Annual report

1 October 2017 to 30 September 2018

Deutsche
Konsum
REIT-AG

Corporate key figures

	01/10/17 – 30/09/18	01/10/16 – 30/09/17	Difference	%
Income statement (kEUR)				
Rental income	28,601	19,249	9,352	48.6
Net operating income	22,268	14,506	7,763	53.5
Financial result	–4,972	–4,254	–718	16.9
Net income	30,919	37,405	–6,487	–17.3
FFO	16,647	10,260	6,387	62.3
FFO per share (in EUR)	0.62	0.46	0.17	36.4
aFFO	8,427	7,972	455	5.7
aFFO per share (in EUR)	0.31	0.35	–0.04	–11.1
Earnings per share, undiluted (in EUR)	1.15	1.66	–0.51	–30.5
Earnings per share, diluted (in EUR)	0.80	1.06	–0.26	–24.9
Recurring costs ratio (in %)	6.4	6.1	0.2	4.0

	30/09/2018	30/09/2017	Difference	%
Balance sheet key figures (kEUR)				
Investment properties	418,707	275,434	143,273	52.0
Total assets	452,933	280,675	172,258	61.4
Equity	209,762	154,736	55,026	35.6
Total debt	231,596	118,723	112,873	95.1
Finance key figures				
(net) Loan-to-Value (LTV) (in %)	51.2	42.6	8.6	20.2
Average interest rate of loans (in %)	1.98	2.38	–0.40	–16.8
Average interest rate of loans and convertible bonds (in %)	1.87	2.99	–1.12	–37.5
Average remainig duration of loans (in years)	5.5	4.9	0.6	12.4
Interest cover ratio (ICR), multiple	3.9	3.1	0.9	27.9
EPRA NAV	209,762	154,736	55,026	35.6
EPRA NAV per share (in EUR)	7.70	6.25	1.45	23.2
EPRA NNNAV per share (in EUR)	7.70	6.25	1.45	23.2
REIT metrics				
REIT equity ratio	50.1	56.2	–6.1	–10.8
Share information				
Shares issued	27,236,313	24,760,285	2,476,028	10.0
Market cap (in EUR)	299,599,443	249,088,467	50,510,976	20.3
Share price (in EUR)	11.00	10.06	0.94	9.3
Portfolio key figures				
Number of assets	90	62	28	45.2
Rental space (in in m²)	517,824	330,123	187,701	56.9
Annualised rent (in kEUR)	35,484	24,832	10,652	42.9
Initial yield (in %)	11.7	12.1	–0.4	–3.3
Vacancy rate (in %)	9.6	14.6	–5.0	–34.4
WALT (in years)	5.2	4.6	0.6	13.0

Cover photo: Local retail centre/DIY Store
Heinrich-Wobst-Str. 1–2, 07937 Langenwolschendorf/Zeulenroda

Backcover photo: Local retail centre Löwenpark Leipzig
Merseburger Straße 255–263, 04178 Leipzig

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Photo: Local retail centre Torgelow
Pasewalker Straße 5–8, 17358 Torgelow

1. Letter to our shareholders

Dear Shareholders, Dear Ladies and Gentlemen,

Deutsche Konsum again completed its 2017/2018 financial year very successfully and was able to continue growing its value significantly. As of 30 September 2018, the reported real estate assets now comprise 90 properties with a carrying amount of around EUR 419 million and an annual rent of around EUR 35.5 million. Rental income increased year-on-year from EUR 19.2 million to EUR 28.6 million, resulting in an FFO of EUR 16.6 million compared to EUR 10.3 million in the previous year. The fact that FFO grew significantly faster than rental income shows the increasing profitability of our Company.

This could be ensured on the one hand by the high purchase volume. At EUR 127 million, we were able to grow much faster than our annual target of EUR 100 million. On the other hand, we were able to substantially reduce our borrowing costs by refinancing old loans, by taking out lower-interest loans, by issuing a corporate bond and by reducing the convertible bond coupon. And finally, we were able to significantly reduce vacancies through large-scale new lettings, such as the revitalised Domcenter Greifwald. All these effects will have an impact throughout the year in the new financial year and will lead to further increases in profitability.

Furthermore, the Company was also able to increase its intrinsic value significantly. In addition to the strong operating performance, our successful capital increase in December 2017 had an equity-enhancing effect. As a result, EPRA NAV increased by around 23% to EUR 7.70 per share. Net LTV stood at 51.2% on 30 September 2018, slightly above the target range of 50%.

The DKR share proved to be very robust in a volatile overall environment and compared to the peer group. Meanwhile, the market capitalisation has risen to about EUR 320 million, which puts the company increasingly in the focus of institutional investors. The first dividend distribution by DKR will also contribute to this. Due to the positive annual result, the Management Board will submit a dividend proposal of EUR 0.20 per share to the Annual General Meeting on 21 March 2019.

And DKR has already grown strongly in the new financial year 2018/2019. At the end of the first business quarter, for example, the real estate portfolio grew by a further 18 retail properties with a total volume of around EUR 69 million across Germany due to property transfers and notarised purchase agreements. In addition, an object was sold. The total portfolio currently comprises 108 properties and generates an annualised rent of around EUR 42 million.

In this respect, we are already very confident in the new financial year 2018/2019 and expect an FFO between EUR 26 million and EUR 29 million and a dividend of EUR 0.40 per share.

We thank you for your confidence in our sustainable growth and we look forward to welcoming you to the next Annual General Meeting.

Best regards,

Rolf Elgeti
CEO

Alexander Kroth
CIO

Christian Hellmuth
CFO

Potsdam, December 2018

2. The share

World political tensions continue to dominate the stock markets

In 2017, the stock markets still benefited from the well-performing global economy. In addition, the US tax reform passed at the end of 2017 promoted the good mood on the global stock markets at the end of the year. Thus, the DAX closed the stock market year 2017 with an increase of almost 13%. The MDAX rose by a good 18% and the SDAX by almost 25%.

At the beginning of 2018, global political tensions and the risks of a possible intensification of international trade conflicts were increasingly dominating the markets. In addition, government formation was an important topic in Germany. As the year progressed, sentiment deteriorated, among other things, as a result of Italian budgets and fears of disorderly Brexit. As a result, the DAX recorded a decline over the first nine months of 2018 and closed the month of September at 12,246 points (29 September 2017: 12,828 points).

DKR share stable in a volatile overall environment

The positive price development in a volatile overall environment as well as the increased market capitalisation and the increased trading volumes further confirmed the acceptance of the DKR share on the capital market and the potential of the business model.

In a worldwide troubled political and economic environment, the share of DKR performed well. At the end of the reporting period on 28 September 2018, it was 9.3% higher at EUR 11.00 than at the beginning of the financial year (29 September 2017: EUR 10.06). Since the stock market listing on 15 December 2015, it has even improved significantly by EUR 7.50 or 214.3%.

The market capitalisation increased in the wake of the increased market price and due to a successful capital increase to approx. EUR 300 million. As a result of the higher stock market value, the Company saw an increasing interest among both institutional investors and retail investors, which in turn increased trading volumes.

Share price performance of Deutsche Konsum REIT-AG

Key figures of the DKR share

EUR	30/09/2018	30/09/2017
Number of shares issued in units	27,236,313	24.760.285
Closing price at the end of the financial year [1]	11,00	10,06
Market capitalisation in EUR million	approx. 300	approx. 250
Highest price during the financial year	11,95 [2]	10,14 [2]
Lowest rate during the financial year	9,20 [3]	6,99 [2]
Average Xetra daily volume in units	8.799	7.878 [4]

Successful share capital increase

Within the financial year 2017/2018, the share capital and number of shares increased significantly as a result of a capital increase. At the beginning of October 2017, the number of shares was 24,760,285. Following the successful placement of a capital increase (+2,476,028 ordinary shares) in December 2017, the number of shares or share capital currently amounts to 27,236,313 shares or EUR 27,236,313.00.

Shareholders

The shareholder structure is characterised by institutional national and international investors with a predominantly long-term investment strategy. As of 30 September 2018, the free float (as defined by Deutsche Börse AG, subject to the provisions of the WpHG) was 43.9%.

The Annual General Meeting of Deutsche Konsum REIT-AG took place in Berlin on 8 March 2018. More than 65% of the share capital was represented (share capital of the Company at the time of convening the Annual General Meeting: 27,236,313 shares). All agenda items were resolved by a large majority.

Information on the resolutions regarding the authorised and contingent capital are contained in chapters “2.3 Business performance” and “6 Takeover-relevant information in accordance with § 289a (1) HGB” of the management report. Detailed information on the Supervisory Board elections can be found in the chapters “3. Corporate Governance Report and Statement on Corporate Governance” and “4. Report of the Supervisory Board”of this Annual Report.

Analyst coverage

In February 2018, Bankhaus Lampe started the commentary of the Deutsche Konsum REIT-AG. Thus, the research studies currently contain – together with the studies of Berenberg Bank and ODDO BHF – three analyst covers of the DKR share.

Bank	Price target in EUR	Rating	Analyst	Date
Bankhaus Lampe	12.50	Buy	Dr. Georg Kanders	30 November 2018
Berenberg Bank	13.00	Buy	Kai Klose	15 November 2018
ODDO BHF	12.80	Buy	Thomas Effler	2 July 2018

[1] Xetra closing prices from 29/09/2017 and 28/09/2018
[2] Xetra opening price
[3] Variable price Xetra
[4] in the financial year 2016/2017 or 2017/2018
Source: ARIVA.DE AG/EQS Group AG

Deutsche Konsum REIT in the RX REIT index of the German Stock Exchange

Since 20 November 2017, Deutsche Konsum has been included in the REIT segment of Deutsche Börse. Since then, the DKR share has been included in the RX REIT-indices.

Intensification of investor relations work and participation in roadshows

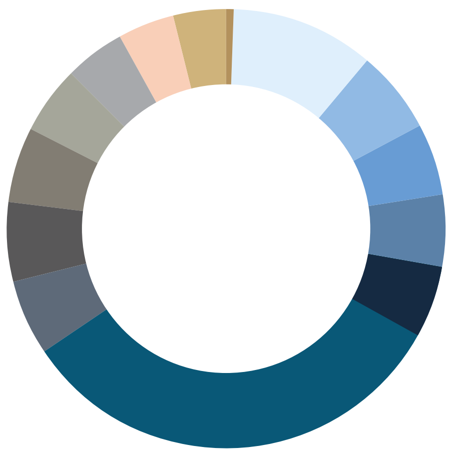
In order to maintain a transparent and continuous dialogue with existing and potential investors, DKR continued to intensify its investor relations activities in 2018. In doing so, it held more one-on-one talks and presented the Company increasingly at roadshows. Within the financial year 2017/2018, the board members of DKR were, among others, in London, Helsinki, Zurich, Brussels, Lyon, Baden-Baden, Munich and Frankfurt am Main to meet numerous investors. The Company’s strategy and growth story attracted great interest. In the future, DKR will be present at national and international roadshows and capital market conferences.

The share of DKR at a glance:

As of	30/09/2018
ISIN	DE000A14KRD3
Security Identification Number	A14KRD
Ticker symbol	DKG
First day of trading	15/12/2015
Number of shares	27,236,313
Share capital	EUR 27,236,313.00
Trading venues	XETRA, Frankfurt and Berlin
Market segment	Regulated Market
Transparency level	Prime Standard

Furthermore, DKR was regularly present in major investor media in the 2017/2018 financial year and was, therefore, able to increase its perception on the capital markets. On the investor relations pages of the homepage, interested people find inter alia capital market law mandatory announcements, such as Ad-hoc announcements as well as financial reports and investor presentations for download.

Shareholder structure



9.99 % Obotritia Capital KGaA
5.72 % Babelsberger Beteiligungs GmbH
5.07 % Hevella Capital GmbH & Co. KGaA
5.07 % Försterweg Beteiligungs GmbH
5.03 % Obotritia Alpha Invest GmbH
35.79 % Other free float
5.34 % Lotus AG
5.54 % Goebel Home Accessories AG
5.14 % Zerena GmbH
4.73 % Retail Real Estate Opportunity UG
4.46 % 9. Ostdeutschland Invest GmbH
3.84 % Parson GmbH
3.56 % Tiven GmbH
0.71 % Carmignac Gestion

As of 30 September 2018

3. Corporate Governance Report and Corporate Governance Statement

The Management Board and the Supervisory Board of Deutsche Konsum REIT-AG (DKR) report below on the Company's corporate governance in accordance with Section 3.10 of the German Corporate Governance Code (GCGC) and on corporate governance pursuant to § 289f German Commercial Code (HGB) (new version).

First, the current Declaration of Conformity of the Management Board and the Supervisory Board of Deutsche Konsum REIT-AG dated 12 September 2018 as well as the supplement dated 12 November 2018 is presented. This is followed by a description of the working methods of the Management Board and the Supervisory Board as well as their composition. In addition, the corporate governance of the Company is presented, and the concept of diversity is discussed.

3.1.1. Declaration of Conformity of Deutsche Konsum REIT-AG to the German Corporate Governance Code (GCGC)

The Management Board and the Supervisory Board of Deutsche Konsum REIT-AG welcome and support the German Corporate Governance Code (GCGC) and its objectives. In accordance with § 161 (1) German Stock Corporation Act (AktG), they hereby declare that Deutsche Konsum REIT-AG complied and will also comply in the future with the recommendations of the Government Commission on the German Corporate Governance Code in the version of the Code of 7 February 2017, published in the Federal Gazette on 24 April 2017, with the following exceptions since the last Declaration of Conformity was issued on 5 December 2017:

Section 4.1.3 GCGC – Compliance Management System:
The Company has not employed more than ten employees since the last Declaration of Conformity. The Company currently employs ten people. For this reason, the Management Board saw and sees no need to formulate and disclose formalised measures for compliance management and a so-called "whistleblowing". The effort involved in setting up, implementing and maintaining formalised action systems was and is, in view of the size of the Company, not in any meaningful relation to the potential benefit gained.

Section 4.1.5 GCGC – Consideration of women in the appointment for management functions:
The Executive Board did not and does not currently follow the recommendation to pay attention to diversity when filling management positions within the Company and, in particular, to aim for appropriate consideration of women. The Company had and currently has only employees without leadership function. Apart from the Management Board, there were and are no management positions in the Company and, therefore, the Company can currently not follow this recommendation for formal reasons. For this reason, the Company had and has set 0% as the target for women's participation in leadership positions for the period ending 30 September 2020. In the case of Deutsche Konsum, however, the decisive criterion when filling management positions is gender-independent the qualification and aptitude.

Section 4.2.5 GCGC – Presentation of the Remuneration Components of the Management Board in the Remuneration Report:
In the remuneration report for the 2016/2017 financial year, the remuneration components of the Management Board have not yet been presented in accordance with the recommendations of Section 4.2.5, since no remuneration system was in place. For this reason, the two Executive Board members appointed as of 1 July 2017, received flat-rate variable compensation for the three-month transitional period until the end of the financial year. For the financial year 2017/2018, on the other hand, a new compensation system for the Management Board in accordance with the recommendations of the German Corporate Governance Code was adopted and introduced by the Supervisory Board. Accordingly, the presentation in the compensation report will be undertaken acc. Section 4.2.5.

Sections 5.1.2, 5.4.1 para. 2, para. 4, 5.4.2 sentence 1 GCGC – Appointment of objectives for the composition of the Supervisory Board, in particular consideration of diversity, and development of a competence profile as well as an age limit and a limit for Membership of the Supervisory Board:
The Supervisory Board has neither set specific goals for its composition nor has it developed a competence profile for the entire Supervisory Board and does not intend to set such goals or develop a competence profile in the future either. Similarly, diversity rules have not been established in the objectives for the composition of the Supervisory Board or will be established in the future. The Company was and is of the opinion that the professional aptitude and the knowledge of the Company as prerequisites for the occupation are crucial, so that the above-mentioned requirements were and are not effective. For these reasons, the determination of an age limit and a statutory limit for membership of the Supervisory Board was and is not waived. The Company was and is of the opinion that the determination of an age limit and a regular limit on the length of service to the Supervisory Board would not be appropriate, since the Company should also have the knowledge and experience of older persons for a longer period in the context of the Management and Supervisory Board activities.

Section 5.3 GCGC – Formation of committees:
The Supervisory Board has refrained from forming committees in view of its small number of members. If the number of members remains the same, the Supervisory Board will also refrain from forming committees in future.

Broderstorf, 12 September 2018

For the Supervisory Board

Hans-Ulrich Sutter
Chairman of the Supervisory Board

For the Management Board

Rolf Elgeti
Chairman of the Management Board

The current Declarations of Conformity are published on our website http://www.deutsche-konsum.de/en/, in the "Investor Relations" section under the menu items "Corporate Governance" and "Declaration of Conformity".

