchase agreements have already been signed, but the transfer of benefits and burdens will take place in 2019. At the same time, 1,615 residential units (previous year: 992 units) worth EUR 156.6 million in initial costs were sold (previous year: EUR 99.8 million), so that the inventory assets, taking into account the refurbishment measures completed in the course of the year, increased by EUR 41.2 million. It should be borne in mind that the acquisition in the previous year and the sale of the Gehrensee portfolio of 675 apartments that was concluded in 2018 distorts the presentation of ACCENTRO AG's operating performance with respect to acquisitions and disposals. If you ignore the Gehrensee transaction, ACCENTRO AG's track record shows 600 apartments bought during the previous year and 940 apartments sold during the year under review.

The increase in current trade receivables is mainly explained by the balance sheet date, as the purchase price receivable of EUR 11.2 million from a property portfolio sold at the end of the year is not due for payment until March 2019. In addition, the disposal of a real estate portfolio in Hanover caused trade receivables to increase. The purchase price receivable for this transaction was not yet due in full by the balance sheet date, although the transfer of benefits and burdens took place at the end of 2018.

The other current assets were composed as follows during the 2018 financial year: The accounts receivable from operating costs not yet invoiced add up to EUR 8.1 million (EUR 6.0 million) while the cash position equals EUR 15.5 million (previous year: EUR 7.9 million). Short-term loans amount to EUR 2.7 million, of which EUR 2.3 million had already been returned by the time these financial statements were completed. EUR 1.1 million represent income tax receivables. The remaining accounts receivable break down into a number of minor amounts

General Statement on the Group's Business Situation

In the course of the 2018 financial year, ACCENTRO AG succeeded both in placing a bond with a nominal value of EUR 100 million and in carrying out a cash capital increase by issuing 2,120,000 new shares. Together, the two measures generated a (gross) cash inflow of EUR 120 million for ACCENTRO AG, considerably boosting the Company's financial resources and options. The simultaneous redemption of the 2014/2019 convertible bond through conversion and cancellation also improved the refinancing interest rate in the 2018 financial year.

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 36 million to EUR 40 million. While achieving the sales target, at EUR 32.9 million the Company narrowly missed the EBIT forecast. The key reason for the failure to achieve the EBIT target is that originally planned sales launches had to be postponed until the 2019 financial year.

That said, the targeted year-on-year growth in sales was achieved in the 2018 financial year with a revenue total of EUR 205.6 million (previous year: EUR 151.5 million). It should be noted here that nearly EUR 43 million in sales represent the contribution of Accentro Gehrensee GmbH and its subsidiaries, which was recognised directly in equity with nearly the same amount and therefore implied no material increase in EBIT. All forecasts and analyses should therefore be based on an adjusted sales total of EUR 163.3 million that factors in the "Gehrensee effect."

Of course, we are not fully satisfied with the earnings performance as we missed the EBIT forecast. Then again, the prerequisites for a sustained positive financial performance of the ACCENTRO Group were put in place during the 2018 financial year through the continued expansion of the trading portfolio and the setup of several collaborative ventures. The outlook for 2019 is bright, we believe, because several projects were postponed from the 2018 financial year to 2019.

Despite dividend payments and a substantial increase in total assets, the equity ratio remained stable on a high level of 42.0% (prior period: 44.2%).

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 that 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 its highly auspicious development. 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 Report on the Individual Financial Statements of ACCENTRO Real Estate AG

3.1 Basic Structure of the Company

ACCENTRO AG is a holding company. It controls the operations of subsidiaries that own the Group's real estate holdings outright. In addition, it is the parent company of a service provider focusing on the housing privatisation business. 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 Company's business performance, along with its opportunities and risks, is inseparably linked to the economic development of the Group entities. To properly understand the economic development of ACCENTRO AG and its definitive influencing factors, it is therefore of the essence to consider the ACCENTRO Group as a whole. The reporting on the situation and the presentation of the opportunities and risks of the Group therefore apply essentially to ACCENTRO AG as an individual enterprise.

The individual financial statement of ACCENTRO AG underlying this report was compiled according to the regulations of the German Commercial Code (HGB) for large stock corporations and the supplementary regulations of the German Stock Corporation Act (AktG).

ACCENTRO AG is a residential property company listed on the regulated market and is also listed, inter alia, on the Frankfurt Stock Exchange.

3.2 Business Performance

The continued positive business performance of the ACCENTRO Group and of ACCENTRO AG during the 2018 financial year took place in a generally very favourable market environment that, in Germany's metro regions, was marked by keen demand for residential property. ACCENTRO AG was able to take advantage of the market environment in the 2018 financial year to issue a EUR 100 million bond in January and to place a EUR 20.1 million cash capital increase in October.

ACCENTRO AG also managed to achieve its projected EBIT target due to anticipated profit transfers and certain divestitures it undertook. The separate financial statements of ACCENTRO AG show an EBIT of EUR 18.5 million, which exceeds the upper end of the EBIT forecast bracket of EUR 14 to 17 million.

Total payroll expenses increased by 43.4% or the equivalent of EUR 0.9 million. The average number of employees increased by 7 persons, an increase of 38.9%.

Profit-transfer agreements with three subsidiaries generated a net income from investments in the amount of EUR 18.6 million (previous year: EUR 15.9 million).

Compared to the previous year, the net interest result is largely unchanged, with both interest income and interest expense having substantially increased.

3.3 Earnings, Financial Position and Assets

Earnings Position

ACCENTRO AG pursues its business activities through autonomous subsidiaries. As an operating holding company, the Company performs standard management, administrative and financing functions for its Group companies. The earnings position of ACCENTRO AG is defined, on the one hand, by the contributions to operating income from equity investments, and, on the other hand, from its funding role within the Group and its expenses in this function.

The earnings position of ACCENTRO AG developed as follows during the 2018 financial year:

	1 Jan. 2018 – 31 Dec. 2018	1 Jan. 2017 – 31 Dec. 2017	Change
	TEUR	TEUR	TEUR
Other operating income	**9,264**	**12,936**	**–3,672**
Operating income	9,264	12,936	–3,672
Cost of materials	–645	–117	–528
Total payroll and benefit costs	–2,995	–2,088	–907
Depreciation and amortisation of intangible assets and property, plant and equipment	–95	–47	–48
Write-downs on financial investments	–5	–4,600	4,595
Miscellaneous operating expenses	–5,637	–2,970	–2,667
Net income from investments (including profit-shifting)	18,635	15,943	2,692
Income from securities	1	0	1
Operating income (EBIT)	**18,524**	**19,057**	**–533**
Net interest income	740	990	–250
Pre-tax profit	19,264	20,047	–783
Income taxes	–3,827	–3,337	–490
Profit/loss for the year	15,437	16,710	–1,273

The other operating income dropped from EUR 12.9 million during the same period last year down to EUR 9.3 million. The income earned during the 2018 financial year essentially breaks down in sales of subsidiaries in the amount of EUR 7.3 million, the dissolution of provisions in the amount of EUR 1.7 million, and EUR 1.2 million worth of miscellaneous other income.

The cost of materials was largely generated by expenses during the process of selling subsidiaries (EUR 0.6 million).

Total payroll and benefit costs increased by EUR 0.9 million. ACCENTRO AG employed an average of 27 people (previous year: 18) during the 2018 financial year.

The other operating expenses soared from EUR 3.0 million the previous year to EUR 5.6 million. The increase by EUR 2.6 million is mainly due to fees in the amount of EUR 1.5 million, which were generated by the bond issuance, and advisory costs of EUR 0.9 million incurred in the same context.

Net income from investments in the amount of EUR 18.6 million increased over prior year (EUR 15.9 million) due to higher income from profit-transfer agreements.

The interest balance equalled EUR 0.7 million during the period under review (previous year: EUR 1.0 million). It was mainly influenced by an increase in interest expenses by EUR 2.4 million that is explained by the placement of the EUR 100 million bond in January 2018, and by an increase in interest income by EUR 2.2 million from lendings to subsidiaries.

As the pre-tax earnings amounted to EUR 19.3 million only (previous year: EUR 20.0 million), the income tax load remained on a relatively low level at EUR 3.8 million (previous year: EUR 3.3 million) because of largely tax-exempt income from divestitures.

Financial and Net Asset Position

The financial and assets position of ACCENTRO AG is definitively characterised by its activities as financial holding company. The following overview lists the main non-current assets, along with their year-on-year change:

	31 Dec. 2018		31 Dec. 2017		Change
	TEUR	%	TEUR	%	TEUR
Assets	**311,777**	**100.0**	**169,509**	**100.0**	**142,268**
Financial investments	45,539	14.6	19,103	11.3	26,436
Plant, equipment and software	282	0.1	101	0.1	181
Advance payments for financial investments	1,203	0.4	16,741	9.9	–15,538
Trade receivables	355	0.1	103	0.1	252
Receivables from affiliates	239,902	77.0	127,413	75.2	112,489
Receivables from equity investments	4,701	1.5	35	0.0	4,666
Loans to third parties	10,165	3.3	207	0.1	9,958
Cash and cash equivalents	6,132	2.0	1,624	1.0	4,508
Other assets	3,498	1.0	4,182	2.3	–684
Liabilities	**311,777**	**100**	**169,509**	**100**	**142,268**
Equity	158,800	50.9	115,677	68.2	43,123
Borrowings/bank debt	100,008	32.1	12,879	7.6	87,129
Liabilities to affiliated companies	38,978	12.5	26,152	15.4	12,826
Provisions	10,470	3.4	13,969	8.3	–3,499
Other liabilities	3,521	1.1	832	0.5	2,689

Total assets increased by EUR 142.3 million from EUR 169.5 million to EUR 311.8 million. The asset and financial position is definitively influenced by financial investments, debt financing via bonds, and the performance of receivables and payables vis-à-vis affiliates.

The development is primarily defined by the increase in receivables from affiliated companies and companies in which the Company holds an equity interest. It is caused by the application of funds from the assumption of the bond liabilities.

The accounts receivable from affiliates and equity investments doubled during the financial year, increasing by EUR 117.1 million to EUR 244.6 million. The increase breaks down as follows:

- The short-term loans to affiliates and equity investments increased by EUR 73.5 million to EUR 167.7 million.
- Intercompany receivables increased by EUR 17.7 million to EUR 71.2 million. On the one hand, the profit-shifting contracts of three companies caused the amount of EUR 18.6 million to be posted while, on the other hand, some of the costs fronted by ACCENTRO AG in the amount of EUR 1.0 million were repaid.

The liabilities from bonds and bank loans rose by EUR 87.1 million on balance during the 2018 financial year. In January 2018, ACCENTRO AG successfully placed a corporate bond in the volume of EUR 100 million at an interest rate of 3.75%. The 2014/2019 convertible bond with a par value of EUR 12.9 million was almost fully converted during the first quarter of 2018. ACCENTRO AG exercised its special termination right for the remaining non-converted units, so that the convertible bond is fully redeemed now.

The liabilities to affiliates increased by EUR 26.2 million to EUR 39.0 million. The primary reason for the increase is that two loans were taken out from two subsidiaries (EUR 13.6 million).

ACCENTRO AG complied with collateral agreements from facility agreements (covenants) and the bond terms of the 2018/2021 corporate bond placed in 2018.

The Company was able to meet its financial obligations at any time during the 2018 financial year.

The share capital and capital reserves of ACCENTRO AG increased as a result of the convertible bond conversions carried out in the year under review and a cash capital increase in October 2018. Specifically, the share capital increased by EUR 5.4 million due to the conversions and by EUR 2.1 million due to the cash capital increase. EUR 25.3 million were transferred from corporate actions to the capital reserve. Moreover, the net income caused the shareholders' equity of ACCENTRO AG to increase by EUR 15.4 million.

The distribution of a dividend in the amount of EUR 5.2 million had a converse effect. Yet the Company's shareholder equity rose to EUR 158.8 million overall. The equity ratio (shareholders' equity/total assets) decreased by 17.3% to 50.9% year-on-year (68.2%), as total assets grew by 83.9% much faster than equity did at a rate of 37.2%.

General Statement on the Company's Business Situation and Business Performance

The earnings position of the ACCENTRO Group, which is definitive for the financial performance of ACCENTRO AG as its holding company, developed handsomely during the 2018 financial year even if not all of the corporate objectives were achieved.

With this in mind, we are content with the earnings performance. The 2018 financial year was expected to see an increase in total assets and an EBIT in the range of EUR 14 to 17 million. The total assets did grow swiftly, and the EBIT topped the upper end of the forecast bracket at EUR 18.5 million.

The prerequisites for a sustained positive financial performance of the ACCENTRO Group were put in place during the 2018 financial year through the continued expansion of the trading portfolio. We expect ACCENTRO AG's individual financial statements to show a positive net income on a level with the previous year. The total assets are not expected to see serious growth going forward.

4 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 2018. 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.

Backed by the forecasts of academic studies, we consider our assumption to be realistic. For instance, the spring report published by the ZIA German Property Federation on 19 February 2019 sees no evidence for an imminent fundamental trend reversal despite the fact that the current cycle is now in its eleventh year. Given the persistent shortfall in supply, the ZIA expects the price upsurge on Germany's residential property market to continue in 2019 and to see massive price hikes for residential property in the conurbations in particular. At the same time, the ZIA points out that evidence of excessive pricing is manifest most notably in class A cities, their greater areas and in a number of other major cities subject to keen demand, and these pricing spikes could result in corresponding adjustments. Then again, the federation cautioned that there are no signs of a real estate bubble that would affect Germany's market as a whole. The ZIA argues that crucial aspects like inflated credit growth or runaway building activity are missing from the picture.