3.1.2. Supplement dated 12 November 2018 to the Declaration of Conformity of Deutsche Konsum REIT-AG to the German Corporate Governance Code (GCGC) of 12 September 2018

The Management Board and the Supervisory Board of Deutsche Konsum REIT-AG (the "Company") most recently declared in a declaration of conformity dated 12 September 2018 to what extent the Company complies with the recommendations of the Government Commission on the German Corporate Governance Code ("GCGC") as amended on 7 February 2017.

With regard to Section 3.8 (3) GCGC, the Management Board and the Supervisory Board supplement their declaration of conformity dated 12 September 2018 for the future as follows:

Section 3.8 (3) GCGC – Deductible in D&O insurance for the Supervisory Board:
Pursuant to Section 3.8 (3) GCGC, a deductible is to be agreed in a D&O insurance policy for the Supervisory Board. The D&O insurance policy of Deutsche Konsum REIT-AG does not provide for a deductible for the Supervisory Board. The Company believes that the agreement of a deductible has no impact on the sense of responsibility and the conscientiousness of its members of the Supervisory Board. In addition, a compulsory uniform deductible would possibly make the Supervisory Board members very different due to different income and asset situations. This also applies in particular against the background of the rather low Supervisory Board remuneration for a listed stock corporation. The Company is therefore of the opinion that the agreement of a deductible for the D&O insurance of the members of the Supervisory Board in this case does not make sense.

Broderstorf, 12 September 2018

For the Supervisory Board	For the Management Board
Hans-Ulrich Sutter Chairman of the Supervisory Board	Rolf Elgeti Chairman of the Management Board

The current Declarations of Conformity are published on our website https://www.deutsche-konsum.de/en/, in the "Investor Relations" section under the menu items "Corporate Governance" and "Declaration of Conformity".

3.2. Functioning of the Management Board and Supervisory Board

Management structure with three bodies
The Management Board and the Supervisory Board work together closely for the benefit of the Company to ensure responsible management.

An essential element of corporate governance is the separation of corporate governance and corporate control. This is done through a clear division of tasks and responsibilities between the Management Board and the Supervisory Board. In addition, the Annual General Meeting is the third body. Through it, the shareholders are involved in fundamental decisions of the Company.

The Management Board
The Management Board manages the Company on its own responsibility and represents it in transactions with third parties. It is bound to the Company's interest with the goal of sustainable value creation. It develops the strategic direction of the Company, coordinates it with the Supervisory Board and ensures its implementation. The Management Board also ensures proper risk management and controlling in the Company.

The members of the Management Board, irrespective of their joint responsibility for the Company, are responsible for individual areas of responsibility. They cooperate collegially and keep each other informed about important processes and measures in their areas of responsibility. The board has adopted rules of procedure.

The Management Board of Deutsche Konsum REIT-AG is appointed by the Supervisory Board in accordance with § 6 no. 2 of the Articles of Association. The Supervisory Board also determines the total number of members of the Management Board and whether there should be a chairman or spokesman. The members of the Management Board are appointed for a maximum of five years. Reappointments are allowed. The Supervisory Board has set a target of 0 % for the proportion of women in the Management Board for the period up to 30 September 2020. Nor should diversity rules be set in the objectives for the composition of the Management Board. The Company believes that the professional aptitude and knowledge of the Company are crucial for the appointment.

The Management Board of Deutsche Konsum REIT-AG currently consists of three persons, Mr. Rolf Elgeti, Mr. Alexander Kroth and Mr. Christian Hellmuth.

Mr. Rolf Elgeti (CEO) is responsible for Human Resources and Legal/Compliance and Strategy. The investment and finance divisions are headed by Messrs. Alexander Kroth (CIO) and Christian Hellmuth (CFO). The business segment of the CIO includes the areas of acquisition and sales as well as asset and property management. The CFO is responsible for Corporate Finance, Accounting/Controlling, Treasury, Investor Relations and Risk Management. The CEO, CIO and CFO also manage and control the external service providers for their areas.

The CVs of the members of the Management Board are published under https://www.deutsche-konsum.de/en/ in the category "Company" under the menu item "Management Board".

The Supervisory Board, Management Board and executives agree on annual targets whose implementation is regularly reviewed.

Measures for further education or refresher training of abilities and knowledge lie in the self-responsibility of the Management Board and the executives.

D&O insurance was taken out for the members of the Management Board considering § 93 (2) German Stock Corporation Act (AktG).

Due to the size of the Company, the remuneration of the CEO currently consists of a fixed remuneration, which will be allocated to the Company through a distribution agreement with the former parent company Obotritia Capital KGaA. In the financial year 2016/2017, the two members of the Management Board, Alexander Kroth and Christian Hellmuth, who were appointed as of 1 July 2017, received flat-rate variable compensation for the three-month transitional period until the end of the financial year. In financial year 2017/2018, the compensation system was adjusted for both short-term and long-term incentives according to the recommendations of the GCGC. Detailed information on the remuneration of the Management Board in accordance with Section 4.2.5 GCGC can be found in the remuneration report of the management report 2017/2018.

Consideration of women in filling leadership positions

The Management Board does not follow the recommendation of section 4.1.5 GCGC to pay attention to diversity when filling management positions in the Company and to strive for appropriate consideration of women. The Company currently has only ten non-executive employees. Apart from the Management Board, there were no management positions in the Company and, therefore, the Company can currently not follow this recommendation for formal reasons. For this reason, the Company had and has set 0% as the target for women's participation in leadership positions for the period ending 30 September 2020. In the case of Deutsche Konsum, however, the decisive criterion when filling management positions is gender-independent the qualification and aptitude.

The Supervisory Board

The central tasks of the Supervisory Board are to advise and supervise the Management Board. The five-member Supervisory Board of Deutsche Konsum REIT-AG works based on rules of procedure, which it has imposed on itself. Overall, the members of the Supervisory Board have the necessary knowledge, skills and professional experience to perform their duties properly.

Requests for resolutions as well as information on items of discussion are made available to the members of the Supervisory Board in good time before the respective meeting. At the request of the Chairman of the Supervisory Board, resolutions may be taken in individual cases outside of meetings. This option is occasionally used in urgent cases. If there is a tie in resolutions, the vote of the Chairman of the Supervisory Board decides.

All Supervisory Board members are elected by the shareholders at the Annual General Meeting. At present, no representatives of employees are represented on the Supervisory Board of Deutsche Konsum REIT-AG. The Supervisory Board does not intend to set concrete goals for its composition or to develop a competence profile for the entire Supervisory Board. Nor should diversity rules be set in the objectives for the composition of the Supervisory Board. The Supervisory Board has set a target of 0 % for the proportion of women on the Supervisory Board for the period up to 30 September 2020. The Company believes the professional aptitude and the knowledge of the Company as prerequisites for the occupation of a position are crucial, so that the above-mentioned requirements are not expedient.

The Supervisory Board of Deutsche Konsum REIT-AG currently consists of five persons, Mr. Hans-Ulrich Sutter, Mr. Achim Betz, Mr. Johannes C.G. (Hank) Boot, Mr. Nicholas Cournoyer and Mr. Kristian Schmidt-Garve. Mr. Schmidt-Garve was elected as a fifth member of the Supervisory Board at the Annual General Meeting on 8 March 2018.

Mr. Hans-Ulrich Sutter is Chairman of the Supervisory Board and Mr. Achim Betz Vice Chairman. The term

of office of all members of the Supervisory Board ends at the end of the Annual General Meeting, which resolves on the discharge of the members of the Supervisory Board for the financial year ending on 30 September 2019.

The CVs of the members of the Supervisory Board are published under https://www.deutsche-konsum.de/en/ in the category "Company" under the menu item "Supervisory Board".

So far, no committees have been formed due to the small number of members.

The determination of an age limit and a regular limit for affiliation to the Supervisory Board are waived. The Company believes the determination of an age limit and a regular limit on the length of service of the Supervisory Board is not relevant since the Company should also have access to the knowledge and experience of older persons over a longer period within the scope of the Management and Supervisory Board activities.

In the opinion of the Supervisory Board, all current members of the Supervisory Board are to be regarded as independent within the meaning of Section 5.4.1 GCGC.

Each year, the Chairman of the Supervisory Board explains the activities of the Supervisory Board in its Supervisory Board Report and verbally at the Annual General Meeting.

In January 2018, a D&O insurance policy was concluded for the members of the Supervisory Board of DKR.

In accordance with the Articles of Association, the members of the Supervisory Board receive fixed compensation and reimbursements for out-of-pocket expenses. Detailed information on the remuneration of the Supervisory Board can be found in the Remuneration Report of the 2017/2018 Management Report.

Further details on the work of the Supervisory Board can be found in the Report of the Supervisory Board, which is part of the 2017/2018 Annual Report.

Cooperation between the Management Board and the Supervisory Board

The Supervisory Board appoints the members of the Management Board, determines their respective total compensation and oversees their management. It also advises the Management Board on the management of the Company. The Supervisory Board approves the annual financial statements. Significant decisions of the Management Board require the approval of the Supervisory Board.

The Management Board ensures regular, timely and comprehensive reporting to the Supervisory Board. In addition, the Chairman of the Supervisory Board is regularly and continuously informed about the business development. Intensive and continuous communication between the Management Board and the Supervisory Board is the basis for efficient corporate management.

The Management Board of Deutsche Konsum REIT-AG regularly participates in the meetings of the Supervisory Board. It reports in writing and orally on the individual agenda items and proposals for resolutions and answers the questions of the members of the Supervisory Board.

Conflicts of interest

Conflicts of interest of members of the Management and Supervisory Boards must be disclosed to the Supervisory Board without delay. In the 2017/2018 financial year, no conflicts of interest occurred.

3.3. Essential corporate governance practices

Main features of compliance
Deutsche Konsum REIT-AG is committed to responsible and sustainable corporate management of the Company. This includes trusting cooperation between the Management Board and the Supervisory Board as well as the employees and a high level of transparency in reporting and corporate communications.

The essential basis of Deutsche Konsum REIT-AG's business is to create, maintain and strengthen the trust of tenants, business partners, shareholders and other capital market participants as well as employees. Thus, compliance at DKR not only means complying with the law and the statutes, but also adhering to internal instructions and self-commitments to implement the values, principles and rules of responsible corporate governance in daily actions.

Compliance Management System
Currently, DKR employs ten people. For this reason, the Management Board saw and sees no need to formulate and disclose formalised measures for compliance management and a so-called "whistleblowing". The effort involved in setting up, implementing and maintaining formalised action systems was and is, in view of the size of the Company, not in any meaningful relation to the potential benefit gained.

Organisation and controlling
Deutsche Konsum REIT-AG is headquartered in Germany and is, therefore, subject to the provisions of German stock corporation and capital markets law as well as the provisions of the Articles of Association.

Essentially, Deutsche Konsum REIT-AG manages the Company using the following key figures: EBIT, FFO, LTV, EPRA NAV and cash flow. Sustainable economic, social and environmental aspects are considered.

Shareholders and Annual General Meeting
The shareholders of Deutsche Konsum REIT-AG exercise their rights before or during the Annual General Meetings within the scope of the legal and statutory provisions and hereby exercise their voting rights. Each share grants one vote.

The Chairman of the Supervisory Board chairs the Annual General Meetings. Each shareholder is entitled to attend the Annual General Meeting, to speak on the relevant agenda items and to request information on Company matters, insofar as this is necessary for the proper assessment of an item of the Annual General Meeting. The Annual General Meeting decides on all tasks assigned to it by law.

The agenda of the Annual General Meeting and the reports and documents required for the Annual General Meeting are published in easily accessible form by Deutsche Konsum REIT-AG on its website at https://www.deutsche-konsum.de/en/ under "Investor Relations" under the menu item "Annual General Meeting".

To make it easier for its shareholders to exercise their rights and to vote proxy, DKR appoints a representative for the proxy voting. He can also be contacted during the Annual General Meeting.

The Annual General Meeting takes place within the first eight months of each financial year. The Annual General Meeting of Deutsche Konsum REIT-AG, which resolved on the financial year ending on 30 September 2017, took place on 8 March 2018 in Berlin. More than 65% of the share capital was represented (share capital of the Company at the time of convening the Annual General Meeting: 27,236,313 shares). All agenda items were resolved by a large majority.

Stock option plans
There are currently no stock option programs or similar incentive systems at Deutsche Konsum REIT-AG.

Transparent reporting
Through its website, Deutsche Konsum REIT-AG ensures consistent, comprehensive, timely and simultaneous information to shareholders and the interested public about the economic situation and new facts. This information can be accessed via the Investor Relations section of the website at https://www.deutsche-konsum.de/en/ in the "Investor Relations" section.

Reporting on the business and earnings situation is currently carried out in annual reports, quarterly reports as well as in the semi-annual reports, which are available for download on the Company's homepage. Important up-to-date information is published via corporate news and ad hoc announcements and made accessible on the Company's website. In addition, pursuant to Art. 19 of the Market Abuse Regulation (MAR), transactions of managers and related parties are publicly disclosed as "Directors' Dealings" and are also available on the Company's website.

In accordance with Art. 18 MAR, mandatory insider lists are maintained, and the persons listed on insider lists have been and will be informed of the legal obligations and sanctions that result for them.

Significant events and publication dates are maintained and published in the financial calendar, which can be viewed on the Company's website at any time.

Accounting and auditing
The annual financial statements of Deutsche Konsum REIT-AG are prepared in accordance with IFRS, as adopted by the European Union. After preparation by the Management Board, the annual financial statements are audited and approved by the auditor and the Supervisory Board. The Company aims to publish the annual financial statements in accordance with the German Corporate Governance Code within 90 days of the end of the financial year. The mandatory interim financial information (quarterly reports and the half-yearly financial report) will be discussed between the Supervisory Board and the Executive Board prior to publication.

The 2018 Annual General Meeting elected DOMUS AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as the auditor for the financial year 2017/2018. DOMUS AG's audits following German auditing regulations laid down by the Institut der Wirtschaftsprüfer as well as the principles of proper auditing and the International Standards on Auditing. The Chairman of the Supervisory Board is immediately informed by the auditor of any grounds for exclusion or exemption as well as inaccuracies of the Declaration of Conformity that occurred during the audit. The auditor reports without delay all issues and events that arise during the audit and are relevant for the task of the Supervisory Board to the Chairman of the Supervisory Board and is required to inform the Supervisory Board promptly of any possible grounds for exclusion or bias.

Opportunity and risk management

An essential element of corporate governance is risk management to adequately and systematically counter the risks that Deutsche Konsum REIT-AG is exposed to. A comprehensive process was introduced that enables management to identify, assess and manage risks and opportunities in a timely manner. As a result, unfavourable developments and events become transparent at an early stage and can be analysed and managed in a targeted manner. Further information on risk management is contained in the opportunity and risk report of the annual financial statements 2017/2018.

Broderstorf, December 2018

For the Supervisory Board	For the Management Board
Hans-Ulrich Sutter Chairman of the Supervisory Board	Rolf Elgeti Chairman of the Management Board

Photo: Hypermarket Meißen
Schützestraße 1, 01662 Meißen

4. Report of the Supervisory Board

Dear Shareholders,
In the 2017/2018 financial year, the Supervisory Board of Deutsche Konsum REIT-AG duly fulfilled the duties incumbent on it by law, the Articles of Association and the rules of procedure.

Cooperation between the Supervisory Board and the Management Board

The Supervisory Board continuously monitored and advised the Management Board on the management of the Company. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company. The Management Board complied with its duties to provide information and regularly, promptly and comprehensively informed the Supervisory Board both in writing and orally about corporate planning, the course of business, the strategic development and the current situation of the Company and the current leases.

In addition, the Chairman of the Supervisory Board was regularly informed by the Management Board about current developments in the business situation and significant business events outside of Supervisory Board meetings. In addition, the Chairman of the Supervisory Board kept in regular contact with the Management Board and discussed issues of strategy, planning, business development, risk situation and risk management as well as compliance of the Company.

The members of the Supervisory Board always had ample opportunity to critically examine the resolutions proposed by the Management Board and to make their own suggestions. In particular, the members of the Supervisory Board discussed all significant business transactions for the Company on the basis of written and verbal reports prepared by the Management Board and checked them for plausibility. In several cases, the Supervisory Board dealt in detail with the risk situation of the Company, liquidity planning and the equity situation. In addition, the Management Board also reported to the Supervisory Board on the profitability of the Company, and in particular the profitability of its equity, at the balance sheet meeting. The Supervisory Board has given its approval for individual business transactions insofar as this was required by law, the Articles of Association or the rules of procedure for the Management Board.

Session attendance of the Supervisory Board

In total, four meetings of the Supervisory Board took place during the reporting period, three of which were attended in person and one meeting was held as a telephone conference. If necessary, decisions were also taken by written procedure. Approvals of draft resolutions of the Management Board were made after examination of extensive documents and intensive discussion with the Management Board. Committees of the Supervisory Board did not exist during the reporting period.

No member of the Supervisory Board attended fewer than half of the meetings. Conflicts of interest of members of the Management and Supervisory Boards that must be disclosed to the Supervisory Board without delay did not arise.

The following overview shows the attendance of the members of the Supervisory Board in the financial year 2017/2018:

Name	15 December 2017 Attended meeting in person	8 March 2018 Attended meeting in person	17 May 2018 Telephone conference	12 September 2018 Attended meeting in person
Hans-Ulrich Sutter	x	x	x	x
Achim Betz	x	x	x	x
Johannes C. G. (Hank) Boot	x (by telephone)	x	x	x
Nicholas Cournoyer	x (by telephone)	-*	x	x
Kristian Schmidt-Garve	n/a	x	x	x

* Mr Cournoyer had previously given a voting message to Mr Sutter.

Focus of deliberations in the Supervisory Board

The deliberations of the Supervisory Board in the individual meetings focused on the following topics:

At the meeting on 15 December 2017, during which the auditors were also present in person, the Supervisory Board unanimously approved the annual financial statements of the Company for the 2016/2017 financial year, which were thus adopted.

Following the conclusion of the Annual General Meeting, the Supervisory Board was reconstituted in its meeting on 8 March 2018. Mr Sutter was unanimously elected chairman and Mr Betz unanimously elected vice-chairman. As a new fifth member, Mr Kristian Schmidt-Garve was present at a Supervisory Board meeting for the first time. In addition to dealing with the results of the Annual General Meeting, the Supervisory Board discussed and approved current acquisition and financing projects. In addition, the resolution on the variable remuneration of the Executive Board was passed.

On 17 May 2018, the Management Board presented the current business development to the Supervisory Board, discussed the current purchase pipeline with it, and reported on the status of refinancing projects. In addition, it reported on the first rating of the Scope agency, which was created with regard to the corporate bond. The issue of this six-year corporate bond with a volume of EUR 40 million, which was issued on 31 May 2018, was approved by the Supervisory Board following discussion with the Management Board at this meeting.

At the meeting on 12 September 2018, the current acquisition pipeline, further refinancing issues as well as the forecast for the development of the financial results and the adjustment of the bond terms and conditions of the convertible bond were discussed. The Management Board and the Supervisory Board also jointly adopted the corporate governance declaration for 2018. The Supervisory Board and the Management Board also conducted a tour of three retail parks in Bitterfeld, Elsterwerda and Meißen.

In addition, during the entire reporting period, the Supervisory Board accompanied the growth of the Company in close cooperation with the Management Board and passed further resolutions by way of circulation, which among other things concerned the agenda items of the Annual General Meeting on 8 March 2018.

The members of the Supervisory Board have expertise and experience in the application of accounting principles. They are also familiar with the real estate sector. The Vice Chairman of the Supervisory Board, Mr Achim Betz, complies with all requirements in accordance with section 100 (5) AktG.

Corporate Governance and Declaration of Conformity

At the same time, the Management Board also reports on corporate governance at Deutsche Konsum REIT-AG to the Supervisory Board in the Corporate Governance Report, which was published in connection with the Corporate Governance Declaration on the Company's website at https://www.deutsche-konsum.de/en/ in the Investor Relations/Corporate Governance section as well as in the Annual Report 2017/2018.

The Management Board and the Supervisory Board have repeatedly discussed the recommendations and suggestions of the German Corporate Governance Code and issued a Declaration of Conformity on 12 September 2018 in accordance with § 161 German Stock Corporation Act (AktG). In addition, a supplement to this Declaration of Conformity was issued on 12 November 2018.

Annual audit

The annual financial statements of Deutsche Konsum REIT-AG as of 30 September 2018, prepared by the Management Board, and the management report of the Company were audited by the auditor, appointed by the Annual General Meeting on 8 March 2018 and by the Supervisory Board, DOMUS AG Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Berlin, and provided with an unqualified audit certificate.

The annual financial statements of Deutsche Konsum REIT-AG and the management report of the Company as well as the auditors' reports were made available to all members of the Supervisory Board in good time. The auditor attended the meeting of the Supervisory Board meeting on 15 December 2017 and reported on the key findings of his audit. This included his comments on the internal control system and risk management in relation to the accounting process. In addition, he was available to the members of the Supervisory Board for additional questions and information. The Supervisory Board approved the result of the audit of the annual financial statements and the management report of the Company after detailed discussion.

The Supervisory Board carefully examined the annual financial statements and the management report of the Company, the proposal for the appropriation of profits and the auditors' reports. There were no objections. The Supervisory Board then approved the annual financial statements as of 30 September 2018 prepared by the Management Board. The annual financial statements are, thus, established. The Supervisory Board approved the Management Board's proposal for the appropriation of profits after its own review and taking into account the development of earnings, the financial position and the requirements of the REIT Act. Together with the Management Board, the Supervisory Board proposes to the Annual General Meeting that a dividend of EUR 0.20 per share be distributed for the 2017/2018 financial year. This corresponds to a distribution of 99% of the net income of kEUR 6,052 under commercial law. The remaining net income is to be carried forward to new account.

Examination of the report of the Management Board on relationships with affiliated companies (dependent company report)

In accordance with § 312 German Stock Corporation Act (AktG), the Management Board prepared a report report for the period of control on relations with affiliated companies and submitted it to the Supervisory Board in good time. The report of the Management Board on relations with affiliated companies was subject of the audit by the auditor. He has issued the following audit opinion on the result of his audit:

> *"After our dutiful examination and assessment, we confirm that*
> 1. *the actual details of the report are correct,*
> 2. *in the transactions listed in the report, the company's performance was not unduly high."*

The audit report was also available to the Supervisory Board in good time. The Supervisory Board examined both the dependency report of the Management Board and the audit report of the auditor, and the auditor participated in the Supervisory Board's hearing on the dependency report and reported on the key findings of his audit. Following the final result of the Supervisory Board's review, the Supervisory Board agrees with the dependency report of the Management Board and the auditors' report and raises no objections to the final declaration of the Management Board contained in the dependency report.

Personnel changes in the Management Board and Supervisory Board

There were no personnel changes in the Management Board during the reporting period.

The Annual General Meeting of Deutsche Konsum REIT-AG on 8 March 2018 confirmed the previous four members of the Supervisory Board Mr Hans-Ulrich Sutter, Mr Achim Betz, Mr Nicholas Cournoyer and Mr Johannes C. G. (Hank) Boot by re-election in their office. In addition, the shareholders elected Kristian Schmidt-Garve to the Supervisory Board as a new member. Since the change of the Articles of Association to the Commercial Register on 5 April 2018 required for the admission of the further member to the Supervisory Board, the Supervisory Board of Deutsche Konsum REIT-AG thus consists of five persons.

The Supervisory Board would like to thank the Management Board and employees for their commitment in the 2017/2018 financial year.

Broderstorf, December 2018

For the Supervisory Board

Hans-Ulrich Sutter
Chairman of the Supervisory Board

5. Composition of the Management Board and Supervisory Board

Management Board

Alexander Kroth
CIO
Mr. Kroth is responsible for the areas of acquisition and sales as well as asset and property management.

Rolf Elgeti
CEO
Mr. Elgeti is responsible for Human Resources and Legal/ Compliance and Strategy.

Christian Hellmuth
CFO
Mr. Hellmuth is responsible for Corporate Finance, Accounting/ Controlling, Treasury, Investor Relations and Risk Management.

Supervisory Board

Hans-Ulrich Sutter
Chairman of the Supervisory Board
Business diploma, Düsseldorf

Achim Betz
Deputy Chairman of the Supervisory Board
Public accountant, Auditor, Tax advisor, Nürtingen

Johannes C. G. (Hank) Boot
Fund Manager, London

Nicholas Cournoyer
Fund Manager, London

Kristian Schmidt-Garve
Member of the Executive Board/ General Partner of MIG Verwaltungs AG, Munich

The CVs of the members of the Management Board and Supervisory Board are published under https://www.deutsche-konsum.de in the category "Company" under the menu items "Management Board" respectively "Supervisory Board".

Photo: Hypermarket Oer-Erkenschwick
Berliner Platz 14, 45739 Oer-Erkenschwick

2014

23 December 2014
Founding of Deutsche Konsum Grundbesitz AG, Broderstorf, through a change of legal form of the predecessor company Stafford Grundbesitz GmbH. Rolf Elgeti becomes CEO of the Company

2015

30 September 2015
As of 30 September 2015, the total portfolio comprises 17 retail properties with a balance sheet value of kEUR 83,151

15 December 2015
Capital increase and listing of Deutsche Konsum Grundbesitz AG to the regulated market of Börse Berlin with a market capitalisation of EUR 52.8 million (number of shares: 15,091,235 shares). Opening price: EUR 3,50

2016

13 January 2016
Deutsche Konsum Grundbesitz AG attains the REIT status and is now trading as Deutsche Konsum REIT-AG (DKR)

16 February 2016
Complete placement of a cash capital increase without subscription rights in the amount of EUR 8.7 million at 5,75 per share (new number of shares: 16,600,358 shares)

14 July 2016
Complete placement of a cash capital increase without subscription rights in the amount of EUR 11.5 million at 6,25 per share (new number of shares: 18,447,003 shares)

30 September 2016
At the end of the financial year 2015/2016, the total portfolio comprises 40 retail properties with a balance sheet value of kEUR 147,823. Closing price on 30 September 2016: EUR 9.25

27 December 2016
Converting of a mandatory convertible bond into 1,660,000 new shares (new number of shares: 20,107,003 shares)

2017

23 February 2017
Complete placement of a cash capital increase with subscription rights in the amount of EUR 39.6 million at EUR 8.50 per share (new number of shares: 24,760,285 shares)

3 March 2017
Admission to the regulated market of the Frankfurt Stock Exchange and admission to the Prime Standard

1 July 2017
DKR expands the board with Alexander Kroth (CIO) and Christian Hellmuth (CFO)

30 September 2017
At the end of the 2016/2017 financial year, the total portfolio comprises 62 retail properties with a balance sheet value of kEUR 275,434. Closing price on 29 September 2017: EUR 10.06

20 November 2017
DKR in the RX REIT index of Deutsche Börse AG

8 December 2017
Complete placement of a cash capital increase without subscription rights in the amount of EUR 24,8 million at EUR 10,00 per share (new number of shares: 27,236,313 shares)

2018

31 May 2018
DKR issues a secured six-year corporate bond with a coupon of 1.8% p.a. and receives a "BBB" rating (investment grade) from the Scope rating agency for secured and senior debt

30 August 2018
Refinancing of debt capital reduces borrowing costs to 2.0%

30 September 2018
At the end of the financial year 2017/2018, the total portfolio comprises 90 retail properties with a balance sheet value of kEUR 418,707 and a market capitalisation of approx. EUR 300 million. Closing price on 28 September 2018: EUR 11.00

6. What is a REIT?

1. What is a REIT?

REIT is the abbreviation for "Real Estate Investment Trust". This refers to listed stock corporations whose business purpose is the long-term management of real estate and the sustainable achievement of rental income. Through their capital market access, REITs have with their shares a fungible investment tool for investors. An essential feature is the tax transparency of the company.

REITs already have their origins in the 1960s in the US and Canada. In Europe too, you can find a high number of REITs especially in Great Britain, France and Belgium.
They also exist in developed investment markets in Asia (Singapore, Hong Kong, Japan) and Australia. In particular, REITs are characterised by high stability, profitability, dividend strength and sustained increases in value and have, therefore, been established for decades.

- **Global REIT Map: Established real estate investment vehicle in developed investment areas**
  Number of REITs 2017

North Amercia

Europe

Asia-Pacific

Australia: 56
Hong Kong: 12
New Zealand: 6
Japan: 58
Singapore: 36
Thailand: 63

Source: EPRA Global REIT survey

2. Why REIT?

A REIT enables a wide range of investors, and thus, also small investors, to participate indirectly in real estate through a share investment, for which a real estate direct investment is generally out of the question due to the high level of investment. Compared to traditional real estate funds, they are more fungible due to the stock exchange listing of their shares and more transparent due to publicity requirements. At the company level, REITs are exempt from income taxes (corporation tax and trade tax). The taxation of income will only take place downstream at the level of the shareholder with the dividend distribution. In this respect, investments in REIT companies are in the same tax position as a direct real estate investment.

3. Prerequisites for obtaining the REIT status

Essential prerequisites for becoming a REIT in Germany derive from the REIT Law of 2007 and include the following criteria:

- Minimum equity of EUR 15 million
- Listing in the regulated market of a German stock exchange
- At least 15% free float
- Limitation of the direct participation of a single shareholder to 10% of the share capital
- Minimum equity ratio of 45%,
- Real estate assets of at least 75% of total assets,
- Rental income of at least 75% of total revenues,
- Minimum dividend distribution of 90% of the annual financial result according to commercial law.

In this respect, the founding of a REIT already requires a certain minimum size and stability of the company.

4. Advantages of a REIT

From our point of view, the German REIT criteria are business quality criteria. The defined minimum capital and the minimum capital ratio ensure a sustainable and strong equity base. Furthermore, the determination of a maximum shareholding of a single shareholder, a minimum free float rate and the stock market listing hedges the fungibility of the share. In this respect, shareholders are offered an indirect real estate investment after individual compilation into all asset classes.

Furthermore, the listing in the "regulated market" of a German stock exchange ensures maximum transparency. There are regular disclosure requirements and the ability to contact the Company's Investor Relations department.

And finally, the tax exemption of a REIT stock company also allows very streamlined administrative structures. For example, a separate tax department or the management of complex tax structures are not required and, thus, it ultimately results in higher dividends.

5. Previous significance of REITs in Germany

ith the creation of the REIT law in 2007, real estate allocation and industry professionalism in Germany was to be improved. The background was that a substantial real estate portfolio in Germany was not accessible to the broad investor market. These should be made available to the real estate and investor market directly, which is why the possibility of contribution to REIT companies has been created.

Exempted were existing residential real estate. The booming German housing investment market in the following years was initially covered by listed real estate portfolio holders, who often had high tax loss carry forwards, which meant that tax payments could not be expected in the medium term. Due to the dynamic development of the residential real estate sector in recent years, these companies now increasingly come into the tax liability.

In this respect, the issue of tax exemption in the real estate sector is increasingly being raised, which could lead to a significant increase in new REITs in Germany over the next few years.

6. Deutsche Konsum as a REIT company

The REIT status fits in perfectly with the long-term and value-adding business model of DKR with a focus on high-yield German retail real estate. Furthermore, the simple structure of the company and the lean management platform generate high annual net profits, which are not taxed at DKR level, but at least 90% are distributed as dividends. Taxation takes place only downstream from the capital gains tax at the shareholder. In addition to current rental income, this also includes capital gains that are exempt from taxation and must be distributed as dividends. In this respect, DKR offers an interesting opportunity of investing in German retail and retail real estate for a wide range of investors.

Photo: Local retail centre Neiße Center Guben
Karl-Marx-Straße 96, 03172 Guben

7. The real estate portfolio

7.1. Investment strategy

High-yield retail properties with the supply function of daily necessities

DKR's investment focus throughout Germany is on attractive retail locations with an above-average micro-location, many of which have already been established on the site for many years and provide residents with a supply of goods and services for daily needs. One of the key purchase criteria is that the properties generate initial yields of around ten percent. Such properties are currently located in centers and metropolitan areas away from major cities, as higher initial yields and a moderate investment risk can be achieved through lower competition and lower purchase prices. Furthermore, DKR acts as a professional investor in a niche, as the investment volume per property is too large for private investors and at the same time too small for institutional investors. This currently enables rapid acquisition process with little competition. Major rental income is also generated by non-cyclical tenants with strong credit ratings, such as large German food retailers, special-purpose stores, drugstores and others, which are considered to be largely independent of the economic cycle.

The essential prerequisites for success of the investment strategy are a precise analysis of the location criteria and development possibilities of each individual property as well as a high speed in the closing process. On the one hand, DKR ensures this through its experienced staff and its network. On the other hand, DKR initially acquires all the properties completely in equity and refinances with debt after the acquisition, which accelerates the acquisition process.

The aim of DKR is to build up an efficient real estate portfolio through the further acquisition of stable and profitable retail locations, which regularly ensures an attractive dividend distribution and tax-exempt dividend payments based on the REIT status.

Value creation through active asset management

Further on, strategic asset and portfolio management as well as targeted and value-adding investments in the real estate portfolio provide the basis for vacancy reductions and lease extensions, as a result of which the real estates increase in value. In this respect, consciously viable properties with higher vacancies and short lease terms are also purchased, as DKR can exploit value creation opportunities here.

Transformation of individual properties into an efficient real estate portfolio of institutional quality

Furthermore, DKR is in a position to achieve economies of scale with regard to ongoing administrative and management costs as well as borrowing costs through further acquisitions. This results in a highly profitable, low-risk and efficiently financed real estate portfolio of institutional quality, which generates sustainable and attractive tax-exempt dividends from non-institutional individual properties.