We share the ZIA's forecast in principle and regard the risk of a bubble as low. At the same time, the pronounced supply shortage has not gone away and will probably take many years to relieve. The risks associable with it should not be easily dismissed.

As in the 2018 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 flats from its proprietary stock as well as on behalf of third parties. This is the focus of the acquisition strategy that ACCENTRO AG pursues.

In the 2019 financial year, we expect the ACCENTRO Group to achieve a modest increase in revenues compared with the previous year's level when ignoring the sale of the Gehrensee portfolio (basis: EUR 163.3 million), combined with moderate growth in earnings before interest and taxes (EBIT) in the low double-digit percentage range. 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 back deep into the negative range during the 2019 financial year because these investments are grouped with the operational division. The cash flow was indeed negative for the operational division in 2018, as predicted by the forecast report, adding up to EUR –48.4 million. The situation is unlikely to change in the foreseeable future because ACCENTRO AG plans to keep pursuing its steady expansion of the trading portfolio.

At the level of ACCENTRO AG, annual net income for the following year is expected to match the figure of the 2018 financial year. The total assets are not expected to see any fast growth on the level of the individual financial statements in 2019.

On top of that, we assume that the financial covenants of the 2018/2021 bond will be fulfilled during the 2019 financial year.

In terms of employee retention, our plans for 2019 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 12 staff, although it should be added that not all of these jobs created represent full-time positions. Five persons left the Company in the course of the 2018 financial year. As expected, the fluctuation is relatively low. The workforce is likely to keep growing at a modest pace in 2019 to stay abreast of 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 is 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

In addition, the Management Board has commissioned a third-party auditing company to carry out an internal audit to assess the effectiveness of the risk management on an ongoing basis and to suggest improvements.

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 specified 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 different risk categories. In addition, appropriate countermeasures are identified.
3. Reporting: The Management Board is regularly and promptly briefed on existing 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 2017 financial year remained relevant in the 2018 financial year. We believe that the subsequently listed risks ensure 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.

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 ear-marked 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 addressed 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.

Especially in Germany's metro regions and in certain university cities, it is becoming noticeably more difficult to acquire real estate at reasonable prices. To cushion this effect, ACCENTRO AG is increasingly buying property outside the Berlin conurbation.

b) Letting Risks

Generally speaking, the letting risk represents a subordinate risk for ACCENTRO AG's business model, because vacant flats sell for higher prices than occupied flats. A more material risk poses the impairment of a property as a result of poor performance by third-party service providers in the area of property management. It is a risk addressed through active asset management and property management. This includes lettings management and steps taken to ensure the competitiveness of properties within the local occupier markets. Relevant steps include specifically the constant monitoring of the service providers, proper maintenance along with refurbishments and modernisation measures necessary to preserve or enhance the attractiveness of the properties for tenants and buyers.

c) Construction Risks

Going forward, the ACCENTRO Group expects risks in this area to increase significantly. While construction risks used to be essentially limited to straightforward refurbishments and improvements for the purpose of enhancing the marketability of its 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.

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

Uncertainties regarding whether, when and under what constraints and/or subsidiary conditions approval for the projects is granted under public construction law may contribute to the construction risks. This means that the Company relies to some extent on the discretion exercised by certain authorities and on the adequacy of that authority's human resources. It also means that disputes with residents and neighbours may significantly delay or negatively impact the planning approval process. 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.

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 and Marketing 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) Purchase Risks Arising from Marketing Agreements

Within the framework of its third-party sales activities, the ACCENTRO Group entered into a number of agreements that include purchase guarantees. Under these agreements, ACCENTRO agrees to take over any property assets unsold at the end of the marketing period defined in the respective agreement at a purchase price agreed with the property developer. The possibility of having to acquire these properties at the agreed purchase price plus the real estate transfer tax due for the acquisition exposes the Company to the risk that it may not reasonably hope to realise the usual margins when reselling the properties.

f) Risks Arising from Collaborative Ventures

The disposal of a 75% equity interest in the Gehrensee project as of 30 June 2018 and the acquisition of equity interests in development schemes in Brandenburg an der Havel and in Blankenfelde near Berlin in the course of 2018 has created a new risk situation going forward. Additional collaborative projects are planned for 2019. Substantial funds of ACCENTRO AG are tied up in these projects that will not be released until the projects are concluded. Any delay in the completion of a given project could cause liquidity risks for ACCENTRO. To manage this risk, the Management Board of ACCENTRO AG appointed a controller who is responsible for the equity investment management. On top of that, each project is assigned a dedicated inhouse project manager.

g) Financing, Liquidity and Interest Rate Risks
Within the framework of its business activities, the ACCENTRO 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 106.3 million (previous year: EUR 21.7 million) that are subject to covenants agreed with the banks or specified in the bond terms with respect to debt service coverage ratios or debt-to-equity ratios (financial covenants). The corporate bond over EUR 100 million is subject to the following covenants:

- the debt-to-equity ratio (net financial debt to assets) must not exceed 60%
- the capital market indebtedness must not exceed 150% of the shareholders' equity before minority interests
- an interest coverage ratio of 2 to 1 in the relation of adjusted EBITDA to net interest expense
- a restriction of the dividend to 30% of the IFRS annual net income

Breaches of these covenants could trigger payments into blocked accounts or early repayment obligations on the basis of a contractually agreed escalation procedure. If certain credit terms were introduced, for instance in the event of a change of control, 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 2018 financial year.

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).

h) Bad Debt Risks

The risk of bad debts in connection with trading residential real estate is reduced by delaying the property handover in the apartment retailing business 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. Portfolio transactions occasionally take the form of sales on credit. However, credit periods are granted only after ACCENTRO AG has verified the clients' solvency. Since the transfer of the title in the land register does not take place until the purchase price has been paid, the risk is limited to the reversion of the property title.

i) 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.

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

j) 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 cause significant disruptions in the course of business.

Market-specific Risks

a) Economic Risks

The ACCENTRO Group has so far generated its revenues exclusively inside Germany. Here, particularly a deterioration in national economic conditions, combined with an increase in the number of unemployed, could lead to a (steep) drop in demand for real estate investments. Moreover, the market environment in Germany is also indirectly affected by global economic trends. In 2019, the main focus will be on the lingering trade dispute between the USA and the EU, the unclear situation surrounding the UK's withdrawal from the EU and the future development of the European Union.

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 the ACCENTRO Group, and in lower privatisation proceeds.

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 primarily 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 and the exercise of the right of first refusal by the boroughs.

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 ACCENTRO Group invests primarily in 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 2019, the Bundesbank warned against excessive pricing in the major cities, yet demand for flats in Berlin continues to grow rapidly.

Moreover, specific one-off risks keep arising in connection with construction work, especially the threats of cost overruns, project delays, payment default risks, 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 preempted. 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

A new financing structure was created during the reporting period by issuing a corporate bond with a nominal value of EUR 100 million and by prematurely redeeming the 2014/2019 convertible bond. 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, 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

Meanwhile, the ACCENTRO Group continued to expand its trading portfolio by acquiring new property during the 2018 financial year. The portfolio now extends across Germany and include cities in Bavaria, the metro regions Hamburg and Leipzig, as well as the cities or campus towns of Cologne, Rostock and Berlin. Especially its strong position in Berlin gives ACCENTRO AG a great chance to keep exploiting the extraordinary dynamic of Berlin's housing market. In the course of the 2018 financial year, we expanded our footprint in Leipzig and in the Rhine-Ruhr region, opening local branch offices. In fact, we set up a subsidiary for the Rhine-Ruhr region, ACCENTRO Rhein-Ruhr GmbH, which already transacted its first property acquisition. The extensive geographic footprint of its privatisation segment makes ACCENTRO AG a fast-growing and reliable sales partner in its collaboration with business partners.

The sales activities are to be expanded in the new-build residential segment. To this end, it is planned to enter into new collaborative ventures with mid-market property developers for whom ACCENTRO would handle the apartment sales.

Its subsidiary ACCENTRO GmbH has a leading position 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.

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 continues to see a growing business potential in future. 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 keep boosting its revenues through geographic expansion and commitments in joint ventures paired with the expansion of collaborative activities in the area of new-build construction projects. 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.

5 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 AG to improve the efficiency of the business processes. It assists the various departments of ACCENTRO 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 2018 financial year, and another two internal audits are being prepared for the 2019 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.

6 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 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 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

The issued capital (share capital) of ACCENTRO AG amounted to EUR 32,431,047.00 as of 31 December 2018. It was composed of 32,431,047 no-par value bearer shares. There are no different stock classes. At the start of the 2018 financial year, the share capital amounted to EUR 24,924,903.00 and increased during the reporting period when the conversion rights from a convertible bond and ACCENTRO AG moved ahead with its cash capital increase.

Direct or Indirect Interests in the Company's Share Capital that Exceed 10% of its Voting Rights

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. Sec. 29, Art. 2, and Sec. 30, Art. 1, German Act on Securities Acquisition and Takeovers (WpÜG). At the time ACCENTRO AG released its latest voting rights notification, Brookline Real Estate S.à r.l. held more than 75% of the company stock.

Authorisation to Issue Bonds

In accordance with the resolution by the Annual General Meeting of 15 May 2018, the Management Board is also authorised, subject to the Supervisory Board's consent, to issue convertible bonds and/or warrant bonds or participation rights with or without conversion or subscription rights (also referred to collectively below as "bonds") over a total nominal amount of up to EUR 200,000,000.00 and with maturities of 20 years or less on one or more occasions up to and including 14 May 2023.

The bearers of bonds mentioned in the foregoing sentence can be granted conversion or subscription 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 25,000,000.00 or less. The conversion and subscription rights may be serviced from conditional capital resolved by the Annual General Meeting on 15 May 2018 or to be resolved by future Annual General Meetings from existing or future authorised capital and/or from a cash capital increase and/or from existing shares and/or may provide for a cash settlement instead of the delivery of shares. Whenever bonds are issued, shareholders are entitled to a statutory subscription right unless the subscription right is excluded in accordance with the provisions below.

The Management Board is authorised, subject to the Supervisory Board's consent, to exclude shareholders' statutory subscription 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 preemptive 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, 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 or bonds, convertible bonds and other financial instruments, and the disapplication of subscription rights is mainly 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 2018 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)

Further exercise of the conversion rights by bearers of convertible bonds initially reduced the Contingent Capital 2014 through the issuance of 5,393,031 no-par value shares down to EUR 4,894,395.00 during the 2018 financial year.

Having received the Supervisory Board's consent on 16 February 2018, the Management Board cancelled all outstanding units of the 2014/2019 convertible bond as of 27 March 2018.

Shortly thereafter, on 15 May 2018, the Annual General Meeting resolved to cancel the remaining Contingent Capital 2014. The authorisation resolution of 27 February 2013 to issue convertible bonds and/or bonds with warrants and/or participation rights with conversion or subscription rights had expired on 26 February 2018. There were no outstanding conversion or subscription rights that had to be redeemed using this contingent capital.

Contingent Capital 2017 (Redemption of 2017 Stock Option Program)

To deliver on its stock option program, whose 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 was 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 2018

By resolution of the Annual General Meeting on 15 May 2018, the Authorised Capital 2015 was cancelled and replaced by new authorised capital, which authorises the Management Board, subject to the Supervisory Board's consent, to increase the share capital of the Company by a total of up to EUR 15,158,967.00 during a period ending 14 May 2023 by issuing new no-par value bearer shares on one or more occasions against contributions in cash and/or in kind (Authorised Capital 2018). While shareholders principally have a subscription right, it can be excluded in whole or in part with the Supervisory Board's consent. That said, 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 shares issued do 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, AktG. The amount of 10% of the share capital must include the amount relating to shares issued or disposed during the effective period of this authorisation and until it is exercised on the basis of different corresponding authorisations 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 in order to grant holders or creditors of the debenture bonds with warrant or conversion rights or obligations issued by the Company or its Group companies subscription rights to new shares on the scale 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.

The Management Board has also been authorised, with the Supervisory Board's consent, to determine the further content of share rights and the other details of the capital increase and its implementation, and to determine that the new shares in accordance with Sec. 186, Art. 5, AktG, must be assumed by a bank or a company operating pursuant to Sec. 53, Art. 1, Sent. 1 or Sec. 53b, Art. 1, Sent. 1 or Art. 7, German Banking Act (KWG), with the obligation of offering them for subscription by shareholders.

The Supervisory Board was authorised to amend the Articles of Association to reflect the respective scope of the share capital increase through the Authorised Capital 2018.

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 2018 carry full voting rights and each grant the holder one vote at the Annual General Meeting.

Share Buyback for Issuance of Employee Shares

With its notice of 20 November 2018 pursuant to Sec. 5, Art. 1, Letter a), Market Abuse Regulation (MAR), i.c.w. Sec. 2, Art. 1, Commission Delegated Regulation, the Company announced the start of a stock buyback program for the purpose of issuing free employee shares.

As part of this buyback program, the Company acquired 9,700 no-par value shares in the period from 26 November 2018 through 17 January 2019. The buy-backs were carried out via XETRA trading on the Frankfurt Stock Exchange under the management of a bank. The average purchase price was EUR 9.5862 per no-par-value share. Overall, the total consideration spent on shares amounted to EUR 92,986.14 (before transaction costs).

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 86,961,000 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. None of the lenders have exercised their break option.

Convertible Bond

In addition to financing agreements, the corporate bond 2018/2021 with an outstanding nominal value of EUR 100 million as at balance sheet date that was issued by ACCENTRO AG contains a change-of-control provision. Bondholders wishing to intervene have the option to demand early repayment of the bond at the price of 101% plus interest accrued on the principal amount.

ACCENTRO 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.

7 Corporate Governance Statement Pursuant to Sections 289f, 315d, German Commercial Code (HGB)

The Corporate Governance Statement pursuant to Sections 289f, 315d German Commercial Code (HGB) is published annually on the Company's homepage, and may be accessed via this hyperlink:
www.accentro.ag/en/investor-relations/corporate-governance/declaration-in-accordance-with-289f-hgb

8 Remuneration Report

The service contract with CEO Jacopo Mingazzini effective during the 2018 financial year was signed for a three-year term. The contract was adjusted in March 2018.

The contract of Jacopo Mingazzini does not provide for an ordinary termination during the contract term. In the event of a change of control, however, the contract stipulates a break option.

The remuneration paid to the CEO consists of a fixed annual basic remuneration and a variable bonus to be jointly defined by Management Board and Supervisory Board.

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

The following remuneration component as part of a long-term incentive plan was agreed between the main shareholder and the Management Board: On 3 July 2018, EMMALU GmbH announced its off-market acquisition of 272,851 shares in ACCENTRO AG. The company EMMALU GmbH is closely linked to ACCENTRO's CEO, Jacopo Mingazzini. The shares originated in the portfolio of ACCENTRO's main shareholder. Accordingly, this implies a transaction between the main shareholder and the CEO of ACCENTRO AG which is to be measured in accordance with IFRS 2 like a stock option at its fair value at the time it is granted and recognised as remuneration expense in the consolidated financial statements of ACCENTRO AG throughout the lifetime of the option. The expense from this stock option compensation amounts to c. TEUR 1,200 over a term of 3 years, out of which total TEUR 135 had to be deferred in the 2018 financial year.

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.

9 Closing Statement of the Management Board on the Dependency Report

The report on relations with affiliated companies pursuant to Sec. 312, AktG, includes the following closing statement by the Management Board:

"ACCENTRO Real Estate AG received appropriate consideration for the legal transactions listed in the report on relations with affiliated companies. ACCENTRO Real Estate AG has not been disadvantaged by measures taken or omitted at the instigation of, or in the interest of, the controlling company or any company affiliated with it.

This assessment is based on the circumstances known to us at the time of the reportable events."

Berlin, 14 March 2019

Jacopo Mingazzini
Management Board

Object: Berlin-Köpenick, Am Seddinsee 4083

Consolidated Financial Statements

Consolidated Balance Sheet

ACCENTRO Real Estate AG

Assets	Notes	31 Dec. 2018 TEUR	31 Dec. 2017 TEUR
Non-current assets			
Goodwill	5.1.1	17,776	17,776
Owner-occupied properties and buildings	5.1.2	23,366	0
Plant, equipment and EDP software		355	223
Non-current trade receivables	5.3	2,357	2,477
Non-current other receivables and other assets	5.1.3	28,814	0
Equity investments	5.1.6	4,231	1,247
Equity interests accounted for using the equity method	5.1.5	3,518	264
Deferred tax assets	5.10	692	193
Total non-current assets		**81,109**	**22,179**
Current assets			
Inventory properties	5.2	345,241	304,027
Trade receivables	5.3	18,607	1,152
Other receivables and other current assets	5.3	12,709	11,568
Current income tax receivables		1,074	984
Cash and cash equivalents	5.4	15,464	7,875
Total current assets		**393,096**	**325,605**
Total assets		**474,205**	**347,785**

Consolidated Balance Sheet

ACCENTRO Real Estate AG	Notes	31 Dec. 2018	31 Dec. 2017
Equity		TEUR	TEUR
Subscribed capital	5.5	32,431	24,925
Capital reserves	5.5	78,433	53,462
Retained earnings	5.5	86,284	73,576
Attributable to parent company shareholders		197,149	151,963
Attributable to non-controlling interest		1,956	1,734
Total equity		**199,104**	**153,697**

Liabilities		TEUR	TEUR
Non-current liabilities			
Provisions	5.7	18	17
Financial liabilities	5.6	76,773	42,439
Bonds	5.6	98,561	0
Deferred income tax liabilities	5.10	1,080	969
Total non-current liabilities		**176,431**	**43,426**
Current liabilities			
Provisions	5.7	843	2,271
Financial liabilities	5.6	54,357	86,882
Bonds	5.6	1,563	12,065
Advanced payments received	5.8	7,033	19,613
Current income tax liabilities	5.9	13,261	14,591
Trade payables	5.8	4,816	2,236
Other liabilities	5.8	16,798	13,005
Total current liabilities		**98,669**	**150,662**
Total equity and liabilities		**474,205**	**347,785**

Consolidated Income Statement

for the Financial Year Beginning on 1 January and Ending on 31 December 2018

ACCENTRO Real Estate AG	Notes	1 Jan. 2018–31 Dec. 2018	1 Jan. 2017–31 Dec. 2017
		TEUR	TEUR
Revenues from sales of inventory properties	5.11	194,009	137,859
Expenses from sales of inventory properties	5.12	–160,924	–103,167
Capital gains from property sales		**33,085**	**34,692**
Letting revenues	5.11	8,806	7,769
Letting expenses	5.12	–2,676	–2,335
Net rental income		**6,130**	**5,434**
Revenues from services		2,794	1,714
Expenses from services	5.12	–511	–766
Net service income		**2,282**	**947**
Net income from companies accounted for using the equity method	**5.1.5**	**2**	**–14**
Other operating income	5.15	1,663	3,260
Interim result		**43,162**	**44,319**
Total payroll and benefit costs	5.13	–4,613	–3,339
Depreciation and amortisation of intangible assets and property, plant and equipment		–349	–114
Impairments of inventories and accounts receivable	5.14	–205	0
Other operating expenses	5.15	–5,131	–4,465
EBIT (earnings before interest and income taxes)		**32,864**	**36,401**
Net income from equity investments	5.1.6	36	35
Interest income		944	304
Interest expenses		–9,869	–9,107
Net interest income		**–8,924**	**–8,803**
EBT (earnings before income taxes)		**23,975**	**27,633**
Income taxes	5.16	–5,675	–7,316
Earnings after taxes from discontinued operation		0	–197
Consolidated income		**18,301**	**20,120**
thereof attributable to non-controlling interests		103	–24
thereof attributable to shareholders of the parent company		18,197	20,144

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Earnings per Share (Comprehensive Income)	Notes	1 Jan. 2018–31 Dec. 2018	1 Jan. 2017–31 Dec. 2017
		EUR	EUR
unweighted			
Basic net income (32,431,047 shares; prior year: 24,924,903 shares)	5.17	0.56	0.81
weighted			
Basic net income (30,711,986 shares; prior year: 24,894,978 shares)	5.17	0.60	0.81
Diluted net income per share (30,711,986 shares; prior year: 30,338,641 shares)	5.17	0.60	0.70

Consolidated Cash Flow Statement

for the Financial Year Beginning on 1 January and Ending on 31 December 2018

ACCENTRO Real Estate AG		Notes	1 Jan. 2018– 31 Dec. 2018	1 Jan. 2017– 31 Dec. 2017
			TEUR	TEUR
	Consolidated income		18,301	20,120
+	Depreciation/amortisation of non-current assets		349	114
–/+	Net income from associates carried at equity/investment income		–38	1,832
+/–	Increase/decrease in provisions		–1,428	–759
+/–	Other non-cash expenses/income		18.149	9,766
–/+	Increase/decrease in trade receivables and other assets that are not attributable to investing or financing activities		–18,131	–5,874
+/–	Increase/decrease in trade payables and other liabilities that are not attributable to investing or financing activities		–9,638	24,331
–/+	Income from disposal of investment property		0	–35
–/+	Gains/losses from disposals of subsidiaries		0	–327
+/–	Other income tax payments		–8,299	–2,584
=	**Operating cash flow before de-/reinvestments in trading real estate portfolio**	**5.18**	**–735**	**46,583**
–/+	Cash investments in the trading real estate portfolio (net after assumption of debt, some without cash effect)	5.18	–47,697	–71,783
=	**Cash flow from operating activities**	**5.18**	**–48,432**	**–25,200**
	thereof Continuing Operation		**–**	**–26,274**
	thereof Discontinued Operation		**–**	**1,074**
+	Proceeds from disposal of investment property (less costs of disposal)		0	5,119
+	Interest received		0	424
–	Cash outflows for investments in intangible assets		–121	–5
–	Cash outflows for investments in property, plant and equipment		–23,612	–116
–	Cash outflows for investments in investment properties		0	–181
–	Cash outflows for investments in non-current assets		–9,689	–106
–	Disbursements of loans granted		–17,867	0
+	Cash received from distributions/sales of shares consolidated at equity		86	4,200
+	Repayment of loans granted*		0	13,343
=	**Cash flow from investment activities**	**5.18**	**–51,204**	**22,679**
	thereof Continuing Operation		**–**	**162**
	thereof Discontinued Operation		**–**	**22,517**

* Reclassification of proceeds from granted loans from financing activities to the cash flow from investment activities

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	ACCENTRO Real Estate AG	Notes	1 Jan. 2018–31 Dec. 2018	1 Jan. 2017–31 Dec. 2017
			TEUR	TEUR
+	Payments made by shareholders		19,426	0
–	Dividend payments to shareholders		–5,154	–3,731
+	Payments from issuing bonds and raising (financial) loans		164,056	115,667
–	Repayment of bonds and (financial) loans		–62,447	–109,595
–	Interest paid		–4,470	–6,771
+	Interest received		0	209
=	**Cash flow from financing activities**	**5.18**	**111,410**	**–4,223**
	thereof Continuing Operation		**–**	**–4,248**
	thereof Discontinued Operation		**–**	**25**
	Net change in cash and cash equivalents		11,774	–6,743
+	Increase in cash and cash equivalents from investments in fully consolidated companies	5.18	2,716	0
	Change in restricted cash and cash equivalents/adjustment of cash and cash equivalents	5.18	1,091	–1,334
–	Decrease in cash and cash equivalents from the disposal of fully consolidated companies	5.18	–6,659	–525
+	Cash and cash equivalents at the beginning of the period		6,541	15,143
=	**Cash and cash equivalents at the end of the period**		**15,464**	**6,541**

Consolidated Statement of Changes in Equity

for the Financial Year Beginning on 1 January and Ending on 31 December 2018

ACCENTRO Real Estate AG	Subscribed capital	Capital reserve	Retained earnings	Attributable to parent company sharehol-ders	Non-controlling interests	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As of 1 January 2018	**24,925**	**53,462**	**73,576**		**1,734**	**153,696**
Total consolidated income	–	–	18,197	18,197	103	18,301
Changes in non-controlling interests	–	–	–		118	118
Share purchases without change of status	–	–	–334	–334	–	–334
Convertible bonds converted	5,393	7,375	–	12,768	–	12,768
Dividend payments	–	–	–5,154	–5,154	–	–5,154
Cash capital increase	2,120	17,522	–	19,642	–	19,642
Stock option compensation	–	135	–	135	–	135
Repurchase of company shares	–7	–60	–	–67	–	–67
As of 31 December 2018*	**32,431**	**78,433**	**86,284**	**197,148**	**1,956**	**199,104**

* 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 on 31 December 2017

ACCENTRO Real Estate AG	Subscribed capital	Capital reserve	Retained earnings	Attributable to parent company sharehol-ders	Non-controlling interests	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As of 1 January 2017	**24,734**	**53,180**	**57,164**	**135,078**	**1,758**	**136,836**
Total consolidated income	–	–	20,144	20,144	–24	20,120
Convertible bonds converted	191	282	–	473	–	473
Dividend payments	–	–	–3,731	–3,731	–	–3,731
As of 31 December 2017*	**24,925**	**53,462**	**73,576**	**151,963**	**1,734**	**153,696**

* 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 2018, 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. Sec. 29, Art. 2, and Sec. 30, Art. 1, German Act on Securities Acquisition and Takeovers (WpÜG).

These consolidated financial statements will probably be released for publication at the end of the Supervisory Board meeting on 14 March 2019.

All amounts in the notes and tables are quoted in thousands of euros (TEUR) unless stated otherwise. The functional currency is the EURO; there are no significant foreign currency transactions. 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 2018 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 and includes industry-standard drilldowns.

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 accounting methods employed in the consolidated financial statements are the same as those on which the consolidated financial statements of 31 December 2017 were based, except for certain changes elaborated below.