7.2. Development of the real estate portfolio in the 2017/2018 financial year

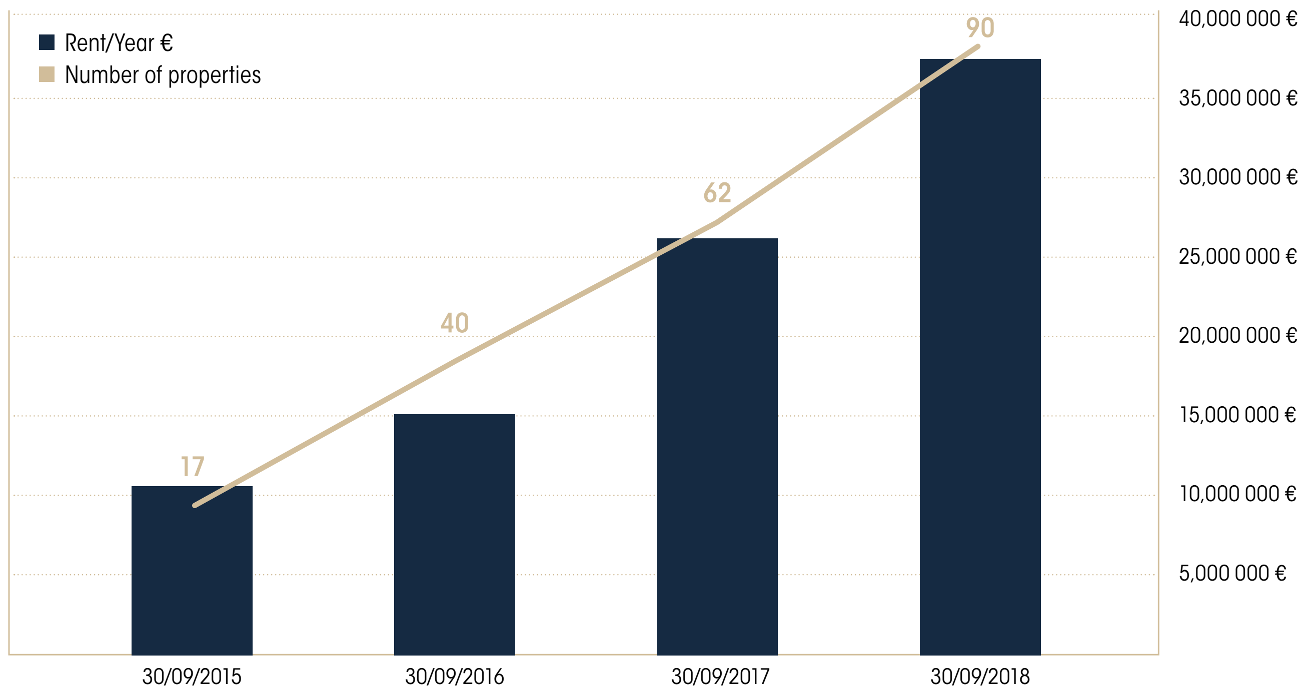
7.2.1 Acquisitions

DKR has again recorded strong growth in this financial year. By the balance sheet date of 30 September 2018, a further 28 properties with a total rentable area of around 187,700 m² and an annualised rent of EUR 10.9 million were acquired for a net amount of around EUR 108 million.

As of 30 September 2018, DKR's portfolio comprises a total of 90 retail properties with a total rental space of around 517,823 m² and an annualised rent of around EUR 35.5 million. On 30 September 2018, the portfolio is accounted for at around EUR 419 million.

Since the operational start, DKR has grown strongly each year, as can be seen from the following description:

Development of real estate portfolio



7.2.2 Operational development

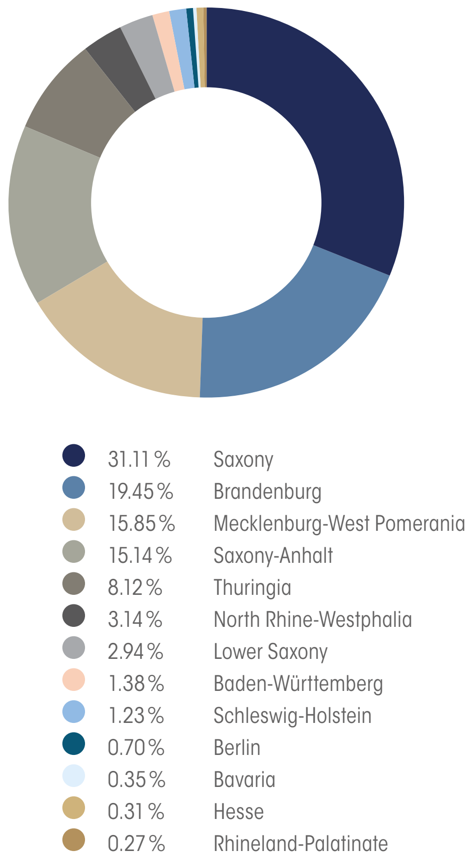
The balance sheet date comparison of the real estate portfolio as of 30 September of the previous year shows the development of rents, vacancy, WALT and the fair value over the past twelve months.

	30/09/2018	30/09/2017	Veränderung
Rent/Year	35,483,548	24,834,997	42.8%
Vacancy rate	9.6%	14.6%	-34.4%
WALT	5.2	4.6	13.5%
Fair value	410,974,277	271,338,000	51.4%
Valuation factor	11.58	10.93	6.0%

7.3. Structure of the DKR portfolio

7.3.1 Regional distribution

Regionally, the real estate portfolio of DKR as of 30 September 2018 is distributed as follows:



The current overweighting of the eastern German locations results mainly from the fact that there are currently more properties to be found, which correspond on the one hand to the high yield requirements of DKR and at the same time have a lower construction age, but also offer the large creditworthy tenants, which in the overall view leads to a clear better risk-return profile than in the majority of West German properties.

However, over the past two financial years, the portfolio has also expanded significantly to West German locations, which currently contribute around 15% of total rental income. Due to its increased popularity and the growing network, DKR now also increasingly finds properties that meet the investment and return requirements of DKR.

	Area (m²)	%	Annualised Rent (kEUR)	%
Old West German States	53,487	10.33	5,501	15.50
New German States	464,336	89.67	29,982	84.50
	517,823	**100.0**	**35,483**	**100.0**

Much of the property is located in secondary locations away from the major German cities, which is advantageous in several ways. For one thing, these properties are not yet in the focus of major institutional or international investors, which is why, as a rule, only a moderate bidder competition for the purchase of these properties takes place here. This way, stable objects with attractive initial yields can be acquired quickly. Furthermore, competition between retail tenants in secondary locations is not as dramatic as in metropolitan areas, which is why tenants in most cases find reliable and long-lasting locations and lease renewals in these established micro locations are sufficiently likely. And finally, the stationary retail locations in secondary regions are hardly threatened by e-commerce like in metropolises, which gives them additional stability.

7.3.2 Focus on retail and local supply centers

In principle, DKR invests in the following property categories, which are currently distributed as follows:

	Fläche (m²)	%	Annualised Rent (kEUR)	%
Specialty Retail Centre	218,828	42,3	16,318	46.0
Local Supply Centres	135,184	26,1	8,413	22.6
Hypermarket	58,353	11,3	4,029	11.1
Discounter	51,751	10,0	4,235	11.7
Other	53,707	10,3	2,488	6.86
	517.823	**100,0**	**35,483**	**100,0**

DKR places a clear focus on specialty stores and local supply centres as well as on properties that fulfill their utility functions for the respective location or region. This ranges from convenience centers and hypermarkets to individual discount stores.

7.3.3 Vacancy distribution and WALT

The vacancy rate of the real estate portfolio totaled around 9.6% as of 30 September 2018. The major part of the vacant space is attributable to the acquired potential revitalisation objects and is as follows:

Object	Total area (m²)	Vacant area (m²)	Vacancy rate (%)
Güstrow Hotel Stadt Güstrow	6,265	3,972	63.4
Bad Dürrenberg	3,384	2,088	61.7
Hohenmölsen Kirschbergcenter	7,785	4,614	59.3
Ueckermünde Haff-Center	4,620	2,560	55.4
Meißen Hypermarkt	24,475	7,608	31.1
Other	471,294	29,038	6.2
Total	**517,823**	**49.880**	**9.6%**

Due to the investment approach of DKR and the revolving purchase of properties with significant vacancies, the vacancy rate naturally results for the entire portfolio. Since DKR always buys on the basis of actual rents, there is no purchase price share for vacant space.

The average remaining lease term (WALT) of the portfolio as of 30 September 2018 is approximately 5.2 years. Despite long-term new and follow-up leases, a considerable increase in WALT cannot be expected, since new acquisitions in accordance with the investment profile always lead to leases with shorter remaining lease terms being added to the portfolio.

7.4. Portfolio strategy

Active asset management

The core of active asset management at DKR is recognising value creation potential, making targeted and value-enhancing investments to realign properties and adapting to the needs of tenants. This is intended to establish long-term tenant relationships, relet vacant space or extend existing tenancy agreements. As a consequence, the values of the revitalised objects increase as a result.

Capital recycling through opportunistic sales of revitalised objects

After successful revitalisation and the resulting increase in value, DKR examines the potential for sale of these properties and thus the realisation of the added value, as long as further potential purchase properties are available according to the acquisition criteria.

In this respect, all objects can basically be divided into the three clusters, namely management, revitalisation and potential sale.

Revitalisation strategy and revitalisation carried out in the 2017/2018 financial year

In accordance with its investment approach and portfolio strategy, DKR deliberately buys property in need of revitalisation with partly significant vacancies and shorter residual lease terms, as these offer significant value creation potential. In order to realise the added-value potential of the objects, DKR carries out revitalisation work on individual objects.

As a rule, this includes redesigning space, changing the tenant structure and optimising the tenant situation within an object. Furthermore, a fresh and renewed look makes the appearance of real estate much more attractive. As a result, it is generally possible to significantly reduce vacancies and extend leases. Ideally, the individual revitalisation steps can be divided into the following phases:

Phase 1
Conception and planning

Phase 2
Improvement and stabilisation

Phase 3
Implementation of the renovation

Phase 4
Finalisation and reopening

In the 2017/2018 financial year, DKR was primarily involved in the revitalisation of the following properties:

Object	Revitalisation phase	Estimated completion
Rostock Kolumbuspassagen	Phase 2	2019
Stralsund Lindencenter	Phase 2	2020
Ueckermünde Haff Center	Phase 2	open
Hohenmölsen Kirschbergcenter	Phase 3	2020
Greifswald Domcenter	Phase 4	2018
Bitterfeld „BiTZ"	Phase 4	2019

Following the „BiTZ“ in Bitterfeld, DKR has already been able to implement its second successful revitalisation project in its short history in the past financial year with the „Domcenter Greifswald“. Here a completely new shopping center was created by a new area concept, a revision of the technical plants and the creation of a modern and contemporary appearance (see illustrations on page 36). Afterwards, long-standing vacant space could be leased to new anchor tenants, which means that the center is already well utilised at over 90% and again sustainably stable through long-term tenancies. As a result, the Domcenter Greifswald has again become a major retail location in Greifswald‘s city center.

Image 1 Domcenter Greifswald: Remodeling and modernisation of the interior area

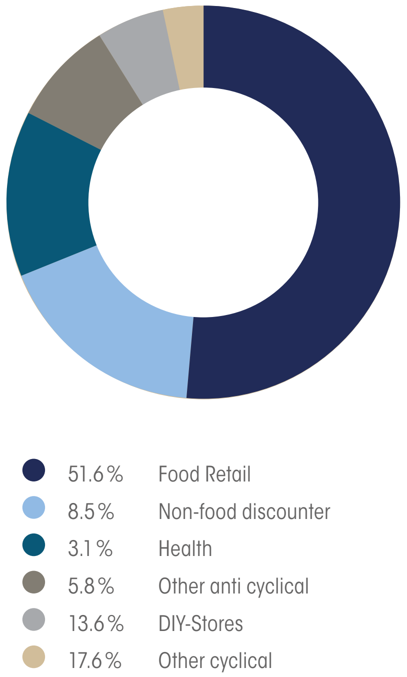
Image 2 Domcenter Greifswald: Refreshing and opening of the facade

7.5. Tenant mix

7.5.1 Focus on credit-worthy tenants with non-cyclical goods and services

The strongest tenants in the DKR portfolio are grocery retailers such as Edeka, REWE, Schwarz, Norma and ALDI, which account for around 52% of annualised total rents. The other major non-cyclical tenant groups are retail discounters, health care tenants and other non-cyclical retail stores for everyday goods and services.

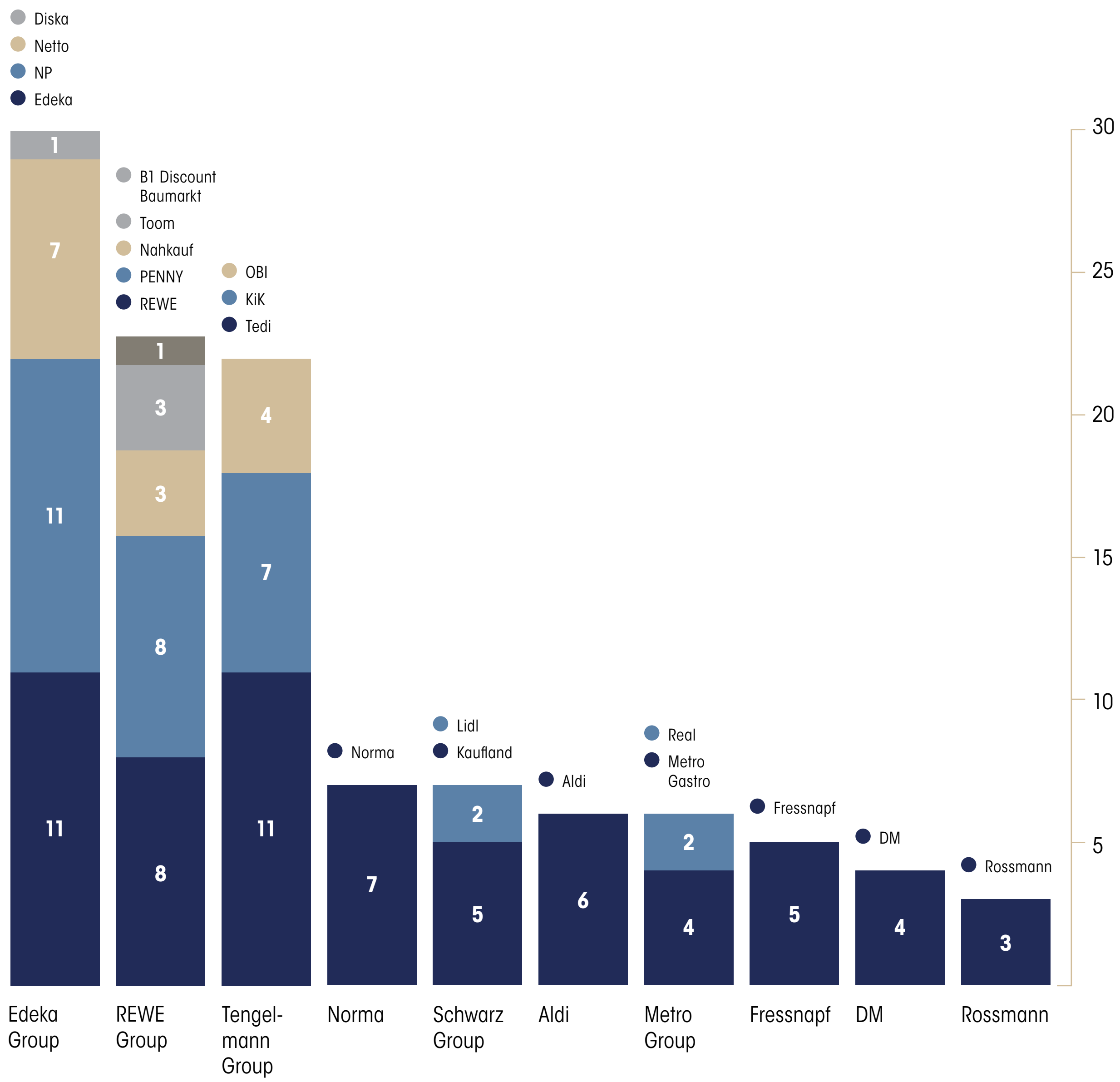
• **Rent contribution by sector (EUR million):**



7.6. Multiple leases with the same tenants improves the negotiating position of DKR

DKR also deliberately acquires retail properties with the same well-known retail chains. This allows a better and more efficient reconciliation of interests with regard to lease renewals, necessary expansion and expansion investments or, for example, the standardisation of leases or work processes. The following shows the number of leases with the same retail groups:

• **Number of lease contracts with large corporations and retailers' brands**
(Number of lease contracts as of 30 September 2018):