Accounting Guidance Applied for the First Time during the 2018 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 2018 financial year:

Standard/interpretation		amended/new	new
IFRS 15	Revenue from contracts with customers	new/ amended	see below
IFRS 9	Financial instruments	new/ amended	see below
IFRS 2	Clarifications of classification and measurement of share-based payment transactions	amended	n/a
IAS 40	Classification of property under construction	amended	n/a
IFRS 4	Application of IFRS 9 and IFRS 4 on insurance contracts	amended	n/a
IASB 2014-2016	Improvement process IFRS 1, IFRS 12 and IAS 28	amended	no material effects
IFRIC 22	Foreign currency transactions and advance consideration	new	n/a

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.

Due to the Group's business model, the initial introduction of IFRS 15 did not necessitate any adjustments to the financial reporting of the ACCENTRO Group.

At present, ACCENTRO reports the invoiced operating costs and income from service charges on a net basis. In real estate accounting practice, the reporting of operating costs and income from service charges is currently the subject of intensive debate and in some respects subject to controversy. Separate disclosure of expenses and income from passed-on operating service charges would increase revenues and letting expenses by c. EUR 4.5 million. Based on its total revenues of EUR 205.6 million in the 2018 financial year (item 5.11), revenues would increase by around 2%, yet ACCENTRO AG has decided to keep using its current accounting practice.

IFRS 9 – Financial Instruments
The first-time application of IFRS 9 has no material effects on the net assets, financial and earnings position of ACCENTRO Real Estate AG. Investments in equity instruments are principally measured at fair value, with realised changes in value being shown in other comprehensive income in accordance with IFRS 9.4.1.4. There were no such changes in value to be recognised in the 2018 financial year. Due to the fact that ACCENTRO only works with banks of high credit worthiness (e.g. its cash in banks is deposited essentially with cooperative banks), no (imputed) value adjustments of bank balances were recognised. Due to the business model used in the line of apartment retailing, the revenue is realised on receipt of payment, which

makes value adjustments and bad-debt losses insignificant for the business model. Therefore, the switch from incurred loss (IAS 39) to expected loss (IFRS 9) model has no material effects, with ACCENTRO employing the so-called simplified value adjustment model in accordance with IFRS 9.5.5.15. In portfolio trading or in conjunction with larger real estate package sales, a credit period might be agreed, which would cause accounts receivable to be recognised as of the balance sheet date. Such receivables are collateralised by land charges and therefore similarly subject to a negligible default risk only.

Changes in the fair value of investments in equity instruments are recognised directly in equity because they serve the strategic purpose of privatisation rather than being acquired or sold in order to generate trading profits.

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 16	Leasing	1 January 2019	yes	no material effects anticipated; see below
IFRIC 23	Interpretation concerning the accounting for uncertainties in income taxes	1 January 2019	yes	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	yes	none

IFRS 16 – Leasing

IFRS 16 eliminates the previous distinction in the balance sheet recognition 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 for financial instruments in accordance with IFRS 9. In future, the presentation in the income statement will for all lease and leasehold relationships be shown as write-downs on the right of use and interest from the liability. Expenses for operating leases were allocated on a straight-line basis. 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 as tenant or lessee. The other financial obligations in 2018, which are identified in item 5.19, amount to a total of c. TEUR 503 and mainly represent the rent for the business premises. In future, the application of IFRS 16 will lead to an increase in leasing liabilities and to the disclosure of rights of use of a maximum of TEUR 500 each, as well as to the annual depreciation of TEUR 150 at a maximum. Lease payments are recognised in cash flow from financing activities. We assume that the first-time adoption of IFRS 16 will have no effects on profit.

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 (IFRS 10).

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. 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. Subsidiaries are fully consolidated as of the date on which the Group acquires a controlling interest in the respective company. They are subject to final consolidation 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 pursuant to IFRS 3 whenever the acquired company represents a business operation. In case the acquired company does not represent a business operation, it is consolidated pursuant to IFRS 10 as an acquisition of assets and liabilities. The decisive criterion for the qualification of an acquired company as a business operation is usually the question of whether human resources will be taken over.

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. 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 5.1.4.

The recognition and measurement methods of subsidiaries are applied uniformly throughout the Group while expenses, income, liabilities and capital are consolidated.

c) Joint Ventures

Joint arrangements (IFRS 11) 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 six joint ventures (previous year: two) 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. Disclosures on the risks associated with the interests that ACCENTRO Real Estate AG holds in joint ventures and associates are included along with summarised financial information on these entities in section 5.1.5. The summarised financial information for joint ventures and associates that are, on an individual basis, immaterial are presented in aggregate form.

ACCENTRO Real Estate AG invests in joint ventures or associates primarily for operational reasons. The idea is often to acquire a stake in a housing privatisation process. Given the analogy to the Company's primary operating activities, the result from at-equity investments is allocated to the cash flow from operations while the at-equity earnings are included in EBIT.

Starting in 2018, the recognition and measurement methods will be adjusted to uniform Group accounting and valuation methods in conjunction with the at-equity consolidation. This includes, inter alia, the capitalisation of borrowing costs for project developments tied up in associates.

e) Consolidated Group

The consolidated Group changed as follows since 31 December 2017:

No. of	Subsidiaries	Joint ventures	Associates
As of 1 January	**28**	**2**	**2**
Acquisitions	3	6	–
Start-ups	8	–	–
Mergers/amalgamations/deletions	–1	–	–2
Dispositions	9	–	–
As of 31 December	**29**	**8**	**0**

In January 2018, a 75% partnership interest in the subgroup ACCENTRO Gehrensee GmbH including five subsidiaries was sold. The latter owns a property of around 41,500 m² in Berlin's Lichtenberg borough. The shares were purchased by a Berlin-based property developer, with whom the project is to be jointly continued and developed further. The company was renamed Belle Époque Quartier Gehrensee GmbH.

In addition, the equity interests in three subsidiaries (property holding companies) were sold in 2018.

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. 2018 Interest in net assets (in %)*	31 Dec. 2017 Interest in net assets (in %)*
ESTAVIS Wohneigentum GmbH**	Berlin	100%	100%
ESTAVIS 43. Wohnen GmbH & Co. KG	Berlin	100%	100%
ACCENTRO GmbH (Vermittlungsdienstleistungen)**	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 6. Wohneigentum GmbH**	Berlin	100%	100%
ACCENTRO Sachsen GmbH (formerly ACCENTRO 8. Wohneigentum GmbH)**	Berlin	100%	100%
Quartier Hasenheide GmbH**	Berlin	100%	100%
ACCENTRO 11. Wohneigentum GmbH**	Berlin	100%	100%
Phoenix F1 Neubrandenburgstrasse GmbH**	Erlangen	100%	94.9%
Riehmers Hofgarten Grundbesitz GmbH (formerly ACCENTRO 13. Wohneigentum GmbH)**	Berlin	100%	100%
Riehmers Dachgeschoss Grundbesitz GmbH (formerly ACCENTRO 14. Wohneigentum GmbH, set up in Q2 2018)**	Berlin	100%	–
Kantstraße 44, 45 Verwaltungsgesellschaft mbH (formerly ACCENTRO 15. Wohneigentum GmbH, set up in Q2 2018)**	Berlin	100%	–
ACCENTRO 16. Wohneigentum GmbH (set up in Q2 2018)	Berlin	100%	–
ACCENTRO 17. Wohneigentum GmbH (set up in Q3 2018)	Berlin	100%	–
ACCENTRO 18. Wohneigentum GmbH (set up in Q3 2018)	Berlin	100%	–
ACCENTRO 19. Wohneigentum GmbH (set up in Q3 2018)	Berlin	100%	–

* The disclosures in this table comply with the provisions of the German Commercial Code (HGB).
**The company takes advantage of the exemption pursuant to Sec. 264 Art. 3, German Commercial Code (HGB) (preparation, disclosure and audit).

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. 2018 Interest in net assets (in %)*	31 Dec. 2017 Interest in net assets (in %)*
Subsidiaries with Non-Controlling Interests			
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%
Johanniterstr. 3-6 Liegenschaften GmbH (formerly Laxpan Six GmbH, acquired in Q1 2018)**	Berlin	80%	–
ACCENTRO Rhein-Ruhr GmbH (set up in Q4 2018)	Oberhausen	75%	–
ACCENTRO 2. Sachsen GmbH (set up in Q3 2018)	Berlin	49.9%	–
GeSoNa Verwaltungs GmbH & Co. KG Hermannstraße KG	Berlin	69.8%	–
GeSoNa Verwaltungs GmbH	Berlin	64.2%	–
Companies Derecognised during the Financial Year			
ACCENTRO 12. Wohneigentum GmbH	Berlin	0%	100%
ACCENTRO 3. Wohneigentum GmbH	Berlin	0%	100%
ACCENTRO 10. Wohneigentum GmbH	Berlin	0%	100%
ACCENTRO Gehrensee GmbH	Berlin	25%	100%

* The disclosures in this table comply with the provisions of the German Commercial Code (HGB).
**The company takes advantage of the exemption pursuant to Sec. 264 Art. 3, German Commercial Code (HGB) (preparation, disclosure and audit).

List of Equity Interests Accounted for Using the Equity Method

Company	Domicile	31 Dec. 2018 Interest in net assets (in %)	31 Dec. 2017 Interest in net assets (in %)
Wohneigentum Berlin GbR (joint venture)	Berlin	33.33%	33.33%
Urbanstraße 5 Projekt GmbH (joint venture)	Berlin	49%	49%
Havelländer Rosenensemble GmbH (acquired in Q2 2018, joint venture)		44%	–
Gutshof Dahlewitz 1 GmbH (formerly Berner Group Blanko 4 GmbH, acquired in Q3 2018, joint venture)		44%	–
Gutshof Dahlewitz 2 GmbH (formerly Berner Group Blanko 5 GmbH, acquired in Q3 2018, joint venture)	Berlin	44%	–
Belle Époque Quartier Gehrensee GmbH (formerly ACCENTRO Gehrensee GmbH, joint venture)	Berlin	25%	100%

* For explanatory notes, see item 5.1.5

2.3 Segment Reporting

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. Although individual sales could generate the equivalent of 10% of the sales proceeds of a financial year with a single customer (as was the case, for example, with the sale of the so-called Gehrensee portfolio in 2018), this would not constitute a dependence within the meaning of IFRS 8.

2.4 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.).

2.5 Impairment of Assets

The goodwill is reviewed at least once a year, and moreover whenever events or indicators suggest a possible impairment. Owner-occupied properties and buildings, other 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.

2.6 Owner-Occupied Properties and Buildings

Plots and buildings are recognised at cost value or production costs less accumulated depreciation and accumulated impairment losses. Subsequent acquisition costs are recognised whenever economic benefits associated with property, plant or equipment are likely to accrue for the Group in the future. Scheduled straight-line depreciation is based on the estimated useful lives of the assets. The useful life of the office building is assumed to be 33 years. Depreciation is recognised in the consolidated income statement. The carrying amounts of property, plant and equipment are checked for impairment whenever there is an indication that the carrying amount of an asset may exceed its recoverable amount.

2.7 Financial Instruments

2.7.1 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. The ACCENTRO Group currently only recognises loans and receivables that are measured at cost. Changes in the fair value of any financial assets carried at fair value (in particular investments) are recognised directly in equity with no effect on net income. Dividends, on the other hand, are recognised at profit or loss.

ACCENTRO uses the so-called simplified impairment model in accordance with IFRS 9.5.5.15 and always calculates the impairment loss in the amount of the expected credit losses over the entire lifetime, taking into account collateral (e.g. in the case of sold real estate assets the outstanding land register transfer). As soon as it becomes apparent that a rental claim is uncollectable, the full amount will be derecognised in the income statement.

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.

2.7.2 Financial Liabilities

On first-time recognition, financial liabilities other than derivatives are recognised at fair value less transaction costs. In subsequent periods, they are carried at amortised cost. Any differences between the amount disbursed (net 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 that lies 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.

2.8 Inventory Properties

The inventories of the ACCENTRO Group consist of real estate 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, inventory properties 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. In the context of share deal transactions, the acquisition costs are determined individually by increasing the purchase price of the shares by the additional net assets.

From time to time, the condominium retailing business necessitates a breakdown of the acquisition costs incurred by each flat during the property retailing process. 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. Accordingly, if a residential complex is acquired at a total consideration, the apartments with the highest expected selling price in absolute terms are allocated the relatively highest share of the acquisition costs.

2.9 Cash and Cash Equivalents

Cash and cash equivalents are recognised 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. Earmarked funds, e.g. purchase price portions that may only be used to repay loan obligations, are not included in cash and cash equivalents but are recognised under other receivables and other current assets.

2.10 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 the discounting at a risk-adequate interest rate.

2.11 Deferred Taxes

Deferred taxes are recognised in accordance with the liability method for temporary differences between the tax value 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" in future.

2.12 Revenue Recognition

Given the nature of the business model, privatisation usually involves a single performance obligation under IFRS 15. The revenues from privatisation includes the amount invoiced for the sale of real estate held as inventory assets and is recognised upon transfer of control. This is generally the case when possession, benefits, duties and risks associated with the property are transferred (e.g. public safety requirements). 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. In some cases, obligations to carry out subsequent renovation or improvement work are negotiated as part of a given sale. Such cases involve a separable performance obligation, which is not realised until it has been fulfilled.

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.

2.13 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 contract costs among the miscellaneous receivables.

2.14 Leases

All leases signed within 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 straightline 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:

2.15 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.

2.16 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 cash flow statement represents the cash flows from operating activities, from the investing activities, and from the financing activities.

3 Capital and Financial Risk Management

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

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

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

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

In order to avoid risks of default, the Group only enters into sales relationships with parties of sound creditworthiness. In order to 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 for the recognition, measurement and disclosure of 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.
- 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 anticipated trend in purchasing 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.
- 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.
- To the extent that ACCENTRO invests in companies whose accounts were not yet finalised by the balance sheet date or unavailable for a more detailed insight, the best possible estimate is made to ensure uniform recognition and measurement methods.
- The assessment of whether loans to associates are classified as a financial instrument to be separately recognised in accordance with IFRS 9 due to their structure (expected loss model), or whether they follow the rules for assets accounted for using the equity method in accordance with IAS 28.38 (incurred loss model).

Concerning the financial reporting and valuation rules, ACCENTRO Real Estate AG made the following discretionary decisions concerning the basis of its accounts presentation:

- 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.
- The initial recognition of financial instruments (IFRS 9) calls for a decision as to which of the three measurement categories they are to be allocated to: recognised in income at fair value, recognised in equity at fair value (OCI) or recognised at amortised cost.
- The companies Kantstraße 130b/Leibnizstraße 36, 36a GbR and Kantstraße 130b/Leibnizstraße 36, 36a Immobilien Gesellschaft mbH are itemised as Group subsidiaries under 5.1.4 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.
- IFRS 5.32.c does not regularly apply to inventories acquired by way of a share deal, as the intention to resell is not tied to the legal structure but to the underlying portfolio of inventory properties.
- The quality of restraints on disposal must be assessed with regard to their effect on the classification as cash and cash equivalents. If restraints on disposal on the part of the banks restrict the free disposition of funds, they are removed from the cash and cash equivalents in the balance sheet and/or in the cash flow statement.

Whenever errors in the accounting estimates and in the fair value measurements become apparent during the reporting 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. toward the end of the previous year, and which refers almost exclusively to the "Trade" 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. In 2016, 2017 and 2018, ACCENTRO also generated a substantial income from its trading business and intends to achieve equally high profit contributions in the years to come to ensure that the intrinsic value of the goodwill is supported by the Company's economic development.

5.1.2 Owner-Occupied Properties and Buildings

A subsidiary of ACCENTRO Real Estate AG acquired an office building in Berlin-Charlottenburg for the price of EUR 22 million plus incidental costs during the third quarter of 2018. The main part of the building with an overall floor area of around 2,900 square metres will be redeveloped and occupied by ACCENTRO as its new head office at some point in the future. To this end, the lease agreements with the incumbent tenants were either terminated or not renewed.

The property is recognised as property, plant and equipment in accordance with IAS 16 and valued at initial cost including incidental costs for notary fees and real estate transfer tax. The scheduled depreciation is measured for a period of 33 years using the straight-line method.

In addition, one unit reported under inventory assets in the previous year was reclassified for owner-occupancy and also depreciated over a 33-year period using the straight-line method.

The acquisition costs and incidental costs are allocated to the acquired plot and building as follows according to their appraised fair values:

31 December 2018	Owner-occupied plots	Owner-occupied buildings	Total
	TEUR	TEUR	TEUR
Initial costs			
Beginning of period	0	0	0
Additions	9,686	13,737	23,423
Disposals	0	0	0
Transfer items	0	117	117
End of period	9,686	13,854	23,540
Accumulated amortisation			
Beginning of period	0	0	0
Additions	0	173	173
Disposals	0	0	0
End of period	0	173	173
Depreciated book value	**9,686**	**13,681**	**23,366**

5.1.3 Long-Term Trade Receivables, Other Receivables and Other Assets

Gathered in this item are various loans and financial assets. Specifically, the item breaks down into loans to companies included at equity in ACCENTRO's consolidated financial statements as associates in the amount of TEUR 14,859, loans to companies with which ACCENTRO is linked via marketing agreements in the amount of TEUR 10,140, loans in the amount of TEUR 3,345 to entities in which the Company holds equity interests and corporate investments with a percentage interest of 5% in the amount of TEUR 496.

	31 Dec. 2018	31 Dec. 2017
	TEUR	TEUR
Long-term trade receivables		
Purchase price receivables	2,357	2,477
Non-current other receivables and assets		
Subordinated loan to the associate Belle Époque Quartier Gehrensee GmbH	10,159	0
Loan to, and deferred interest receivable from, a sales order in Potsdam	10,140	0
Subordinated loan to HRP Hamburg Residential GmbH	3,345	0
Loan to the associate Havelländer Rosenensemble	3,120	0
Loan to the associates Dahlewitz Projektgesellschaften	1,581	0
Equity interest (5.1%) in HRP Hamburg Residental GmbH	496	0
Total of non-current other receivables and other assets	**28,814**	**0**

The long-term trade receivables include a purchase price receivable due for payment at least by March 2020 from the sale of an inventory property yet to be developed (carrying amount as of 31 December 2018: TEUR 2,357; previous year: TEUR 2,477). The receivable is secured by the assignment of future purchase price claims unless these have already been granted as collateral to other lenders with seniority.

Included among the other receivables is a junior mezzanine loan to the associate Belle Époque Quartier Gehrensee GmbH over TEUR 10,159 with an interest rate of 10%. The loan and interest claim in connection with a sales order in Potsdam is subject to an interest rate of 7.5%, with shares and the open advance assignment of claims from shareholder loans pledged as collateral, and will have to be repaid by October 2021 at the latest. The subordinated loan granted to HRP Hamburg Residential GmbH at an interest rate of 2.89% and to be repaid by 2023, and the 5.1% equity interest in this same company are associable with the financing of a residential portfolio of 321 residential units in an up-market location in Hamburg. In this context, ACCENTRO was granted the exclusive opportunity to handle the privatisation of 193 of these residential units. The reported loan receivables from two subordinated loans to the associate Havelländer Rosenensemble GmbH both bear 10% in interest and will be due for repayment by 31 December 2020.

In accordance with IAS 28.38, the loan to Belle Époque Quartier Gehrensee GmbH is included in the subsequent at-equity valuation due to its equity-replacing structure, although a separate balance sheet disclosure is retained. Other loans to associates qualify as financial instruments in accordance with IFRS 9 on the basis of the collateral provided, and are measured at amortised cost.

5.1.4 Subsidiaries with Substantial but Non-Controlling Interests

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

Name	Capital share of the non-controlling interests in % (voting rights, in %)	Consolidated income representing non-controlling interests	Book value of the non-controlling interests as of 31 Dec. 2018	Dividends paid out to the non-controlling interests during the reporting period
	%	TEUR	TEUR	TEUR
Corporations				
Uhlandstraße 79 Immobilien GmbH	50 +1 vote	34	175	–
Kantstraße 130b/Leibnizstraße 36, 36a Immobilien Gesellschaft mbH	59	6	–78	–
Johanniterstr. 3-6 Liegenschaften GmbH	20	66	1,839	–
ACCENTRO Rhein-Ruhr GmbH	25	0	6	
ACCENTRO 2. Sachsen GmbH	50.1	–2	11	
GeSoNa Verwaltungs GmbH	8	0	3	–
Total		**103**	**1,956**	**–**
Partnerships				
Kantstraße 130b/ Leibnizstraße 36, 36a GbR*	61	0	–151	–
GeSoNa Verwaltungs GmbH & Co. Hermannstr. KG	30.2	0	4,568	–

* recognised among the financial liabilities

Listed below are the summarised financial details of subsidiaries in which ACCENTRO Real Estate AG held substantial but non-controlling interests as of 31 December 2018 and as of 31 December 2017:

31 December 2018	Johanniterstr. 3-6 Liegenschaften GmbH	ACCENTRO 2. Sachsen GmbH	GeSoNa Verwaltungs GmbH & Co. Hermannstr. KG
	TEUR	TEUR	TEUR
Total of current assets	25,617	3,778	24,775
Total of non-current assets	0	1	23
Total of current liabilities	672	566	2,041
Total of non-current liabilities	10,283	3,191	12,792
Earnings/revenues	**631**	**0**	**0**
Annual net income/net loss	**328**	**–3**	**0**
thereof attributable to the shareholders of ACCENTRO Real Estate AG	262	–1	0
thereof attributable to the non-controlling interests	66	–2	0

Financial information on companies in which non-controlling interests are held is explained as of 31 December 2018, provided that the proportionate equity attributable to the other pro-rata interests is greater than TEUR 200, the balance sheet total of the respective company is greater than TEUR 1,000 or the pro-rata profit/loss for the year is greater than TEUR 50. The net profit shares of non-controlling interests in partnerships are recognised as profit or loss in the consolidated income statement.

31 December 2017	Phoenix F1 Neubrandenburg-strasse GmbH	Kantstraße 130b/ Leibnizstraße 36, 36a GbR	Diverse minority interests in the special purpose entities of ACCENTRO Gehrensee
	TEUR	TEUR	TEUR
Total of current assets	12,724	315	42,681
Total of non-current assets	0	0	0
Total of current liabilities	2,338	59	16,506
Total of non-current liabilities	0	1	4,012
Earnings/revenues	**8,786**	**1,841**	**0**
Annual net income/net loss	**1,760**	**224**	**–342**
thereof attributable to the shareholders of ACCENTRO Real Estate AG	1,670	149	–325
thereof attributable to the non-controlling interests	90	75	–17

5.1.5 Equity Interests Accounted for Using the Equity Method

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

	2018	2017
	TEUR	TEUR
Start of financial year	**264**	**472**
Additions	3,261	6
Disposals	–5	–200
Shares in gains and losses	–2	–14
End of financial year	**3,518**	**264**

During Q2 and Q3 2018, ACCENTRO AG acquired equity interests of 44% each in three companies (in Havelländer Rosenensemble GmbH for TEUR 89; in Gutshof Dahlewitz 1 GmbH and Gutshof Dahlewitz 2 GmbH for TEUR 22) for the purpose of acquiring, developing and marketing joint projects, and to thereby expand the Company's commitment on the real estate market.

With the share exchange and transfer agreement dated 22 January 2018, the equity interest of 75% in the ACCENTRO Gehrensee GmbH subgroup recognised among the Group's subsidiaries in the previous year was sold to a Berlin-based property developer and measured at a fair value of TEUR 3,150. The project will be continued as joint venture under the name Belle Époque Quartier Gehrensee GmbH.

The joint ventures are financed by ACCENTRO, among other sponsors, see note 5.1.3. The business purpose of the joint ventures is normally the project planning and completion of residential real estate. ACCENTRO is committed in these joint ventures in order to generate value-added through housing privatisations in addition to the successful project completion in a general sense. In this context, ACCENTRO reviews the IFRS-compliant classification of the property development in accordance with IAS 2 as inventory asset (possibly associated with partial realisation of profits in accordance with IFRS 15.35) or the recognition in accordance with IAS 40 as "income producing property" in the context of maintaining uniform Group recognition and measurement methods, with the recognition in this case being based on the acquisition and production costs. If a property development is classified as inventory asset, the borrowing costs are capitalised in line with the industry standard. Expenses and income are consolidated in the pro-rata amount financed by ACCENTRO and recognised in income.

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 2018 and 31December 2017, appraised using the equity method:

31 December 2018	Urbanstraße 5 Projekt GmbH (Joint Venture)	Wohneigentum Berlin GbR (Joint Venture)	Gutshof Dahlewitz 1 GmbH (Joint Venture)	Gutshof Dahlewitz 2 GmbH (Joint Venture)	Havelländer Rosenensemble GmbH (Joint Venture)	Belle Époque Quartier Gehrensee GmbH (Joint Venture)
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Earnings/revenues	69	0	0	0	288	244
Profit or loss for the year/ comprehensive income	–88	0	0	0	222	0
Total of current assets	3,394	449	0	0	12,862	49,372
Total of non-current assets	0	0	0	0	0	0
Total of current liabilities	1,073	0	0	0	208	109
Total of non-current liabilities	2,503	0	0	0	12,420	32,666
Net assets of the associate	–182	449	0	0	233	16,706
ACCENTRO Real Estate AG's interest in the net assets of the associate	49.82%	33.33%	44.00%	44.00%	44.00%	25.00%
Book value of ACCENTRO Real Estate AG's interest, appraised using the equity method	0	156	11	11	89	3,250

31 December 2017	Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft 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 or loss for the year/ comprehensive income	–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 the 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

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 5.22.

5.1.6 Equity Investments

All things considered, ACCENTRO held interests of 5.1% each in five equity investments as of 31 December 2018. The earnings from these equity investments added up to TEUR 36 during the 2018 financial year. No changes in fair value to be shown in other comprehensive income were realised during the financial year because the acquisitions made during the year have not yet experienced any significant increase or loss in value. The equity investments were undertaken with the view of developing new housing privatisation opportunities.