Deutsche Konsum REIT-AG The real estate portfolio

7.7. Property portfolio in detail as of 30 September 2018

	City	Address	Rental space m²	Vacancy 30/09/2018 %	Vacancy 30/09/2017 %	Rent level 30/09/2018 EUR/m²	Rent/Year EUR	WALT 30/09/2018 Years	WALT 30/09/2017 Years	Fair Value 30/09/2018 EUR	Fair Value 30/09/2017 EUR
1	Bad Oeynhausen	Mindener Straße 67/Alter Rehmer Weg 22	4,590	2.1	2.1	4.83	260,796	1.9	4.1	3,500,000	3,500,000
2	Bitterfeld	Brehnaer Straße 34	19,707	25.8	29.5	5.85	1,026,958	8.4	8.6	13,700,000	13,100,000
3	Erfurt	Gothaer Straße 22	19,750	0.0	0.0	9.30	2,205,161	8.4	1.5	31,000,000	30,000,000
4	Ludwigslust, Lindencenter	Am Marstall 2	14,386	0.8	0.8	9.09	1,556,564	7.3	8.0	24,000,000	23,700,000
5	Neumünster	Rendsburger Straße 16	4,630	0.0	0.0	4.14	230,004	8.3	9.3	3,000,000	3,000,000
6	Altentreptow	Fritz-Reuter-Straße 13	4,293	5.3	5.3	9.01	439,707	5.7	5.5	4,220,000	4,160,000
7	Ueckermünde	Chaussee Str 41–43	1,586	0.0	0.0	6.76	128,731	4.7	5.7	1,060,000	1,040,000
8	Eisenhüttenstadt	Gubener Straße 42	1,253	0.0	1.5	4.47	67,240	6.4	6.3	580,000	580,000
9	Bad Dürrenberg	Ostrauer Straße 5	3,384	61.7	61.7	3.78	58,800	2.3	3.3	240,000	158,000
10	Meißen	Berghaus Straße 7	6,227	0.0	0.0	3.97	296,808	6.3	7.3	2,910,000	2,900,000
11	Ehrenfriedersdorf	B95	6,505	0.0	0.0	2.77	216,000	2.3	3.3	2,260,000	1,600,000
12	Adorf	Karlsgasse 28	5,435	0.0	0.0	1.56	102,000	2.0	3.0	650,000	650,000
13	Wandlitz	Bahnhofstraße 35–36	1,608	0.0	0.0	9.20	177,474	6.3	7.3	3,070,000	2,920,000
14	Marlow	Carl-Cossow-Straße 64	1,046	0.0	0.0	9.20	115,478	8.1	9.1	1,320,000	1,310,000
15	Halle	Hermann-Heidel-Straße 11	1,072	18.7	18.7	4.59	48,000	unlimited	unlimited	300,000	370,000
16	Warin	Warin Burgstraße / Langestraße 12–14	1,598	2.8	0.0	6.53	121,747	1.9	2.5	1,660,000	1,570,000
17	Gräfenhainichen	R.-Luxemburg-Straße 47	1,087	0.0	0.0	6.72	87,589	2.5	3.3	840,000	830,000
18	Bitterfeld–Wolfen	Anhalt Straße 70b/72	5,822	19.9	0.0	4.56	255,056	3.4	3.2	2,300,000	2,000,000
19	Krempe	Neuenbrooker Straße 37	1,758	0.0	0.0	7.38	155,758	1.8	2.8	1,660,000	1,670,000
20	Herrnhut	Löbauer Straße 45	1,334	6.0	0.0	6.70	100,800	2.0	2.6	920,000	930,000
21	Kleinwelka	Hoyerswerdaer Straße 136	1,138	0.0	0.0	11.47	156,600	9.2	10.2	1,710,000	1,680,000
22	Niesky	Am Bahnhof 8	1,352	0.0	0.0	5.18	84,000	2.3	2.9	560,000	560,000
23	Schwante	Dorfstraße 25	1,046	0.0	0.0	8.95	112,340	6.8	7.8	1,600,000	1,550,000
24	Berlin	Manteuffelstraße 71	1,133	0.0	0.0	5.42	73,690	4.3	5.0	700,000	680,000
25	Berlin	Habichtstraße 16	580	0.0	0.0	7.78	54,160	8.1	9.1	720,000	650,000
26	Ludwigsfelde	Albert-Tanneur-Straße 25	4,484	0.0	0.0	7.02	377,640	3.1	2.4	4,760,000	4,100,000
27	Rüdersdorf	Brückenstraße 12a/b	2,783	0.0	0.0	8.68	289,774	3.8	1.3	3,790,000	2,860,000
28	Guben	Karl-Marx-Straße 95	1,181	0.0	0.0	8.48	120,240	4.0	4.2	1,390,000	1,370,000
29	Leipzig	Merseburger Straße 255–263	23,382	8.7	7.6	6.32	1,618,936	4.3	4.0	26,500,000	26,000,000
30	Rostock	Kolumbusring 58	4,492	25.7	11.9	5.42	217,274	1.2	1.4	4,600,000	3,180,000

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	City	Address	Rental space m²	Vacancy 30/09/2018 %	Vacancy 30/09/2017 %	Rent level 30/09/2018 EUR/m²	Rent/Year EUR	WALT 30/09/2018 Years	WALT 30/09/2017 Years	Fair Value 30/09/2018 EUR	Fair Value 30/09/2017 EUR
31	Güstrow	Pferdemarkt 58 / Markt 2–3 / Hageböcker Straße 108	6,265	63.4	83.45	5.64	155,198	5.0	3.3	2,220,000	1,820,000
32	Wernigerode	Pfarrstraße 43	25,086	8.1	17.9	2.80	773,748	3.5	0.9	9,000,000	8,500,000
33	Laucha	Am Stadtfeld 2	1,110	0.0	0.0	9.12	121,429	3.5	4.5	1,080,000	1,060,000
34	Gröbers	Lange Straße 3	986	0.0	0.0	9.73	115,157	3.5	4.5	970,000	940,000
35	Köthen	Edderitzer Straße 8	685	0.0	0.0	11.05	90,861	3.5	4.5	640,000	620,000
36	Ermsleben	Neustadt 1a	678	0.0	0.0	9.95	80,961	3.5	4.5	540,000	540,000
37	Goldbeck	Babener Straße 43	982	0.0	0.0	9.42	110,961	3.4	4.4	1,120,000	1,100,000
38	Stendal	Nordwall 12b	1,107	0.0	0.0	11.48	152,438	3.6	4.6	1,160,000	1,160,000
39	Hohenmölsen	Wilhelm-Külz-Straße 8	7,786	59.3	38.3	6.32	240,459	1.7	4.2	2,170,000	2,170,000
40	Greifswald	Lange Straße 40+42	17,696	9.5	36.5	6.31	1,213,066	9.0	0.2	19,100,000	10,000,000
41	Krakow am See	Bahnhofsplatz 3	3,474	5.3	5.3	8.38	331,126	3.0	3.8	3,180,000	3,130,000
42	Franzburg	Abtshäger Straße 13	1,320	0.0	0.0	6.84	108,346	3.2	4.3	1,150,000	1,090,000
43	Verden	Holzmarkt 7–15	7,128	2.7	2.7	13.96	1,162,041	1.2	2.2	13,600,000	13,300,000
44	FMZ Pritzwalk	Rostocker Straße 1, 2, 3, 7, 8	15,157	0.0	0.0	7.50	1,364,809	6.2	5.5	16,600,000	15,400,000
45	Ueckermünde, Haff-Center	Haffring 24	4,620	55.4	44.0	4.85	119,791	9.6	9.3	910,000	900,000
46	Kaltennordheim	Gartenstraße 2	927	0.0	0.0	3.72	41,428	3.3	4.3	220,000	210,000
47	Kaltensundheim	Bergstraße 12	915	0.0	0.0	3.96	43,486	4.3	5.9	310,000	330,000
48	Viernau	Mühlstraße 52	1,027	0.0	0.0	4.30	53,040	4.4	5.4	360,000	350,000
49	Dautphe	Gladenbacher Straße 43	1,600	0.0	0.0	4.25	81,600	3.2	3.4	720,000	720,000
50	Schwedt	Platz der Befreiung 1	10,576	0.0	0.2	5.44	690,112	2.7	2.3	6,010,000	5,890,000
51	Stralsund	Lindencenter Stralsund, Lindenallee 25	5,882	27.6	27.1	4.43	226,148	1.4	1.0	1,390,000	1,200,000
52	Aschersleben	Magdeburger Straße 32	1,009	0.0	0.0	9.28	112,440	6.1	3.3	1,110,000	1,100,000
53	Bergen	Harburger Straße 30	6,393	0.0	0.0	11.55	885,711	1.4	2.4	7,600,000	7,500,000
54	Drebkau	Drebkauer Hauptstraße 5	965	0.0	0.0	5.18	60,000	4.4	5.4	410,000	400,000
55	Guben, Neiße Center	Karl-Marx-Straße 96	10,331	15.5	11.9	8.20	858,251	3.7	4.6	8,000,000	7,800,000
56	Oer-Erkenschwick	Berliner Platz 14	9,555	0.0	0.0	10.99	1,260,000	11.5	12.5	16,700,000	16,200,000
57	Meißen	Schützestraße 1	24,475	31.0	30.9	6.42	1,298,903	3.3	3.5	11,400,000	11,100,000
58	Plauen	Morgenbergstraße 41	24,322	30.3	33.7	7.23	1,470,497	3.1	3.7	12,300,000	12,200,000
59	Tangerhütte	Neustädter Ring 78	2,574	0.0	0.0	5.36	165,600	4.3	5.3	1,560,000	1,650,000
60	Sondershausen	Beethovenstraße 9	1,100	0.0	0.0	6.72	88,704	8.3	9.3	1,200,000	1,200,000

	City	Address	Rental space m²	Vacancy 30/09/2018 %	Vacancy 30/09/2017 %	Rent level 30/09/2018 EUR/m²	Rent/Year EUR	WALT 30/09/2018 Years	WALT 30/09/2017 Years	Fair Value 30/09/2018 EUR	Fair Value 30/09/2017 EUR
61	Eisenhüttenstadt	Karl-Marx-Straße 33	965	0.0	0.0	11.65	134,927	2.0	2.7	1,150,000	1,140,000
62	Limbach–Oberfrohna	Frohnbachstraße 59	1,862	0.0	0.0	7.82	174,722	4.6	5.6	2,010,000	2,000,000
63	Hettstedt	Luisenstraße 18a–k	2,832	0.0		6.24	211,865	0.6		2,100,000	
64	Kelbra	Jochstraße 2	930	0.0		6.93	77,304	2.3		440,000	
65	Langenwolschendorf	Heinrich-Wobst-Straße 1	3,072	0.0		7.57	279,204	4.8		2,850,000	
66	Schwerte	Hagener Straße 51	1,200	0.0		6.83	98,400	2.3		1,120,000	
67	Finsterwalde	Ludwig-Erhard-Straße 5	11,072	0.0		3.61	480,000	5.8		5,000,000	
68	Jestetten	Schaffhauser Straße 8	1,296	0.0		10.51	163,518	6.9		2,040,000	
69	Glauchau	Schönburgstraße 40	1,153	0.0		8.58	118,800	2.0		1,200,000	
70	Zeulenroda	Heinrich-Wobst-Straße 2	5,632	0.0		3.55	240,000	6.5		2,580,000	
71	Berlin	Buddestraße 36	931	0.0		18.05	201,618	5.3		2,500,000	
72	Berlin	Blankenburger Straße 145	987	0.0		12.71	150,577	5.3		2,100,000	
73	Dierdorf	Königsberger Straße 12	1,391	0.0		8.79	146,685	6.3		1,870,000	
74	Weilheim	Lohgasse 4	1,824	0.0		4.83	105,717	2.8		800,000	
75	Seebach	Am Rötelstein 3 / DicelStraße 7	1,120	2.8		6.41	83,697	5.3		780,000	
76	Halberstadt	Breiter Weg 13	1,586	35.2		5.35	66,000	4.1		570,000	
77	Freiberg	Abraham-von-Schönburg-Straße 3	1,117	0.0		11.18	149,905	2.6		1,320,000	
78	Waldbröl	Kaiserstraße 36	938	0.0		6.30	70,935	2.3		330,000	
79	Leipzig	Maximilianallee 18–20	8,809	9.2		8.78	842,802	unlimited		7,500,000	
80	Pfullingen	Römerstraße 166	5,840	0.0		3.39	237,916	4.3		2,630,000	
81	Torgelow	Pasewalker Straße 5–8	11,354	0.0		5.51	750,996	6.9		8,400,000	
82	Sassnitz	Gewerbepark 9	4,063	0.0		4.11	200,340	1.3		1,520,000	
83	Unterwellenborn	Kronacher Straße 1	8,487	0.0		5.11	520,000	5.3		5,000,000	
84	Angermünde	Rudolf-Breitscheid-Straße 27	4,562	5.5		6.12	316,427	1.8		4,300,000	
85	Niesky	Rothenburger Straße 23	900	0.0		8.42	90,936	13.5		1,190,000	
86	Elsterwerda	Lauchhammerstraße 60	34,745	0.0		4.29	1,790,538	6.8		25,300,000	
87	Werdau	Stiftstraße 6–8	39,405	5.1		5.14	2,308,412	4.2		21,400,000	
88	Weißwasser	Sachsendamm 32	12,254	1.3		6.80	987,904	4.5		12,000,000	
89	Bad Sachsa	Marktstraße 43–44	1,712	4.9		8.28	161,954	4.3		1,600,000	
90	Reinsdorf	Hof 13	1,408	0.0		5.30	89,622	7.2		1,124,277	
			517,824	**9.6**	**14.6**	**6.32**	**35,483,548**	**5.2**	**4.60**	**410,974,277**	**271,338,000**

Impressions of the individual objects can be found on the DKR website at
https://www.deutsche-konsum.de/en/portfolio/properties/

8. Key figures according to EPRA

The European Public Real Estate Association EPRA

EPRA is a non-profit organisation based in Brussels that represents the interests of the European real estate industry and has developed standardised ratios that ensure a high level of comparability between real estate companies. Since October 2017, DKR has been a full member of EPRA and publishes the EPRA key figures according to Best Practice Recommendations (BPR) for the first time since the 2016/2017 financial year.

For the financial year 2017/2018 the EPRA KPIs of DKR are as follows:

EPRA Earnings

The EPRA Earnings represent the result from the ongoing property management. Valuation effects and proceeds from disposals are not considered.

kEUR	2017/2018	2016/2017
Period result	30,918.51	37,405.0
– Evaluation result	–16,336.81	–28,403.8
– Sale result	0.0	–4.3
EPRA Earnings	**14,581.70**	**8,996.9**
EPRA Earnings per share, EUR	0.54	0.40

EPRA Initial Net Return

The EPRA Initial Net Return is the annualised annual rent less non-recoverable management costs in relation to the current portfolio value and, thus, represents the current portfolio return.

kEUR	2017/2018	2016/2017
Market value of investment properties	418,707.3	275,433.9
+ Transaction costs	30,161.0	21,109.7
Gross market value of investment properties	**448,868.3**	**296,543.7**
Annualised rental income	35,483.6	24,835.0
– non-recoverable management costs	–7,096.7	–4,967.0
Annualised net rental income	**28,386.9**	**19,868.0**
EPRA Initial Net Return	**6.3%**	**6.7%**

Deutsche Konsum REIT-AG Key figures according to EPRA

EPRA Cost Ratio

The EPRA cost ratios relate the current property-specific management expenses as well as the administrative and management expenses to the rental income and, therefore, show the cost burden of the management platform in relation to the rental income.

kEUR	2017/2018	2016/2017
Expenses from property management	6,333.0	4,743.2
+ Personnel expenses	578.8	194.2
+ Other recurring operating expenses	1,250.2	1,009.5
– Other income	–50.1	–96.3
EPRA costs A incl. direct vacancy costs	**8,112.1**	**5,850.5**
– direct vacancy costs	–766.3	–616.6*
EPRA costs B excl. direct vacancy costs	**7,345.8**	**5,233.9***
Rental income	28,601.3	19,248.9
EPRA A, %	**28.4%**	**30.4%**
EPRA cost ratio B, %	**25.7%**	**27.2%***

* previous year's figure adjusted

EPRA Vacancy Rate

In contrast to pure vacancy, the EPRA vacancy rate reflects the economic vacancy based on the market rent of the vacant space in relation to the total rent of the portfolio at the balance sheet date. The estimated underlying market rents result from the real estate appraisals of the external and independent appraiser JKT Immobilien GmbH, Berlin.

kEUR	30/09/2018	30/09/2017
Potential rent for vacant space	774.6	998.1
Annualised rental income	35,483.6	24,835.0
EPRA vacancy rate	**2.2%**	**4.0%**

EPRA NAV/EPRA NNNAV

The EPRA NAV represents the long-term value of the company as at the balance sheet date. In this respect, short-term valuation effects of financial instruments from hedging relationships or deferred tax effects are not taken into account and eliminated from equity.

The so-called EPRA NNNAV, on the other hand, depicts the short-term intrinsic value of the company by disclosing hidden reserves and burdens and includes the shortterm valuation effects from interest hedges and deferred taxes.