	31 Dec. 2018	31 Dec. 2017
	TEUR	TEUR
Delta Vivium I equity interest	2,683	0
Magnus Relda portfolio equity interest	1,121	1,121
Miscellaneous	427	126
Total	**4,231**	**1,247**

5.2 Inventory Properties

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

	31 Dec. 2018	31 Dec. 2017
	TEUR	TEUR
Ready-for-sale properties	340,167	285,403
Advanced payments	5,073	18,624
Total	**345,241**	**304,027**

The Company continued to invest in the expansion of the trading portfolio during the 2018 financial year. For 866 residential units acquired for a combined purchase price of EUR 163.3 million, the transfer of benefits and burdens took place during the 2018 financial year.

For another 177 residential units acquired for a purchase price of EUR 32.7 million, the sale and purchase agreements have already been signed, but the transfer of benefits and burdens will take place in 2019 and be reported for that same year. At the same time, 1,615 residential units worth EUR 156.6 million in initial costs were sold, so that the inventory assets, taking into account the refurbishment measures completed in the course of the year, increased by EUR 41.2 million.

Inventory properties with a carrying value of TEUR 203,560 (prior period: TEUR 171,959) are expected to be sold after more than twelve months, according to corporate planning.

The properties are measured at initial costs plus subsequent expenditures to restore their marketability. There were no reversals of impairment losses or write-downs on properties held as inventory assets during the 2018 financial year. The recognised properties serve as collateral for financial liabilities in the amount of EUR 256.1 million (prior period: EUR 277.3 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. 2018	31 Dec. 2017
	TEUR	TEUR
Trade receivables (gross)	21,958	3,725
Allowances	–994	–96
Trade receivables (net)	**20,964**	**3,629**
thereof non-current	**2,357**	**2,477**
thereof current	**18,607**	**1,152**

The table below lists the trade receivables by maturity:

	31 Dec. 2018	31 Dec. 2017
	TEUR	TEUR
Trade receivables	20,964	3,629
thereof neither written down as of the reporting date nor overdue	17,805	3,000
thereof neither written down as of the reporting date nor overdue for another 30 days	424	149
thereof neither written down as of the reporting date nor overdue for another 31 to 60 days	1,316	16
thereof neither written down as of the reporting date nor overdue for another 61 to 90 days	350	142
thereof neither written down as of the reporting date nor overdue for another 91 to 180 days	248	99
thereof neither written down as of the reporting date nor overdue for another 181 to 360 days	257	160
thereof neither written down as of the reporting date nor overdue for more than 360 days	565	62
Net value of written-down trade receivables	0	0

The default risk for receivables from tenants and buyers of residential units is rated as low.

The trade receivables include accounts receivable in the amount of TEUR 11,200 from the sale of a real estate portfolio that was closed toward the end of the year. Although the rights/duties and control were transferred to the buyer as of 31 December 2018, ACCENTRO reserves the right to delay the change in the land register until the purchase price is paid in full.

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

	2018	2017
	TEUR	TEUR
As of 1 January	**96**	**58**
Change in consolidated Group	4	1
Additions (write-downs)	926	46
Reversals	–31	–9
As of 31 December	**994**	**96**

Allocations to value adjustments include the rent claim from the letting of a property as migrant shelter for which a one-off allowance was made as a precautionary measure.

The miscellaneous receivables and other assets include:

	31 Dec. 2018	31 Dec. 2017
	TEUR	TEUR
Receivables from operating costs not yet invoiced	8,064	5,977
Down-payments on inventory properties earmarked for sale	0	3,292
Sales tax receivables	975	975
Receivables from investment companies	409	496
Loan receivables from former associates sold together with the companies	2,323	0
Restricted-use cash in banks	175	119
Miscellaneous other receivables	763	709
Total current assets and miscellaneous receivables	**12,709**	**11,568**

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 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.

Moreover, there are receivables in the amount of TEUR 2,323 from the sale of two subsidiaries and the related sale of the shareholder loans. The amount was repaid in January 2019.

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

5.4 Cash and Cash Equivalents

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

5.5 Equity Capital

The issued capital (share capital) of ACCENTRO Real Estate AG amounted to EUR 32,437,934.00 as of 31 December 2018. It was composed of 32,437,934 no-par value bearer shares. There are no different stock classes. At the start of the 2018 financial year, the share capital amounted to EUR 24,924,903.00 and increased by EUR 5,393,031.00 during the reporting period when the conversion rights from a convertible bond issued by ACCENTRO Real Estate AG were exercised and grew by another EUR 2,120,000.00 after the cash capital increase.

ACCENTRO AG has the following authorised and conditional capital at its disposal:

	Amount	No-par value shares	Purpose
	TEUR	in thousands	
Contingent Capital 2014	–	–	Expired on 26 February 2018
Contingent Capital 2017	1,800	1,800	Servicing the stock option plan (currently inactive)
Authorisation to issue bonds*	200,000	25,000	Issuance of convertible bonds and/or bonds with warrants/ participation rights
Authorised Capital 2018*	15,159	15,159	Capital increase against cash and non-cash contributions (until 14 May 2023)

* Subject to approval by the Supervisory Board

Other than that, we refer you to the Group management report for mandatory disclosures pursuant to Sec. 315a, Art. 1, German Commercial Code (HGB).

5.6 Financial Liabilities and Bonds

The table below lists the Group's current and non-current financial liabilities as well as its bonds:

	31 Dec. 18	31 Dec. 17 (financial)	31 Dec. 2017
	TEUR	TEUR	TEUR
Non-current financial liabilities			
Liabilities to banks	76,773	68,822	42,439
Bond liabilities	98,561	12,065	0
Total non-current financial liabilities	**175,334**	**80,887**	**42,439**
Current financial liabilities			
Liabilities to banks	54,357	60,499	86,882
Bond liabilities	1,563	0	12,065
Total current financial liabilities	**55,920**	**60,499**	**98,947**
Total financial liabilities	**231,253**	**141,386**	**141,386**

Liabilities to Banks

During the previous year, 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 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 had to be classified as current. This was reflected in the recognition of current financial liabilities in the amount of TEUR 86,882. During the previous year, no financial institution took advantage of its right to act on the change-of-control provision.

To make it easier to compare the asset and financial position, the breakdown of maturities introduced the previous year has been retained in this section in order to ensure a consistent presentation of the current year. According to the latter, current financial liabilities in the amount of TEUR 60,499 had to be recognised the previous year (column: 31 Dec. 2017 (financial)). The carrying amount of non-current financial liabilities to banks would break down into loan amounts with remaining terms of more than one and up to five years (TEUR 71,618; previous year: TEUR 63,265) and those with remaining terms of more than five years (TEUR 5,154; previous year: TEUR 5,557).

The modest decline in current financial liabilities by TEUR 4,579 — when ignoring the change-of-control provisions — is primarily explained by the fact that inventory properties were earmarked for sale in the 2019 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 54,357 for the 2019 financial year.

Bond Liabilities

On 5 March 2014, the Company issued 6,000,000 convertible bonds with a par value of EUR 2.50 each (2014/2019 convertible bond). The original par value of the bearer bonds was TEUR 15,000. The convertible bond drew an interest of 6.25% and would originally have matured on 27 March 2019. On 16 February 2018, ACCENTRO AG announced the early termination of the 2014/2019 convertible bond, which was recognised among the current financial liabilities during the previous financial year, in accordance with the bond terms because of the insignificance of the nominal amount still outstanding. The outstanding partial amount of TEUR 107 was repaid in full on 27 March 2018, net of the accrued interest.

In January and February 2018, the bulk of the outstanding convertible bond certificates were exchanged for shares by conversion.

On 23 January 2018, ACCENTRO Real Estate AG successfully concluded placement of a three-year corporate bond. The aggregate par value that was placed totals EUR 100 million. The corporate bond has an annual interest rate of 3.75%. The interest is paid semi-annually. The net issue proceeds will primarily be used to finance the acquisition of new real estate assets. The reported carrying amount of the bond of TEUR 98,561 represents the issue proceeds, net of the transaction costs that accrued over the term of the bond and that are calculated using the effective interest method.

The current liabilities include outstanding interest on bonds in the amount of TEUR 1,563.

Securities and Financial Covenants

Liabilities to banks are secured in a carrying amount of TEUR 256,184 (previous year: TEUR 277,297) by the real estate portfolio for whose financing they were taken out, and by the rent and sales receivables associable with these properties. This real estate portfolio consists of properties from the inventory assets. There are also some restricted accounts in the amount of TEUR 2,280 (prior period: TEUR 4,515) of which TEUR 175 are recognised among the other assets and TEUR 1,948 among the cash and cash equivalents.

In addition, financial liabilities worth TEUR 106,286 (previous year: TEUR 21,717) are subject to contractual covenants toward the compliance with certain financial ratios (financial covenants) that concern the bond and certain bank loans as of 31 December 2018. The financial ratios refer essentially to industry-standard covenants relating to the limitation of net debt and 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.

The bond issued in 2019 obligates the Company, inter alia, to maintain an interest coverage ratio (section 11.3 of the bond terms) of 2.0 maximum and to maintain a certain equity ratio, so that the Company's ability to pay dividends may be compromised.

Non-compliance with financial ratios may prompt termination or the mandatory deposit of additional collateral. All financial covenants were upheld during the 2018 financial year.

Interest Expenses

For liabilities toward banks, non-bank lenders and the inland revenue office, interest expenses recognised in income in an amount of TEUR 5,028 (previous year: TEUR 6,826) were incurred, while the bonds generated TEUR 4,841 (previous year: TEUR 2,281) in interest expenses recognised in income and other expenses. The interest expense was matched by TEUR 944 (previous year: TEUR 304) in interest earned.

5.7 Provisions

Provisions developed as follows during the 2018 financial year:

	31 Dec. 2017	Consumed	Dissolved	Added	31 Dec. 2018
	TEUR	TEUR	TEUR	TEUR	TEUR
Provisions for warranty obligations	1,140	0	1,140	0	0
Provisions for payroll costs	223	221	0	389	390
Provisions for miscellaneous costs	908	167	698	409	452
Provisions for record-keeping obligations	17	0	0	0	17
Total	**2,288**	**388**	**1,838**	**797**	**860**

Provision for warranty obligations includes a guarantee to the purchaser of the company ESTAVIS Berlin Hohenschönhausen GmbH, which was sold in the 2015 financial year, in the amount of TEUR 1,140 was reversed due to the elimination of the obligation.

The provisions for payroll costs that existed as of 31 December 2018 concern essentially bonus and premium payments as well as holiday accruals.

Provisions for miscellaneous costs include essentially provisions for bonus payments in the amount of TEUR 240 (previous year: TEUR 180) as well as provisions for Supervisory Board remunerations in the amount of TEUR 177 (previous year: TEUR 188).

Other provisions in a carrying amount of TEUR 843 (previous year: TEUR 2,271) 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 2017 financial year, the provisions developed as follows:

	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**

5.8 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. 2018	31 Dec. 2017
	TEUR	TEUR
Trade payables	**4,816**	**2,236**
Down-payments received	**7,033**	**19,613**
Outstanding invoices	9,373	11,249
Compensation claims of non-controlling shareholders in partnerships	4,568	0
Liabilities pursuant to Sec. 13b, UStG	975	975
Loans by non-controlling companies to subsidiaries	797	88
Liabilities from security deposits	365	199
Liabilities to related parties	0	3
Miscellaneous liabilities	720	490
Other liabilities	**16,798**	**13,005**

The down-payments received break down into operating costs not yet invoiced in the amount of TEUR 6,597 (previous year: TEUR 5,217) and down-payment for plots available for sale in the amount of TEUR 436 (previous year: TEUR 14,396).

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 Sec. 13b, Turnover Tax Act (UStG). With a view to applicable statutory rules and regulations, ACCENTRO Real Estate AG assumes that the inland revenue authorities will request corrected invoices from former suppliers.

5.9 Current Income Tax Liabilities

The current income tax liabilities in the amount of TEUR 13,261 (previous year: TEUR 14,591) include corporation tax liabilities in the amount of TEUR 6,673 (previous year: TEUR 7,159) and trade tax liabilities in the amount of TEUR 6,588 (previous year: TEUR 7,432).

5.10 Deferred Taxes

The following deferred taxes are recognised in the balance sheet:

	31 Dec. 2018	31 Dec. 2017
	TEUR	TEUR
Deferred tax assets	692	193
Deferred tax liabilities	1,080	969

Deferred taxes developed as follows:

	2017	2016
	TEUR	TEUR
Deferred tax liabilities	–969	–851
Deferred tax assets	193	408
Balance of deferred taxes at start of financial year	**–776**	**–443**
Expense (–)/income (+) reported under tax expense	186	–52
Disposals from the final consolidation of property vehicles	202	33
Reclassification from non-current assets held for sale to inventory properties	0	–314
Balance of deferred taxes at end of financial year	**–388**	**–776**

The deferred taxes break down as follows:

Differences relating to	investment property	financial liabilities	losses carried forward	Total
	TEUR	TEUR	TEUR	TEUR
31 December 2017 (prior to closing) – deferred tax liabilities	**–590**	**–848**	0	**–1,438**
31 December 2017 (prior to closing) – deferred tax assets	**0**	**58**	**604**	**662**
31 December 2017 (after closing)				**–776**
Amounts recognised under tax expense	–52	–133	–384	186
Disposals from the final consolidation of property vehicles	0	220	–18	202
31 December 2018 (prior to closing) – deferred tax liabilities	**–642**	**–981**	–169	**–1,792**
31 December 2018 (prior to closing) – deferred tax assets	**0**	**63**	**1,341**	**1,404**
31 December 2018 (after closing)				**–388**

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 recognised with the amount of future taxable profit where the realisation of the corresponding tax benefits is likely to be required.

5.11 Revenues

	2018	2017
	TEUR	TEUR
Revenues from sales of inventory property	194,009	137,859
Revenues from services	2,794	1,714
Rental income from inventory property	8,684	7,769
Rental income from properties held as property, plant and equipment	122	0
Total Continuing Operation	**205,609**	**147,341**
Rental income from Discontinued Operation	0	334
Revenue from sales of investment property	0	3,783
Total Discontinued Operation	**0**	**4,117**
Total	**205,609**	**151,458**

The increase in revenues from the sale of inventory properties is due to the expansion of retail privatisations, on the one hand, and to the sales of subsidiaries and the associated property assets, on the other hand.

The rental income increased by TEUR 1,037. This is explained by the ongoing successful expansion of the Trading Portfolio by adding inventory properties.

5.12 Cost of Materials

	2018	2017
	TEUR	TEUR
Expenses for sales of inventory property	160,924	103,167
Expenses from services	511	766
Management costs of inventory property	2,667	2,335
Management costs of properties in property, plant and equipment	9	0
Total Continuing Operation	**164,111**	**106,268**
Management costs for the Discontinued Operation	0	182
Expenses from sales of investment property	0	3,752
Total Discontinued Operation	**0**	**3,934**
Total	**164,111**	**110,202**

The increased turnover is also reflected in the higher initial costs of the properties sold and in the construction costs.

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

5.13 Staff Costs

The Group employed an average of 45 people (previous year: 37) during the 2018 financial year.

The total payroll and benefit costs break down as follows:

	2018 TEUR	2017 TEUR
Salaries and other benefits	4,112	3,004
Employer contributions to statutory social insurance	501	335
Total	**4,613**	**3,339**

The rise in payroll and benefit costs by TEUR 1,274 since the 2017 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.

Contributions to the statutory pension insurance scheme during the 2018 financial year added up to TEUR 217 (previous year: TEUR 166).

5.14 Impairments of Inventories and Accounts Receivable

In the year under review, impairment losses of TEUR 31 were recognized on miscellaneous receivables in the amount of TEUR 205 (previous year: TEUR 0), with allowances for rent receivables being shown in the item "Management costs of inventory property." No allowances were recognised for inventory properties during the year under review.

5.15 Other Operating Income and Expenses

Other operating income can be broken down as follows:

	2018 TEUR	2017 Continuing Operation TEUR	2017 Discontinued Operation TEUR
Income from the dissolution of provisions and deferred liabilities	796	1,234	0
Income from the dissolution of allowances	31	71	0
Miscellaneous other operating income	835	1,955	381
Total	**1,663**	**3,260**	**381**

Other operating expenses can be broken down as follows:

	2018 TEUR	2017 Continuing Operation TEUR	2017 Discontinued Operation TEUR
Legal and professional fees	1,127	1,530	20
Information, advertising and entertaining expenses	1,313	882	0
Expenses for compiling and auditing the financial statements	408	457	0
EDP expenses	472	379	0
Rental expenses	282	268	0
Miscellaneous other operating expenses	1,529	949	1
Total	**5,131**	**4,465**	**21**

The advisory costs for general advisory services in the amount of TEUR 1,127 (previous year: TEUR 1,530) 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 amount of TEUR 1,529 (previous year: TEUR 949) include, inter alia, expenditures for things like office supplies, travel expenses, motor vehicle costs, and continued professional development costs in an aggregate amount of TEUR 409 plus expenses for members of the Supervisory Board in the amount of TEUR 163. Moreover, the item includes one-off effects in the amount of TEUR 500 occasioned by premature terminations of contracts.

5.16 Income Tax

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

	2018 TEUR	2017 TEUR
Current income tax expense	5,861	7,355
Deferred income tax expense/income	–186	–39
Total	**5,675**	**7,316**

The current income tax expense includes TEUR 206 in tax expenses for prior years (reference period: TEUR 1,164 in tax income).

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	2018	2017
	TEUR	TEUR
Pre-tax profit	23,975	27,633
Taxes calculated based on the parent company's income tax rate (30.175%)	7,234	8,338
Trade tax effects	364	–27
Account balance of tax-free income/non-deductible expenses	–2,411	–506
Value adjustment/non-recognition of deferred tax assets	616	761
Write-up/subsequent recognition of deferred tax assets	–337	–39
Taxes for previous years	206	–1,164
Other factors	3	–47
Reported income tax expense	**5,675**	**7,316**

The imputed tax rate of 23.7% (previous year: 26.5%) for 2018 is significantly influenced by the sale of property companies in the legal form of German private limited companies (GmbH), which, being corporations, are not subject to income taxation of their entire profits at the time of sale.

5.17 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.

	2018	2017 Continuing Operation	2017 Discontinued Operation	2017 Comprehensive income
Consolidated income	TEUR	TEUR	TEUR	TEUR
Net profit before minority interests – basic	18,301	20,317	–197	20,144
Interest expenses on convertible bonds	2	1,422	0	1,422
Consolidated income before minority interests – diluted	18,303	21,739	–197	21,566
Number of shares	in thousands	in thousands	in thousands	in thousands
Unweighted number of shares outstanding	32,431	24,925	24,925	24,925
Weighted number of shares outstanding – basic	30,712	24,895	24,895	24,895
Effect of the conversion of convertible bonds	0	5,444	5,444	5,444
Weighted number of shares – diluted	30,711	30,339	30,339	30,339
Earnings per share (EPS)	EUR	EUR	EUR	EUR
unweighted – basic	0.56	0.82	–0.01	0.81
weighted – basic	0.60	0.82	–0.01	0.81
weighted – diluted	0.60	0.72	–0.02	0.70

The 2014/2019 convertible bond issued by the Company was almost entirely converted during the first quarter of 2018 while the remaining shares were cancelled. As at balance sheet date, no conversion rights existed in conjunction with the 2014/2019 convertible bond (previous year: 5,150,107 conversion rights) that may dilute the earnings per share. Thus, the diluted net income is identical to the basic net income.

5.18 Cash Flow Statement

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

The cash flow from operating activities calculated using this method is negative at TEUR 48,432 thousand (previous year: negative TEUR 25,200 thousand). The cash flow from current operations was primarily defined by 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 41,214 (previous year: TEUR 80,462), with TEUR 47.697 representing an actual cash outflow during the year under review. The main non-cash changes in inventory assets that occurred during the financial year relate to the sale of the Gehrensee portfolio by way of an exchange of shares and the acquisition of property companies (share deal) where the liabilities taken over together with the acquired company reduce the purchase price to be paid and therefore the cash outflow.

	TEUR
Portfolio as of 31 December 2017	**304,027**
Net change	47,697
Non-cash change	–6,483
Portfolio as of 31 December 2018	**345,241**

The cash inflow from companies valued at-equity in 2017 concerned the former portfolio segment and is recognised among the cash flow from investing activities. The net equity investments committed in this context show a very close operative analogy to the business activities of ACCENTRO AG, which is why dividends from companies valued at equity are recognised in the cash flow from operating activities for the 2018 financial year.

Within the cash flow statement, cash and cash equivalents were adjusted by TEUR 1,334 over prior year. In some cases, bank accounts are subject to restraints on disposal, although the restraint often applies not to the entire, but only a partial amount deposited in a given bank account. If such bank accounts (or partial amounts) fail to meet the criteria for cash and cash equivalents under IAS 7, they are reclassified from cash and cash equivalents to a separate line, which was also done for the previous year to enhance comparability. These are purchase prices which are shown in the operating cash flow but which are not yet at the Company's disposal as of the balance sheet date because certain interest and repayment portions have to be paid out of these funds. The previous year's presentation has been adjusted accordingly.

The cash flow from investing activities adds up to TEUR –51,204 (reference period: TEUR 22,679). Out of this amount, TEUR 23,612 including incidental costs were invested in an office property in Berlin that will become ACCENTRO's future head office. TEUR 9,689 were invested in equity investments and TEUR 17,867 were granted as loans to companies in which

ACCENTRO holds equity interests and to companies that ACCENTRO is affiliated with via marketing agreements. For the 2017 financial year, repayments of granted loans were reclassified by moving them from "cash flow from financing activities" to "cash flow from investing activities" whenever they related exclusively to the Company's discontinued operation.

The cash flow from financing activities adds up to TEUR 111,410 (reference period: TEUR –4,223) and essentially includes disbursements toward the repayment of financial liabilities in the amount of TEUR 62,447 (previous year: TEUR 109,595) and interest payments in the amount of TEUR 4,470 (previous year: TEUR 6,771). It is matched by cash inflows from loan finance and the issuance of a bond in the amount of TEUR 164,056 (previous year: TEUR 115,667). During the 2018 financial year, TEUR 19,426 were collected via a cash capital increase whereas the cash outflow from dividend payments amounted to TEUR 5,154 (previous year: TEUR 3,731).

Cash and cash equivalents increased by TEUR 2,716 due to the addition of three companies to the basis of consolidation of ACCENTRO Real Estate AG.

Eight fully consolidated companies were sold and one company merged into a non-consolidated company in the course of the 2018 financial year. The Company's cash funds declined by TEUR 6,659 in this context.

In accordance with IAS 7, a reconciliation of the Group's financial liabilities from 31 December 2017 to 31 December 2018 is presented below:

Reconciliation Accounts

	31 Dec. 2017	cash-effective	not cash-effective	31 Dec. 2018
	TEUR	TEUR	TEUR	TEUR
Financial liabilities	129,321	–26	1,834	131,129
Bonds	12,065	97,870	–9,811	100,124
Total debt from financing activities	**141,386**	**97,844**	**–7,977**	**231,253**

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

5.19 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. 2018	31 Dec. 2017
	TEUR	TEUR
Up to 1 year	307	244
Between 1 and 5 years	196	61
More than 5 years	0	0
Total	**503**	**305**

In addition, there are obligations from purchase agreements involving the acquisition of apartment buildings in Berlin, Leipzig and Hamburg, among other places, in the amount of TEUR 39,238, as well as from a share purchase agreement in the amount of TEUR 21,881. The trend is expected to continue throughout the first half-year of 2019.

Group member companies are liable, in their role as partners, for the debt of a civil-law partnership in the amount of TEUR 150 (previous year: TEUR 171).

5.20 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 have a statutory notice period of three months. They include no other claims to minimum lease payments. In the property intended as ACCENTRO's future place of business, all lease agreements with incumbent tenants were either terminated or not renewed.

Disclosures on operating leasing in accordance with IAS 17.56

		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 as of 31 December 2018	2,936	2,936	0	0
Total of the future minimum lease payments due to non-cancellable operating lease contracts as lessor as of 31 December 2017	2,601	2,601	0	0

5.21 Additional Information on Financial Instruments

a) Classes and Measurement Categories

The table below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels within the fair value hierarchy. It includes no fair value details on those financial assets and financial liabilities that were not measured at fair value wherever the carrying amount represents an adequate approximation of the respective fair value. The first-time adoption of IFRS 9 had no material effects.

	Book value				Fair value
31 December 2018	FVOCI* – equity instru-ments	Financial assets at amortised costs	Other financial liabilities	Total	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Assets					
Equity investments	4,231	–	–	4,231	4,231
Long-term trade receivables	–	2,357	–	2,357	2,357
Non-current other receivables and other assets	–	28,814	–	28,814	28,814
Trade receivables	–	18,607	–	18,607	18,607
Miscellaneous receivables and assets	–	10,660	–	10,660	10,660
Total financial assets	**4,231**	**60,438**	**–**	**64,669**	**64,669**
Liabilities					
Long-term payables to banks	–	–	76,773	76,773	76,773
Bond liabilities	–	–	98,561	98,561	100,160
Short-term payables to banks and to bond holders	–	–	55,920	55,920	55,920
Trade payables	–	–	4,816	4,816	4,816
Other short-term payables	–	–	4,984	4,984	4,984
Total financial liabilities	**–**	**–**	**241,054**	**241,054**	**241,054**

* Fair Value through Other Comprehensive Income

	Book value				Fair value
31 December 2017	FVOCI* – equity instruments	Financial assets at amortised costs	Other financial liabilities	Total	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Assets					
Equity investments	1,247	–	–	1,247	1,247
Trade receivables	–	1,152	–	1,152	1,152
Miscellaneous receivables and assets	–	6,317	–	6,317	6,317
Total financial assets	1,247	15,344	–	16,591	16,591
Liabilities	–	–			
Long-term payables to banks	–	–	42,439	42,439	42,439
Bond liabilities	–	–	12,065	12,065	12,065
Short-term payables to banks and to bond holders	–	–	86,882	86,882	86,882
Trade payables	–	–	2,236	2,236	2,236
Other short-term payables	–	–	12,869	12,869	12,869
Total financial liabilities	**–**	**–**	**156,491**	**156,491**	**156,491**

* Fair Value through Other Comprehensive Income

Trade receivables and other receivables have maturities 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 bond without conversion rights was measured 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.

With the exception of the bond classified as tier III instrument, the fair values of the financial assets and liabilities were measured by discounting financial surpluses or cash outflows. The fair value of the bond was obtained from the market price at the Frankfurt Stock Exchange.