Since DKR is exempt from VAT as a REIT and has not entered into any interest rate hedges, these adjustments need not be made. As a result, equity, EPRA NAV and EPRA NNNAV are currently identical.

• **The EPRA NAV per share (undiluted) as of 30 September 2018 is as follows:**

kEUR	30/09/2018	30/09/2017
Equity (kEUR)	209,762	154,736
Number of shares at the balance sheet date	27,236,313	24,760,285
EPRA NAV per share, EUR	**7.70**	**6.25**

• **Taking into account a conversion of the two convertible bonds, the EPRA NAV per share (diluted) on 30 September 2018 is as follows:**

kEUR	30/09/2018	30/09/2017
Equity (kEUR)	245,861	190,277
Number of shares at the balance sheet date (after exercising the conversion options)	42,028,925	39,552,897
EPRA NAV per share, EUR	**5.85**	**4.81**

Photo: Hypermarket Erfurt
Gothaer Straße 22, 99094 Erfurt

Management Report

Deutsche Konsum REIT-AG

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Photo:
Hypermarket Südpassage Weißwasser
Sachsendamm 32, 02943 Weißwasser

1. Basics of Deutsche Konsum REIT-AG

1.1. Business model, strategy and structure

Deutsche Konsum REIT-AG (hereafter referred to as “DKR”) is a portfolio holder specialising in retail real estate for items of daily use. The business activity essentially comprises the acquisition, leasing and management of domestic retail properties in functioning micro locations in central and regional centres of Germany. In individual cases, object sales can also be undertaken.

The listing of the DKR share (ISIN DE000A14KRD3) took place on 15 December 2015. Since then, the share has been tradable on all major stock exchanges and quoted in the Prime Standard of Deutsche Börse AG since 3 March 2017. As of 1 January 2016, the Company has the status of a REIT (Real Estate Investment Trust) and is, therefore, exempt from income tax at company level.

The investment focus of DKR is on centres and metropolitan areas away from major cities, as there, higher initial yields with simultaneously manageable investment risk due to lower competition and lower purchase prices can be achieved. Furthermore, DKR acts as a professional investor in a niche, since the investment volume per property is generally up to EUR 25 million, which is too high for private investors and too low for institutional investors. The substantial rental income is also achieved by large German food retail companies, which are considered to be relatively non-cyclical and, thus, resistant to general economic trends.

The aim of DKR is to build up a high-performance real estate portfolio through the further acquisition of functioning retail locations with high initial yields, which regularly ensures an attractive dividend distribution. Furthermore, strategic asset and portfolio management as well as targeted and value-adding investments in the real estate portfolio provide the basis for vacancy reductions and lease renewals, because of which the real estate has increased in value. In this respect, consciously viable properties with higher vacancies and short rental contract maturities are deliberately bought, as DKR can exploit value-added opportunities here.

As of 30 September 2018, the recognised real estate portfolio of the DKR includes 90 retail real estate with a leasable area of approximately 518,000 m² and a value of EUR 419 million.

In terms of corporate law, DKR consists of a corporation that holds and accounts for all real estate. This, as well as the REIT characteristics, enable the company to have particularly streamlined administrative structures. In addition, the existing network, the many years of experience of the management and the flat structures help to achieve a high purchase speed, which is advantageous in purchase processes.

The largest shareholder of DKR is currently Obotritia Capital KGaA (“Obocap”) with is personally liable partner Rolf Elgeti, which together with its subsidiaries currently holds about 31 % of the shares. DKR uses the business premises and the IT infrastructure as well as partially the staff of Obocap, which is proportionally charged to the company through a group allocation. DKR is required to prepare a dependency report in accordance with § 312 AktG (Stock Corporation Act).

1.2. Structure and control system

DKR is mainly managed on the basis of the financial figures FFO (funds from operations) and net LTV (loan to value). Furthermore, the ratio of current administrative expenses to rental income and EPRA NAV (EPRA net asset value) and the initial yield and the aFFO (adjusted funds from operations) are used regarding control.

Non-financial performance indicators of DKR are vacancy rates as well as the average remaining term of the limited leases WALT (weighed average lease term) at the individual property level as well as at the overall portfolio level. Because of the acquisition of properties with higher vacancy rates and lower remaining lease contract terms, which are in line with the business model, these non-financial ratios are subject to significant fluctuations.

Furthermore, DKR has planning tools such as corporate planning as well as rolling liquidity planning, which are used to steer operational business development.

1.3. Research and development

As part of its business purpose, DKR has no research and development activities and is not dependent on licenses and patents.

2. Economic report

2.1. Macroeconomic development

According to the Federal Statistical Office (Destatis), the German economy continues to grow, albeit more cautiously. Gross domestic product increased by 0.5% in the fourth quarter of 2017 and by 0.4% or 0.5% in the first two quarters of 2018 compared to the previous quarters[1]. According to the Bundesbank, gross domestic product could rise by 2.0% in 2018[2], and the upturn in Germany is likely to be fundamentally intact, not least because of the continuing strength of the domestic economy.[3] Economic uncertainties, however, are caused by the global trade dispute, the Brexit, a possible EU exit from Italy and the EU dispute over a common asylum and refugee policy.

The interest rate level in the eurozone is currently at a historic low. On 16 March 2016, the European Central Bank (ECB) lowered the key interest rate by 5 basis points, so that the main refinancing rate was 0.00%. As a result, real estate companies such as Deutsche Konsum REIT-AG, which largely finance their holdings by borrowing, continue to find favourable conditions for financing their investments.[4]

2.2. Development of the German commercial real estate market

According to a study by JLL, the German investment market for commercial real estate posted a transaction volume of EUR 42 billion[5] for Germany between January and September 2018. Retail real estate took second place within this asset class with a good 20% of the transaction volume after office real estate (45%).[6]

According to JLL, the focus of investors in the retail segment is primarily on specialty market products with food anchor tenants, who have so far been relatively unimpressed by the online competition.[7]

According to JLL, 360,600 sqm of 803 leases in the retail leasing market were realised in the first three quarters of 2018. At around 5%, this is significantly more than in the same period of the previous year.[8]

According to a study by the Hahn Group, the upward trend on the German investment market for commercial real estate continued unabated in 2017 and in the first half of 2018. German and international investors had been responsible for achieving record-breaking transaction volumes in the wake of strong demand surplus. The retail property has decisively contributed to this positive development as the second largest commercial property investment segment.[9]

The good performance of retail real estate is based on the fundamentals of the overall economy and retail, according to the study. Solid economic growth, rising employment levels in Germany and increased disposable income led to an increase in private consumption of 3.6% in 2017 alone.[10] For these reasons, Germany is a safe and stable investment location for global real estate investors. In addition, Germany has a large number of large investment markets and prospering B locations[11], so that the latter as well as regional centres with favourable yield profiles could continue to attract a large proportion of the investments.[12] In 2017, EUR 11.5 billion or around 82% was invested outside the top cities. Almost half of all investments in the amount of EUR 5.5 billion (48%) were made by the specialist stores and retail parks sector. This development continued in the first half of 2018.[13]

On the other hand, the high demand for retail properties increasingly limits the availability of suitable properties as new developments in this segment have become rare. The high volume of transactions in this area is therefore explained above all by the wide range of products on offer, ranging from the DIY store and the discounter to the hybrid retail park.[14]

The German real estate AG sector, according to the information service provider to the German commercial real estate market Thomas Daily, measured in euros now has a higher stock market value than the British. The 13 German stock corporations listed in the "FTSE Epra / Nareit Developed Europe Index" have a market capitalisation of EUR 63.5 billion, the UK 40 of EUR 62.1 billion. The index covers 104 companies in 13 European countries with a total of market capitalisation of EUR 233 billion. Retail segment companies in the 13 countries add up to a stock market value of EUR 45.4 billion.[15]

2.3. Business performance

Portfolio has grown significantly through acquisitions

In the 2017/2018 financial year, the transfer of benefits and encumbrances of 28 acquired retail properties took place. As a result, the real estate portfolio, recognised on 30 September 2018, comprises 90 properties and is accounted for at kEUR 418,707.

Positive performance of the real estate portfolio

The regular real estate valuation by an independent and external valuation expert as of 30 June 2018 resulted in an appreciation of the reported real estate at date by a total of around kEUR 16.337 or around 6 %.

The most significant value increases have occurred at the portfolio properties Domcenter Greifswald (+91%), Kolumbuspassage Rostock (+45%) as well as the retail centre in Rüdersdorf near Berlin (+33%). On the one hand, the value increases thus reflects the increased overall market demand in the DKR niche and on the other hand clearly shows the value increases of the revitalisation measures and the vacancy reductions and lease prolongations resulting from this.

Successful capital increase

On 7 December 2017, Deutsche Konsum announced the execution of a cash capital increase without subscription for EUR 10.00 per share and successfully completed it with entry in the commercial register on 8 December 2017. As a result, the share capital of the Company has increased by EUR 2,476,028.00 to EUR 27,236,313.00. The outstanding number of no-par value shares, thus, amounts to 27,236,313 shares. As a result of the cash capital increase, the Company received net proceeds of EUR 24.1 million, which serve to finance additional purchases.

As a further result of the capital increase, the free float (as defined by Deutsche Börse AG under consideration of the attribution regulations acc. WpHG) increased slightly from 43% on 30 September 2017 to 44% on 30 June 2018, and the market capitalisation has risen to more than EUR 300 million. The investor base, which is characterised by institutional national and international investors with a predominantly long-term investment strategy, also expanded as a result.

Issue of a corporate bond and receipt of an issuer rating

On 31 May 2018, DKR issued a secured six-year corporate bond with a coupon of 1.8% p.a. The bond has a volume of kEUR 40,000 and is secured by a total book mortgage of several plots of land.

1 Source: Press release Destatis of 24 August 2018.
2 Source: Deutsche Bundesbank: Monthly Report June 2018, page 13.
3 Source: Deutsche Bundesbank: Monthly Report September 2018, page 5
4 Source: www.finanzen.net/leitzins/, last reviewed on 18 October 2018
5 Source: JLL. Investment market overview. Germany. 3rd quarter 2018, page 2.
6 Source: JLL. Investment market overview, ibid., page 3.
7 Source: JLL. Investment market overview, ibid., page 5.
8 Source: JLL. Retail market overview. Germany. 3rd quarter 2018, page 2.
9 Hahn Group in cooperation with bulwiengesa, CBRE, EHI Retail Institute: Retail Real Estate Report Germany 2018/2019. 13th issue, page 6.
10 Hahn Group in cooperation with bulwiengesa, ibid., page 6.
11 Hahn Group in cooperation with bulwiengesa, ibid., page 68-69.
12 Hahn Group in cooperation with bulwiengesa, ibid., page 73.
13 Hahn Group in cooperation with bulwiengesa, ibid., page 73.
14 Hahn Group in cooperation with bulwiengesa, page 78.
15 Epra Index: German real estate companies surpass British, Thomas Daily on 5.9.2018 at https://www.thomas-daily.de/de/

Shortly before, DKR received a rating of BBB (investment grade) for senior secured equity from the rating agency Scope for the first time. The Company rating is “BB/stable”.

Inclusion of new loan financing and refinancing of old loans

In the course of the 2017/2018 financial year, DKR has taken up the following new loans:

- With payment on 30 November 2017 an open loan tranche was drawn up at Berliner Sparkasse of kEUR 1,300,
- with payment on 8 February 2018 at Sparkasse Spree-Neiße in the amount of kEUR 6,000 at 2.25% p.a. interest, full repayment and a term of 6 years,
- with payment on 15 April 2018 at Sparkasse Spree-Neiße in the amount of kEUR 2,800 at 2.0% p.a. interest, full repayment and a term of 6 years,
- with payment on 23 April 2018 at Berliner Sparkasse in the amount of kEUR 3,000 at 1.85% p.a. interest, 5% annual repayment and a term of 5 years,
- with payment on 23 April 2018 at Stadtsparkasse Düsseldorf in the amount of kEUR 11,000 at 1.93% p.a. interest, 5% annual repayment and a term of 8 years,
- with payment on 27 April 2018 at Ostsächsischen Sparkasse Dresden in the amount of kEUR 17,000 at 2.07% p.a. interest, 5% annual repayment and a term of 5 years,
- with payment on 29 May 2018 at Landesbank Hessen Thüringen (Helaba) in the amount of kEUR 37,000 at 1.77% interest, 1% annual repayment and a term of 5 years, which served to refinance a short-term loan of EUR 16.8 million,
- with payment on 4 June 2018 at Sparkasse Gera-Greiz in the amount of kEUR 3,000 at 1.25% interest, 8.03% annual repayment and a term of 5 years,
- with payment on 27 June 2018 at Sparkasse Vorpommern in the amount of kEUR 5,000 at 2.00% interest, 4.00% annual repayment and a term of 5 years,
- with payment on 28 August 2018 at Landesbank Baden-Württemberg (LBBW) of kEUR 29,868 at 1.79% interest, 1.25% annual repayment and a term of 4.5 years, which is used to refinance the current outstanding loan at Sachsenbank for EUR 11.4 million and to finance further purchases.

Extension of outstanding convertible bonds while reducing the coupon

On 26 September 2018, with effect from 1 November 2018, DKR agreed to extend the term by five years until 30 January 2025 with the bondholders of the two outstanding convertible bonds 2015/2020. Linked to this was the modification of the bond conditions in that the coupon of the EUR 30 million bond is reduced from 5.0% p.a. to 1.35% p.a. The coupon of the EUR 7 million bond remains at 1.0% p.a. Furthermore, the respective conversion prices were raised by 7% and 5%, respectively, resulting in a reduction of the dilution occurring at the time of conversion by a total of around 5 percentage points.

Annual General Meeting of Deutsche Konsum REIT adopts all proposed resolutions and elects the Supervisory Board

On 8 March 2018, the Annual General Meeting of DKR took place in Berlin. All proposed resolutions were adopted with the required majority.

The Annual General Meeting resolved increases in the Authorised and Contingent Capital. Accordingly, the Management Board is authorised to increase new shares by cash or in-kind contributions by up to EUR 13,618,156.00, once or several times with the approval of the Supervisory Board, by 7 March 2023 (Authorised Capital 2018). The Authorised Capital 2017 has been cancelled.

Contingent capital was conditionally increased by up to EUR 11,238,014.00 by issuing up to 11,238,014 new no-par-value bearer shares and serves to issue bonds with a total nominal value of up to EUR 150,000,000 (Contingent Capital I). At the Annual General Meeting on 9 March 2017, the remaining Contingent Capital for the granting of shares from existing convertible bonds had already been increased to EUR 2,380,142.00 (Contingent Capital II).

2.4. Asset, financial and earnings position

Asset position

The balance sheet total increased by kEUR 172,258.4 to kEUR 452,932.9 (30/09/2017: kEUR 280,674.5). This resulted from the construction of the real estate portfolio as well as from the valuation gain on the basis of the current appraisal report. Accordingly, the investment properties are accounted for as of 30 September 2018 at kEUR 418,707.3 (30/09/2017: kEUR 275,433.9).

The Company's equity increased in the financial year by kEUR 55,026.4 to kEUR 209,762.4 (30/09/2017: kEUR 154,736.0). This was mainly due to the cash capital increase of 7 December 2017 in the amount of kEUR 24,760.3. Furthermore, the positive annual result of kEUR 30,918.5 has an effect on equity.

The EPRA NAV per share (undiluted) as of 30 September 2018 is as follows:

kEUR	30/09/2018	30/09/2017
Equity (kEUR)	209,762.4	154,736.0
Number of shares at the balance sheet date	27,236,313	24,760,285
EPRA NAV per share, EUR	**7.70**	**6.25**

Non-current and current financial liabilities to banks increased to kEUR 155,223.0 (30/09/2017: kEUR 72,363.1) as a result of taking out loans. There was also an increase in financial liabilities from the issue of the corporate bond in the nominal amount of kEUR 40,000. Financial liabilities to other lenders amounted to kEUR 116.2 (30/09/2017: kEUR 10,819.1) due to the utilisation of the credit line at Obotritia Capital KGaA. Overall, the financial liabilities increased to kEUR 231,596.5 as of the balance sheet date (30/09/2017: kEUR 118,723.2).

Accordingly. the Net-LTV as of 30 September 2018 is as follows:

kEUR	30/09/2018	30/09/2017
Financial liabilities to banks	155,223.0	72,363.1
Convertible bonds	36,098.9	35,541.0
Corporate bond	40,158.4	0.0
Financial liabilities to other lenders	116.2	10,819.0
Total liabilities	**231,596.4**	**118,723**
minus cash and cash equivalents	–140.6	–1,160.5
minus short-term loan	–7,425.4	0.0
Net debt	**224,030.4**	**117,562.7**
Investment property	418,707.3	275,433.9
Prepayments for the acquisition of investment property	18,518.5	413.1
Total investment properties	**437,225.8**	**275,847.1**
Net-LTV	**51.2 %**	**42.6 %**

Financial position

The cash flow statement is as follows:

kEUR	2017/2018	2016/2017
Cash flow from operating activities	14,520.4	11,983.7
Cash flow from investing activities	–146,939.2	–83,240.8
Cash flow from financing activities	131,398.8	62,083.0
Cash changes in cash and cash equivalentss	**–1,020.0**	**–9,174.1**
Financial funds at the beginning of the period	1,160.5	10,334.6
Financial funds at the end of the period	**140.5**	**1,160.5**

Cash flow from operating activities amounted to kEUR 14,520.4 in the financial year (previous year: kEUR 11,983.7). The positive cash flow from operating activities is directly related to the increase in rental properties.