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

	Loans and Receivables (LaR)		Financial Liabilities measured at Amortized Cost (AmC)	
	2018	2017	2018	2017
	TEUR	TEUR	TEUR	TEUR
Interest income	944	304	0	0
Interest expenses	0	–	9,869	–9,107
Gains or losses on impairments	205	– 47	0	–
Gains or losses on derecognition of liabilities	0	7	–	1,054
Net earnings	**1,149**	**264**	**9,869**	**–8,053**

b) Financial Risks

The Group's business activities expose it to a variety of risks. These include specifically liquidity risks. Wherever relevant, variable-rate loans are only concluded on a minor scale while fixed-rate loans are generally repaid before the end of the fixed-interest period in line with the business model. There are no material default risks or 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 within the scope of IFRS 7:

	31 December 2018					
	Book value	Total cash outflow	Cash outflow up to 1 year	Cash outflow 1 to 3 years	Cash outflow 3 to 5 years	Cash outflow after 5 years
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cash outflow for financial liabilities and bond	**231,253**	**245,378**	**60,397**	**172,748**	**1,595**	**10,598**
Trade payables	4,816	4,816	4,816	–	–	–
Other liabilities	4,984	4,984	4,984	–	–	–
Cash outflow for trade payables and other liabilities	**21,038**	**21,038**	**21,038**	**–**	**–**	**–**
Cash outflow for liabilities within scope of IFRS 7	**262,091**	**276,216**	**91,235**	**172,748**	**1,595**	**10,598**

	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**

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. At the moment, the ACCENTRO Group is not exposed to significant interest rate risks.

The share of repayments from retail property sales itemised among the current financial liabilities amounts to TEUR 54,357 for the 2019 financial year. Short-term cash outflows in a total amount of TEUR 60,397 are anticipated in 2019, with interest and scheduled repayments taken into account.

The ACCENTRO Group kept cash and cash equivalents of TEUR 15,464 (previous period: TEUR 7,875) on hand as of the balance sheet data to cover its cash outflows. An additional TEUR 18,607 in trade receivables and an estimated TEUR 141,680 worth of inventory properties can be liquidated within one year. Short-term payables from operating costs in the amount of TEUR 6,597 not yet settled are matched by short-term receivables in the amount of TEUR 8,064 for operating costs not yet settled.

Financial Covenants

The Group has credit agreements and corporate bonds totalling around EUR 106.3 million (previous year: EUR 21.7 million) that require compliance with certain financial covenants (e.g. debt service coverage ratios, debt ratios, minimum annual net rents or subordinated debt-to-equity, change of control). Breaches of these requirements could trigger payments into blocked accounts or early repayment obligations on the basis of a contractually agreed escalation procedure. 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.

The main existing financial covenants are detailed in section 5.6 of the notes to the consolidated financial statements.

The ACCENTRO Group's is currently not exposed to any material bad debt risks as a result of its original business model. However, several long-term loans were granted to associates and associated companies, some of which are subordinated and not fully collateralised (see item 5.1.3). As a rule, ACCENTRO provides privatisation or advisory services to borrowers and is thus involved in the operational management of the companies and knows how to assess default risks at an early stage. ACCENTRO deems the default risks very low as of the balance sheet date.

5.22 Related-Party Transactions

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, there are accounts receivable from the Wohneigentum Berlin GbR in the amount of TEUR 3.

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

	2018				2017		
	Fixed	Variable	Equity-based	Total	Fixed	Variable	Total
	TEUR	TEUR	TEU	TEUR	TEUR	TEUR	TEUR
Jacopo Mingazzini	330	280	134	744	283	358	641

Collectively, the total remuneration disbursed to the CEO amounted to TEUR 620 for the 2018 financial year. This remuneration includes, in addition to the paid-out fixed remuneration plus non-cash remuneration in the amount of TEUR 330, the bonus claimed for the previous year in the amount of TEUR 280.

On 3 July 2018, EMMALU GmbH announced its off-market acquisition of 272,851 shares in ACCENTRO Real Estate AG. The company EMMALU GmbH is closely linked to ACCENTRO's CEO, Jacopo Mingazzini. The shares originated in the portfolio of ACCENTRO's main shareholder. Accordingly, this implies a transaction between the main shareholder and the CEO of ACCENTRO Real Estate AG. For financial reporting purposes, however, these facts and circumstances should be attributed to ACCENTRO pursuant to IFRS 2 even though ACCENTRO is not a contractual partner here. The majority shareholder is bound to a standstill agreement because the majority shareholder will have to redeem the shares at the originally agreed purchase price if the share price were to fall. As a result of the standstill obligation, this transaction qualifies as a stock option model for reporting purposes (parameters used: strike price: EUR 7.33; term: 3 years; volatility: 43.87%; dividend yield: 2%; risk-free interest rate: –0.54%). The expense from this stock option compensation amounts to c. TEUR 1,200 over a term of 3 years, out of which total c. TEUR 134 had to be deferred in the 2018 financial year.

The expenses toward the remuneration of the sole member of the Management Board recognised in the consolidated financial statements amounted to TEUR 804 in the year under review, and break down into TEUR 330 (salary and non-cash remuneration) and the bonus provision recognised in the financial statement (TEUR 240), as well as a one-off bonus payment over TEUR 100 for the 2017 financial year that was recognised as expense in the 2018 financial year. In addition, the stock option compensation described above resulted in payroll and benefit costs of TEUR 134 also attributable to the period. The bonus for the 2018 financial year was not yet due for payment during the year under review.

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

	2018	2017
	Fixed	Fixed
	TEUR	TEUR
Axel Harloff (Chairman)	60	60
Dr. Dirk Hoffmann (Deputy Chairman)	45	45
Natig Ganiyev	30	2.5
Carsten Wolff (until 8 December 2017)	0	27.5
Total	**135**	**135**

6 Events After the Reporting Date

No events of material significance for ACCENTRO AG or its Group companies transpired between the end of the 2018 financial year and the date in the 2019 financial year when the financial statements were approved.

7 Other Disclosures

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

	2018	2017
	TEUR	TEUR
Audits of financial statements	274	276*
Other assurance services	0	0
Tax advisory services	0	0
Other services	277**	14
Total	**551**	**290**

* Out of the sum total of professional fees and expenses for auditor services, TEUR 48 represent the previous year.
** Other benefits include an insurance premium of TEUR 229 that was passed on in connection with the issuance of a comfort letter.

The declaration on the Corporate Governance Code in accordance with Sec. 161, AktG, was issued in March 2019 and made permanently available to the shareholders on the homepage of ACCENTRO Real Estate AG (www.accentro.ag).

Berlin, 14 March 2019

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, 14 March 2019

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 of December 31, 2018, 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, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the Group Management Report which is combined with the management report (following: "Group Management Report") of ACCENTRO Real Estate Aktiengesellschaft, Berlin, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements we have not audited the content of the corporate governance statement published in accordance with section 315d HGB, which is referred to in the Group Management Report.

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 International Financial reporting Standards (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 of December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, 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 cover the content of the 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, 2018. 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 describe what we consider to be the key audit matters:

1) **Revenue recognition from the sales of inventory properties**
2) **Recognition and measurement of inventory properties**

On 1) Revenue recognition from the sale of inventory properties

a) Risk for the consolidated financial statements

As of December 31, 2018, the ACCENTRO Real Estate AG Group reports revenues from the sale of inventory properties in the amount of EUR 194,00 Mio., which account for 94.4% of total revenues. 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 for single-privatization the revenue recognition is mostly 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 sale and purchase 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 "2.12" and "5.11" as well as in sections 2.3 "Business Development" and 2.4 "Earnings, Financial and Net Asset Position" of the Group Management Report.

Management makes use of tax, legal and accounting expertise by third party experts for the sale 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 management is significantly involved in the drafting of the contract.

In the case of individual privatisations, the transfer of benefits and burdens of the property and thus the revenue recognition usually takes place upon receipt of the purchase price by the group or on a notary trust account, but may also depend on the fulfilment of further requirements.

The risk for the consolidated financial statements lies in improper recognition of revenues. Taking into account the substantial impact of each real estate portfolio sale and the large number of privatization sales in temporal proximity to year end, the risk of significant errors in the revenue recognition from these sales transactions is of particular relevance for our audit.

b) Auditor's response and conclusions

The examination of the revenue recognition of sales of real estate portfolios takes place on a case-by-case basis through critical appraisal of the contract. In 2018 13 sales were completed as so-called portfolio sales. By way of a case-by-case examination, we assessed all portfolio purchase agreements, in particular with regard to proper 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.

For revenue recognition from individual privatizations, we obtained an understanding of the processes implemented in the Group to ensure the completeness and accuracy of revenue recognition and have assessed the internal controls for appropriateness. We conducted appropriate tests to assess the effectiveness of the controls identified during the process. For property sales from individual privatizations close to the balance sheet date, we examined the purchase agreements and verified the incoming payments in an random sample to ensure that sales were correctly recognized in the reporting year.

Our audit did not lead to any material reservations relating to the recognition of revenues.

On 2) Recognition and measurement of inventory properties

a) Risk for the consolidated financial statements

As of 31 December 2018, the Group reported EUR 345.2 million in inventory properties as material assets. The share of the balance sheet total amounts to around 72.8%. Properties acquired for the purpose of short-term privatization and sale are reported as inventory properties. In most cases, the transfer of benefits and burdens and thus control of the inventory properties is linked to the payment of the purchase price, in some cases also to the fulfilment of further conditions. In addition to the purchase price, the incidental acquisition costs, typically real estate transfer tax, notary fees and brokerage commissions, are to be recognised in full and correctly at the time of acquisition. The costs of the construction and maintenance measures carried out to make the property ready for sale are recognised as subsequent acquisition costs. The acquisition costs are to be allocated to the individual residential units of the acquired inventory properties in accordance with the expected sales prices and in an appropriate procedure in such a way that a largely consistent realisation of margins is ensured upon their sale. When individual residential units are sold, the proportionate acquisition costs allocated to these units are to be fully derecognised from the inventory properties. On the basis of the expected selling prices, an assessment must be made as of the balance sheet date as to whether there are any impairment risks on disposal which must be taken into account by write-downs.

The Company's disclosures on the balance sheet presentation of inventory properties are contained in Notes "2.8" and "5.2" to the consolidated financial statements and in section "2.4 Results of operations, financial position and net assets" of the Group Management Report.

Due to the material absolute and relative amount, the correct recognition and measurement of inventory properties is of particular importance for the consolidated financial statements and thus for our audit.

b) Auditor's response and conclusions

We have obtained an understanding of the processes implemented in the Group to ensure the completeness and accuracy of the recognition and the measurement of the inventory properties, the appropriate allocation of acquisition costs to the acquired residential units and the correct derecognition of the carrying amounts or residential units upon sale and subsequently assessed their appropriateness. We have performed tests to evaluate the effectiveness of the controls identified in the process. For the major purchases of inventory properties in the year under review, we have verified the transfer of ownership and the determination of acquisition costs on the basis of the purchase agreements and the supporting documents for the ancillary acquisition costs. For the material sales in the year under review, we have fully tested the derecognition of the related inventory values and for the remaining sales in samples on the basis of a margin analysis. In the case of the inventory properties that have already been held by the group for a longer time, we have verified that no material impairment risks exist based of the sales and margins realized and planned.

In our opinion, the processes implemented in the Group to ensure proper recognition and measurement of inventory properties are appropriate. Our audit did not lead to any reservations relating to the recognition and measurement of inventory properties.

Other Information

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

- the corporate governance statement published on the website of ACCENTRO Real Estate AG, Berlin, which is referred to in Chapter 6 of the Group Management Report
- The Responsibility Statement regarding the consolidated financial statements and the Group Management Report.
- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code.
- 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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is 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, management is responsible for such internal control as management has 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, management is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, management is 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, management 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, management 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.

Reasonable assurance is 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 management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management'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 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 management in the Group Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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, 2018. We were engaged by the supervisory board on January 28, 2019. We have been the group auditor of 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 14, 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dirk Schützenmeister	Florian Riedl
Wirtschaftsprüfer	Wirtschaftsprüfer
(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
  – Member of the Management Board of ERWE Immobilien AG, Frankfurt am Main

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, Berlin
  – 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 1 December 2017
- Managing Director of Vestigo Capital Advisors LLP, London
- Other mandates:
  – Director Brookline Capital GP Limited, Guernsey
  – Board Member of Malta Montenegro Wind Power JV Ltd, Ta' Xbiex, Malta

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

2019

3 May 2019	Quarterly Statement for the Period 1 January through 31 March 2019
14 May 2019	Annual General Meeting, Berlin
12 June 2019	Quirin Champions 2019 investor conference, Frankfurt
8 August 2019	Half-Year Financial Report 2019
3 September 2019	SRC Forum Financials & Real Estate 2019, Frankfurt
23–26 September 2019	Baader Investment Conference 2019, Munich
6 November 2019	Quarterly Statement for the Period 1 January through 30 September 2019

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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Goldmund Kommunikation, Berlin
www.goldmund-kommunikation.de

Photo

Management Board: Die Hoffotografen

ACCENTRO
REAL ESTATE AG