Cash flow from investing activities in the year under review amounted to kEUR -146,939.2 (previous year: kEUR -83,240.8) and mainly consists of the payment for investment properties of kEUR -140,447.2 (previous year: kEUR -83,249.1).

Cash flow from financing activities in the year under review amounted to kEUR 131,398.8 (previous year: kEUR 62,083.0) and mainly relates to proceeds from the borrowing of kEUR 115,968.0 (previous year: kEUR 44,019.1) as well as the proceeds from the issuance of corporate bonds of kEUR 40,000.0 (previous year: kEUR 0.0), which is offset by the payment for the repayment of loans of kEUR 43,315.8 (previous year: kEUR 15,928.1).

The Company was always able to meet its payment obligations.

Earnings position

The earnings situation of Deutsche Konsum developed as follows in 2017/2018:

kEUR	2017/2018	2016/2017
Rental income	22,268.3	14,505.7
Net proceeds	0.0	4.3
Other operating income	50.2	96.4
Valuation result	16,336.8	28,403.8
Operating expenses	–2,756.2	–1,333.8
EBIT	**35,899.1**	**41,676.4**
Financial result	–4,971.7	–4,253.8
EBT	**30,927.4**	**37,422.6**
Income taxes and other taxes	–8.8	–17.6
Net profit for the period	**30,918.5**	**37,405.0**

The rental result increased significantly due to the acquisition-related significantly increased real estate portfolio. As a result, rental income increased by kEUR 9,352.4 to kEUR 28,601.3 (2016/2017: kEUR 19,248.9). Correspondingly, the management expenses increased concurrently.

The valuation result as at 30 June 2018 results from the valuation report of the independent and external real estate appraiser. The valuation gain mainly reflects the value creation activities of DKR and the rising demand in the real estate market.

The increase in operating expenses was mainly due to the costs of the capital increase, the costs of land charges and the increased general administrative expenses. Personnel expenses increased as a result of the year-round appointment of the members of the Management Board and the hiring of additional employees in the course of setting up the Company. Adjusted for one-time effects, the overall administrative expenses increased slightly overall (without external property and asset management fees).

The administrative expense ratio is as follows:

kEUR	2017/2018	2016/2017
Personnell expenses	–579	–194
Other operating expenses	–1,919	–1,009
Adjustment of one-time and special effects	669	20
Adjusted administrative expenses	**–1,829**	**–1,183**
Rental income	28,601	19,249
Administrative expenses	**6.4%**	**6.1%**

All in all, EBIT decreased by kEUR -5,777.3 to kEUR 35,899.1 (2016/2017: kEUR 41,676.4), which resulted mainly from the lower valuation result compared to the same period of the previous year.

The change in the financial result results from higher interest expenses due to new borrowing. At the same time, old loans with high interest rates were replaced by new ones and the financing costs were reduced.

Income taxes do not accrue due to the tax exemption of REIT companies in the current financial year. The financial statements in the financial year relate to old years.

Overall, this results in a net profit of kEUR 30,918.5 (2016/2017: kEUR 37,405.0), from which FFO and aFFO derive as following:

kEUR	2017/2018	2016/2017
Net profit of period	30,918.5	37,405.0
Adjustment of income taxes	8.5	0.0
Adjustment of depreciation	1.3	0.9
Adjustment of valuation result	–16,336.8	–28,403.8
Adjustment of sales result	0.0	–4.3
Adjustment for non-cash expenses/income	557.5	525.9
Adjustment for one time and other non-recurring effects	1,497.5	735.9
FFO	**16,646.5**	**10,259.6**
– Capex	–8,219.3	–2,287.7
aFFO	**8,427.3**	**7,971.9**

The non-cash income and expenses include the compounding of the convertible bonds and the loans using the effective interest method. The one-time effects include non-recurring expenses and income. In the 2017/2018 financial year, this mainly includes expenses relating to other periods and refinancing costs.

The capitalised repair costs (capex) mainly include value-adding construction and improvement measures at the Greifswald, Güstrow and Hohenmölsen refurbishment properties as well as for the third refurbishment phase at the BiTZ Bitterfeld property.

This results in an FFO per share of EUR 0.62 (2016/2017: EUR 0.46) and an aFFO of EUR 0.31 per share (2016/2017: EUR 0.35).

Overall statement by the Management Board on the economic situation and business performance
The financial year 2017/2018 was again very positive for DKR. On the one hand, the retail real estate portfolio grew strongly due to further acquisitions of around EUR 108 million (before acquisition costs), which also led to a corresponding increase in rental income. At the same time, the operating performance of the portfolio was significantly increased through vacancy reductions, lease renewals and revitalisation measures, which is reflected in a further high valuation gain in the annual real estate valuation.

In the past fiscal year 2017/2018, rental income of EUR 28.6 million was generated, which missed the previous year's forecast by EUR 1.4 million. The reason for this was the transfer of benefits and encumbrances expected slightly earlier in the financial year, but the Company has no material influence on this.

The same applies to the financing side, where a significant reduction in borrowing costs was achieved by taking out new loans and refinancing expiring old loans at significantly better financing terms, issuing a secured corporate bond and improving the terms of existing convertible bonds. At the same time, when the new loan was taken, the previous year's LTV forecast of 55% was complied with.

Overall, the FFO amounts to EUR 16.6 million, which also corresponds to the minimum forecast of EUR 16 million in the previous year. Furthermore, an HGB result of EUR 6.1 million was achieved. On this basis, the Management Board will submit a dividend proposal of EUR 0.20 per share to the Annual General Meeting, which corresponds to the previous year's forecast.

The effects of the acquisitions and reduced borrowings will only be effective year-round from the new financial year 2018/2019. Therefore, the management of DKR sees the Company well positioned for further successful and profitable development.

Other non-financial performance indicators
The vacancy rate at the balance sheet date was 9.6% (30/09/2017: 14.6%) and was reduced mainly due to the vacancy reduction at the Domcenter Greifswald, Güstrow properties and the acquisition of properties with lower vacancies. The WALT of the portfolio as at the reporting date is 5.2 years (30/09/2017: 4.6 years).

3. Opportunity and risk report and forecast report

3.1. Opportunity and risk report

Risk management system of the DKR
Risk management is designed to identify the value-added potential of the company's business activities and to enable them to be exploited in a manner that results in a sustainable increase in the value of the company. An integral part of this system is a structured, early examination of potentially unfavourable developments and events (risks), which enables the Management Board to take countermeasures in good time before significant damage occurs.

The risk management system of DKR comprises a systematic identification, analysis, assessment and monitoring of significant risks by the company's Management Board. Given the manageable business structures and business processes, the degree of formalisation of the risk management system is low, but effective and appropriate. Close involvement of the Management Board in key business transactions and projects ensures ongoing monitoring of the risks involved.

The risk management system used includes the following essential elements:

- a controlling and reporting system that is capable of identifying business failures at an early stage and communicating them to corporate governance;
- a regular or event-related risk inventory;
- the documentation of relevant risks for regular or event-related information of corporate governance;
- a periodic, regular evaluation of the identified risks and the decision on possible countermeasures or the deliberate acceptance of manageable risks by the Management Board
- an internal control system (ICS), with elements such as the dual control principle and segregation of functions, which ensure correct and complete accounting and a secure invoice receipt and payment process.

In detail, the essential elements of the risk management system are reflected in the following risk management process:

a Defining the requirements: The Management Board defines the methodological and substantive requirements for the risk management system, whereby the expectations of the company are determined, and the risk awareness is strengthened.

b Risk identification and analysis: All business risks are fully captured, analysed for their causes and effects, assessed and divided into five risk categories. In addition, possible countermeasures are identified.

c Reporting: The Management Board is informed regularly and at an early stage about all existing risks and possible countermeasures. As part of the reporting cycles, reporting is done on an ad hoc, weekly, monthly or quarterly basis depending on the circumstances and the risk assessment.

d Risk management: Based on the decisions taken by the Management Board on the controlling measures, the identified, analysed and assessed risks are actively reacted at this stage

e Risk controlling: The subject of risk controlling is the methodical and content-related planning, monitoring and controlling of the risk management system by a qualified risk manager. Risk Controlling encompasses all phases of the risk management process and must be regularly adjusted by the Management Board in terms of methodology and content.

The risks are assessed on the basis of defined thresholds with regard to the amount of damage and the probability of occurrence:

Amount of damage	EUR million			
high	> 2.0	medium	medium-high	high
medium	1.0 to 2.0	medium-low	medium	medium-high
low	< 1.0	low	medium-low	medium
		< 10 %	10 % to 50 %	> 50 %
		low	medium	high
		Probability of occurrence		

DKR is exposed to the following risk categories or individual risks that, individually or collectively, may adversely affect the net assets, financial position and profit situation and the further economic development of the Company:

1. General, strategic and market-specific risks

a Political, legal and social risks

As the business activities of DKR are regulated by legal framework conditions for real estate, this could be impaired by changes to national and/or European law standards as well as by a changed interpretation or application of existing legal norms. These include, inter alia, tenancy law, public construction law and tax law. Furthermore, political changes can also lead to changes in the legal framework and, thus, also have an indirect impact on the DKR.

b Economic risks

So far, DKR has achieved its sales exclusively in Germany. In particular, a deterioration in national economic conditions, coupled with an increase in the number of unemployed, may negatively impact rent and price levels and adversely affect the creditworthiness of potential tenants and purchasers of real estate. This can have different regional effects, so that DKR can be affected here. Furthermore, the national economic situation may also depend considerably on international developments.

c Industry risks in the retail sector

The real estate industry is characterised by intense competition from numerous providers. In this regard, there is a risk that the competition will lead to increased price pressure and lower margins. This may also adversely affect the situation of DKR's various retail location by not renewing leases or reducing rents.

Furthermore, the stationary retail sector is subject to significant future changes due to digitisation. Large food retailers and online trading platforms are currently testing caterer services in major cities. If this trend also prevails in the regional DKR locations in the medium to long term, there is a risk that leases will not be extended here.

The Management Board currently rates these risks as low overall, as the German food industry is currently booming and expanding further, which has also been shown in concrete terms in the extension of a large number of leases at DKR. Furthermore, for the foreseeable future, we do not see any significant risk for DKR's business through online delivery services that are still in the origins of development and are currently neither profitable nor ecologically mature. In addition, these services are not available at the investment locations of DKR and are unlikely to be in the foreseeable future.

d Changes in the financing environment/capital market

Of particular importance for the national demand for real estate is the development of interest rates in Germany. An increase in interest rates would make real estate investments more difficult due to growing interest charges. In addition, in this case, the borrowing costs of the loans taken out by the real estate companies would increase.

2. Company-specific risks

a Risks due to the use of IT

DKR uses all current and modern IT applications and is supported by an external system house. In this context, there is a risk of total default both at DKR and at the service provider, which could lead to significant disruptions of the business. Furthermore, there is a risk of attacks on the systems of DKR and, thus, the access of unauthorised persons to the data of DKR.

In order to counteract this, the service provider regularly carries out all necessary operational, administration and maintenance work and also assumes the contractual liability for this. All employees are also required to behave properly in the use of IT.

Furthermore, with the decree on the mandatory application of the new General Data Protection Regulation (GDPR), companies were given the responsibility to protect user data. As a result, DKR has to protect stored data against misuse or, in the case of misuse, must send an immediate notification to the persons affected. In the case of infringements, fines may amount to up to 4 % of the annual turnover. For this purpose, DKR appointed an external professional data protection officer in good time, who oversees these processes and is available for any doubtful questions.

b Personnel risks

Due to the lean personnel and administrative structure of DKR, there is a risk that qualified and high-performing employees and knowledge carriers leave the company and cannot be replaced within a reasonable time.

c Financial risks

As part of its business activities, DKR is exposed to financing, liquidity and interest rate risks.

Financing risks exist to the extent that borrowing cannot be realised through changing company or market-related developments or only under unfavourable conditions, which could have a negative effect on further acquisition financing and the earnings position of DKR. Should this result in problems with the servicing of current loans, lenders could compel recovery of real estate collateral, and such distress sales could result in significant financial penalties for DKR.

To counter this risk, DKR works with various banks and closely monitors the development of the financing market. Short-term financing options are also used in order to secure attractive long-term financing options through planned lease extensions.

There are also various risks with regard to corporate liquidity. These can arise on the one hand as a result of possible rent losses. In addition, negative liquidity effects may arise in individual cases if leases cannot be extended and vacancy rates arise as a result. In addition, a breach of agreed ratios in loan agreements (covenants) may lead to a special termination of the lending bank and an unplanned outflow of liquidity from the loan repayment.

In order to avoid rent losses, the creditworthiness of the potential tenant is regularly checked in connection with the conclusion of rental agreements. Furthermore, liquidity risks are counteracted by extensive liquidity planning instruments, which reflect current business transactions with the planning data both in the short and in the medium term. There is regular liquidity reporting and a liquidity forecast to the Management Board. In addition, as part of a bank reporting, a looming breach of covenants is recognised as early as possible and prevented by suitable measures.

Interest risks exist with regard to liabilities due for prolongation or refinancing as well as planned loans to finance real estate portfolios. In order to hedge against adverse effects of changes in interest rates, DKR uses fixed interest rates for financing depending on the market situation and the assessment of market prospects. The direct impact of changes in the general interest rate level on the Company's performance on changes in cash flows is relatively small compared to the potential indirect effects of changes in the general interest rate level on real estate demand.

d Legal and litigation risks

As part of its business activities, DKR is exposed to the risk of legal disputes and (potential) warranty claims and claims for damages without being able to assert claims against third parties.

There are currently no other legal risks, in particular from legal disputes, which could have a significant impact on the economic position of the Company.

The Company has to implement the duties of the WpHG due to the IPO. This results in higher organisational and information tasks that are inevitably associated with higher costs. This risk is countered by hiring an experienced IR manager.

e Tax risks

To preserve the REIT characteristics, DKR must comply with the provisions of the REIT Act. Thus, the investment object, the investment volume as well as the business activity are restricted or influenced in particular by the following regulations:

- exclusion of the acquisition of domestic existing residential real estate,
- exclusion of the acquisition of shares in real estate corporations,
- exclusion of real estate trading;
- limitation of reserve formation;
- only minimal liquidity formation due to the minimum distribution of 90 % of the annual net income according to commercial law,
- limitation of ancillary activities close to the property for third parties,
- minimum equity of 45 % of immovable property.

If the legal requirements are not met, DKR is threatened with the loss of tax exemption. This can lead to certain back-dated taxation obligations.

Due to the restrictions of the REIT Act, certain chances or opportunities in the real estate and financing market cannot be exercised or only to a limited extent in individual cases.

Furthermore, the Company may be threatened by (criminal) payments from non-compliance with the provisions of the REIT Act. In addition, the Company is threatened with compensation claims by shareholders in the event of loss of the REIT status with at least 15 % and/or a maximum participation rate of 10 %. Eligible are shareholders who own less than 3 % of the voting rights. The lack of practice in the application of the REIT Act by the relevant supervisory and tax authorities could lead to disadvantages, in particular of a tax nature, or force the company to adapt to the new legal situation. Due to the lack of experience of German tax authorities in the use of the German REIT act it seems possible that the company could experience disadvantageous decisions in controversial cases or may be impelled to adapt to new legal situations.

3. Property-specific risks

a Investment risk of the individual property

The economic success and further growth of the Company is decisively dependent on the selection and acquisition of suitable real estate. This involves the risk of incorrectly assessing or not recognising the structural, legal, economic and other encumbrances on the objects to be purchased. In addition, the assumptions made in relation to the earnings potential of the real estate may subsequently prove to be partially or fully inaccurate. In particular, false assessments about the attractiveness of the property location and other factors relevant to the tenants' or buyers' decisions could mean that the management of the property in question does not lead to the expected results.

These property-specific risks are counteracted by an in-depth review of the properties concerned. In the context of the object assessment, among other things, the anticipated redevelopment, maintenance and modernisation needs are determined, and the earnings value and the basic debt servicing capacity are examined according to bank-conforming standards.

b **Inventory and valuation risks**

The Company holds real estate holdings in order to achieve the most stable cash flows possible from the management of these holdings over a longer period of time. While the real estate is in the Company's portfolio, a variety of inventory and valuation risks that could cause the Company to lose value may manifest. For example, the social structures of a location may deteriorate after the acquisition of real estate by DKR and, as a result, adversely affect letting activities and the achievable rental income.

In addition, the property holdings held by the Company may experience excessive wear and tear requiring earlier or to a greater extent than originally planned maintenance and revitalisation measures. Furthermore, it may also turn out that the structures have an initially unexpected recovery requirement, which leads to additional costs for the Company without initially corresponding additional income.

In connection with these risks, but also due to other factors such as unexpected competitors in the immediate vicinity of the site, vacancies may increase and result in lower rental income coupled with higher leasing expenses. In addition to negative effects on current operating income and expenses of the Company, these risks may also have a negative impact on the valuation of the real estate held by DKR and, thus, on the result of the Company.

The further growth of the real estate portfolio and the resulting better location and tenant diversification will reduce these individual risks from the overall portfolio perspective. The real estate inventory and valuation risks for the respective locations are counteracted with the measures described under a.

In addition, as with all assets, there is basically the risk of destruction of individual objects due to force majeure or natural hazards. These risks are countered by adequate insurance cover with well-known and high-performance insurance companies.

c **Letting risk**

There is a risk that changes in supply and demand on the letting market and deterioration in the competitiveness of individual properties in their respective local market environment will have a direct negative impact on DKR's rental income and on the development of vacancies in the Company's real estate portfolio. Here, this can incur additional costs that cannot be allocated to the tenants.

These risks are countered by active asset and property management, which initially includes a permanent analysis of the letting market and tenant needs. Furthermore, this includes professional letting management as well as ongoing maintenance, refurbishment and modernisation measures, which ensure the attractiveness and, thus, the competitiveness of the locations.

d **Construction risk**

If structural measures are required on the properties, there is a risk that the construction costs considerably exceed the target values. This risk is countered by a detailed planning of the construction costs and tight monitoring of these costs.

Uncertainties may also contribute to the construction risks as to whether, when and under what conditions and/or secondary conditions the building permits for the projects are granted. For example, the Company sometimes relies on the discretion of individual authorities, and even disputes with residents and people living in the vicinity of the buildings can significantly delay or adversely affect the granting of permits. Any of these circumstances can lead to planned building work not being able to be carried out at the assumed costs, not within the planned timeframe or not at all. These risk factors are examined in detail in advance of individual construction measures.

Internal control system and risk management system with regard to the accounting process

The accounting-related internal control system at DKR was implemented with the aim of ensuring adequate assurance with respect to full and accurate annual financial statements by establishing appropriate control mechanisms within the internal and external accounting and reporting process.

At least once a quarter, the Company receives object and portfolio information from its affiliated service providers according to its specifications, informing it of important, contractually relevant and, if applicable, deviations from the planning. The evaluations are analysed and checked for plausibility and examined for identifiable risks. Recognised risks are assessed and included in the regular or ad hoc risk reporting to the Supervisory Board.

The accounting-related risk management system of DKR aims to reduce the risk of material errors or inappropriate presentation of the net assets, financial position and results of operations. For this purpose, the underlying data are regularly mirrored analytically on the basis of expected values. The service provider commissioned for significant parts of the accounting process of the Company is kept informed closely and continuously about the current business development. The services include the fulfilment of the accounting obligations in accordance with the German Commercial Code as well as the assumption of payment transactions, the preparation of profit and loss accounts, account analyses, monthly sales tax pre-notifications as well as business analyses and the quarterly preparation of interim financial statements according to HGB (German Commercial Code) and IFRS as well as object and portfolio information. The accounting process is monitored by both service providers and the Company through an effective internal control system that ensures the regularity of accounting and compliance with legal requirements. In particular, the clear allocation of responsibility and control in compliance with the dual control principle and the principle of separation of duties, appropriate access regulations in the financial statement-relevant EDP systems and consideration of recognised and assessed risks must be mentioned. For the determination of market values of real estate, the company invites external experts. DKR was convinced of the technical, qualitative and capacity-based suitability of the service providers and employees involved in the accounting process and the appraisal reports. In view of the still small size of the company, DKR has so far refrained from setting up an internal audit.

Other influences

In addition to the risks mentioned, there are general influences that are unpredictable and, thus, difficult to control. These include, for example, political changes, social influences and risk factors such as natural disasters or terrorist attacks. Such influences could have negative effects on the economic situation and indirectly affect the further economic development of DKR.

Assessment of the overall risk

The overall risk situation is rated as low by the Management Board and has not changed significantly compared to previous years. In the case of the individual risks mentioned above, we currently assess the competitive risk as well as the financing risks from rising key interest rates and risks from asset management as medium risks, with no material new events and associated risk increases in the year under review.

In our estimation, there are currently no concrete risks jeopardising the existence of the Company.

Chances of future development

Due to the acquisitions of other high-yield retail properties in the year under review as well as the significant reduction in vacancies following the revitalisation of the Domcenter Greifswald, which will not be reflected in earnings until the new financial year, DKR will significantly increase its rental cash flow. Furthermore, the reduced financing costs due to the refinancing of borrowed capital will contribute to increasing profitability and funds from operations (FFO). This will lead to significantly higher dividend payments, especially from the coming financial year.

Furthermore, the Management Board expects that DKR will increasingly be perceived as a reliable and long-term oriented real estate partner to retailers, which will result in better opportunities for extending lease agreements as well as acquisition opportunities for further properties. Due to DKR's increasing presence at capital market conferences and investor media, the Management Board expects broader demand for DKR shares in the future.

3.2. Forecast report

The following statements on the future business performance of DKR are based on the estimates of the Management Board. The assumptions made are currently considered realistic based on the information available. In principle, however, forward-looking statements involve a risk that developments will not actually occur in their tendency or magnitude.

Forecast for the financial year 2018/2019

In the financial year 2018/2019, DKR's operational focus will continue to be on efficient inventory management, the revitalisation of properties and the further acquisition of retail properties in accordance with the investment criteria. On the financing side, investments should continue to be underpinned by marketable lending and moderate capital measures.

On the basis of current planning, the Management Board expects rental income to increase between EUR 38 million and EUR 42 million in financial year 2018/2019, which corresponds to a substantial increase in FFO.

4. Remuneration report

Remuneration system for the Supervisory Board

For each full financial year of their membership of the Supervisory Board, the members of the Supervisory Board receive a fixed cash compensation of kEUR 5 plus premiums for appropriate D&O insurance. The deputy chairperson receives 1.5 times this base salary and the chairman of the Supervisory Board receives 2 times this amount.

Committees have not been established and attendance fees are not granted. Variable compensation based on the success of the Company or other criteria will not be granted.

The remuneration of the Supervisory Board in the financial year amounted to kEUR 30.0 (2016/2017: kEUR 27.5) plus expenses and value added tax and is distributed as follows:

Member of the Supervisory Board	2017/2018 (kEUR)	2016/2017 (kEUR)
Hans-Ulrich Sutter (Chairman)	10	10
Achim Betz (Deputy Chairman)	7,5	7,5
Johannes C.G. (Hank) Boot	5	5
Nicholas Cournoyer	5	5
Kristian Schmidt-Garve (since 8 March 2018)	2,5	-
Total	**30,0**	**27,5**

Remuneration system for the Management Board

Basic remuneration system

The Management Board members of DKR receive a non-performance-related basic compensation in cash as well as a performance-related variable compensation in cash, which is based on short-term and long-term goals. CEO Rolf Elgeti is exempted from this compensation system and receives a flat-rate annual remuneration of kEUR 72. The compensation is paid by Obotritia Capital KGaA because there is no employment contract between the Company and the CEO.

The non-performance-based basic remuneration consists of the fixed annual salary, which is paid in twelve monthly instalments. Some of the Board Members use a Company car, which is taxed as a pecuniary advantage. Other benefits than other remuneration are not granted. Pension entitlements do not justify the contracts of the Management Board.

For the variable compensation, a compensation system was introduced for the 2017/2018 financial year, which is geared towards operational goals and which is fundamentally based on a fixed calculation scheme, which includes short-term and long-term components. Only in exceptional cases may the Supervisory Board decide otherwise with regard to special situations and/or special services of the individual Management Board member. The Supervisory Board may also change the weighting of individual criteria in the event of extraordinary developments. In the case of the regular departure of a member of the Management Board, he or she has the right to receive payment of the variable compensation components not yet paid out.

In the event of another early termination of the employment relationship, the Management Board contracts contain the provision that payments may not exceed the value of two years' compensation (severance payment cap). In the case of a change of control, i. e., if one or more shareholders acting jointly acquire at least 30% of the voting rights in DKR, the members of the Management Board are entitled to terminate the employment contract with a two-month period (special right of termination). If this special right of termination is exercised, the Company pays a gross compensation due at the time of the departure in the amount of the remuneration payable under the employment contract, but not exceeding 150% of the severance payment cap.

Variable compensation for the 2017/2018 financial year

In light of the amendment to the German Corporate Governance Code in 2017, which recommends a multi-year, future-oriented assessment basis with regard to variable remuneration, the Supervisory Board addressed an update of the variable compensation of the Management Board in October 2017 and put in its meeting on 8 March 2018, a new regulation in force, which is valid from the financial year 2017/2018.

Accordingly, the following equally weighted targets are used as the basis for the variable remuneration of the Management Board:

- Increase in the share price by 20% in the financial year (after the elimination of the dividend paid in the financial year and capital increases),
- Increase of EPRA NAV per share by 20% in the financial year (after the elimination of the dividend paid in the financial year),
- Increase in FFO per share by 20% in the financial year.

With full achievement of the objectives (100%), the Supervisory Board has set a variable remuneration of kEUR 100 per Management Board member for the 2017/2018 financial year. If this target achievement is exceeded, the variable compensation increases in proportion to the degree of target achievement but amounts to a maximum of kEUR 150 ("cap").

The resulting variable remuneration is then divided equally into

- a short-term incentive (STI), which becomes immediately payable upon approval of the annual financial statements by the Supervisory Board, and
- a long-term incentive (LTI), which will only be paid out after the expiration of two further financial years, if a minimum target achievement of 30% is achieved in subsequent years. Otherwise the claim for payment will be cancelled.

The values are calculated in relation to the previous year in relation to the VWAP (September) and the reporting date of 30 September (NAV) or the same period of the previous year (FFO) and are based on the IFRS financial statements.

The Supervisory Board reserves the right to disburse the LTI in the form of DKR shares.

Remuneration of the Management Board in the 2017/2018 financial year

The remuneration of the Management Board, which was paid in the past financial year (grants awarded), amounts to kEUR 427.6 (2016/2017: kEUR 156.3). The amounts received by the Management Board in the past financial year, some of which also include previous years' remuneration, amount to kEUR 344.6 (2016/2017: kEUR 131.3).

- Based on the achievement of objectives the individual remuneration of the Management Board in the 2017/2018 financial year was as follows:

in kEUR	Rolf Elgeti CEO		Alexander Kroth CIO (since 01/07/2017)				Christian Hellmuth CFO (since 01/07/2017)			
	2016/2017 (Actual)	2017/2018 (Actual)	2016/2017 (Actual)	2017/2018 (Actual)	2017/2018 (Min.)	2017/2018 (Max.)	2016/2017 (Actual)	2017/2018 (Actual)	2017/2018 (Min.)	2017/2018 (Max.)
Granted remuneration										
Fixed remuneration	71.3	71.3	30	120	120	120	30	120	120	120
Fringe benefits	0	0	0	8.3	n/a	n/a	0	0	n/a	n/a
Total	**71.3**	**71.3**	**30**	**128.3**	**120**	**120**	**30**	**120**	**120**	**120**
STI	0	0	12.5	54	54	54	12.5	54	54	54
LTI	0	0	0	0	0	54	0	0	0	54
Total	**0**	**0**	**12.5**	**54**	**54**	**108**	**12.5**	**54**	**54**	**108**
Total remuneration	**71.3**	**71.3**	**42.5**	**182.3**	**174**	**228**	**42.5**	**174**	**174**	**228**
Received remuneration										
Fixed remuneration	71.3	71.3	30	120			30	120		
Fringe benefits	0	0	0	8.3			0	0		
Total	**71.3**	**71.3**	**30**	**128.3**			**30**	**120**		
STI	0	0	0	12.5			0	12.5		
LTI	0	0	0	0			0	0		
Total	**0**	**0**	**0**	**12.5**			**0**	**12.5**		
Total remuneration	**71.3**	**71.3**	**30**	**140.8**			**30**	**132.5**		

5. Dependency report and overall assessment

In financial year 2017/2018, DKR was temporarily a company dependent on Obotritia Capital KGaA. In accordance with the statutory provisions, the Management Board of DKR prepared a report on relations with affiliated companies (dependency report) for the period in which DKR was a subsidiary dependent on Obotritia Capital KGaA and finally stated in the following:

"In accordance with § 312 (3) AktG, we hereby declare that, in the transactions described in the above report on relationships with affiliated companies, our Company received appropriate consideration for each legal transaction under the circumstances known to us at the time the legal transactions were conducted. No action was taken or omitted at the initiative or in the interest of Obotritia Capital KGaA or its affiliates. "

6. Takeover-relevant information

in accordance with § 289a (1) HGB

Composition of the share capital, voting rights and special rights

The share capital of the Company is divided into 27,236,313 no-par-value bearer shares. As of the balance sheet date, the Company holds no treasury shares. All shares have the same rights and obligations. Each share represents one vote in the Annual General Meeting. The shares may be freely transferred in accordance with the legal provisions applicable to bearer shares. No shares were issued with special rights conferring control powers. Insofar as employees are involved in the Company, they directly exercise their control right.

Shareholdings of 10% or more of the voting rights

No shareholder may hold 10% or more of the shares or voting rights directly in accordance with § 11 (4) REITG (maximum participation limit). In the event that the maximum participation limit is exceeded, the shareholder concerned must provide evidence of the reduction of his direct participation in an appropriate form within two months of the request of the Management Board. A continued breach of the maximum participation limit may, according to the Articles of Association, result in the transfer without compensation of the shares in excess of the maximum participation limit or in the compulsory collection of such shares without compensation. As of the balance sheet date, no shareholder holds 10% or more of the voting rights.

Authorisation of the Management Board to acquire own shares and to issue new shares

Authorised capital

By resolution of the Annual General Meeting of 8 March 2018, registered in the commercial register on 5 April 2018, the Management Board was authorised to issue the share capital of the Company until 7 March 2023, with the approval of the Supervisory Board, by issuing new no-par value bearer shares against cash or a contribution in kind once or several times to increase up to a total of EUR 13,618,156.00 (Authorised Capital 2018). Shareholders must in principle be granted a subscription right within the scope of the authorised capital. However, the Management Board is authorised to exclude the subscription rights of shareholders in accordance with the Articles of Association and the approval of the Supervisory Board in certain cases. The authorised capital 2017 was cancelled.

Conditional capital

The Management Board was authorised by the Annual General Meeting on 8 March 2018, with the approval of the Supervisory Board, to issue until 7 March 2023 single or multiple bearer bonds with warrants or convertible bonds (together "Notes") with a total nominal value of up to EUR 150,000,000,00 with or without a maturity restriction and grant or impose to the holders of bonds with warrants option rights or obligations and the holders of convertible bonds conversion rights or obligations for bearer shares of the Company with a proportionate amount of capital stock in the amount of EUR 1.00 each according to more details of the conditions of the Notes. Further details can be found in the announcement in the Federal Gazette.

The share capital is conditionally increased by up to EUR 11,238,014.00 through the issue of up to 11,238,014 new bearer shares (Contingent Capital I). The conditional capital increase will only be carried out to the extent that option or conversion rights from the aforementioned convertible bonds are exercised.

Conditional Capital II of EUR 2,380,142.00 (Conditional Capital II) serves to grant shares to the holders of the existing convertible bonds 2015/2020 for a total nominal amount of EUR 37,000,000.00, for which the Management Board was authorised at the Annual General Meeting on 9 March 2017.

Repurchase of treasury shares

At the Annual General Meeting on 20 April 2016, the Company authorised the Management Board to hold treasury shares of up to 10% of the share capital at the time of the resolution or, if this amount is lower, of the share capital at the time of exercise to acquire the existing authorisation for any authorised purpose within the scope of the legal restrictions until 19 April 2021.

The treasury shares may be acquired at the discretion of the Management Board via the stock exchange or by means of a public purchase offer addressed to all shareholders. The equivalent consideration per share (excluding incidental acquisition costs) may not exceed or fall below the average of the last share price (closing price) of the Company's stock in XETRA trading on the Frankfurt Stock Exchange on the last ten trading days prior to the date of the commitment to purchase or the date of publication of the offer by more than 10%.

Amendment to the Articles of Association

Amendments to the Articles of Association require the majority of 75 % of the voting rights represented at the Annual General Meeting, as required by the German Stock Corporation Act.

Appointment and revocation of members of the Management Board

The determination of the number as well as the appointment of the ordinary members of the Management Board and Deputy Management Board members, the conclusion of the employment contracts and the revocation of the appointment are made by the Supervisory Board.

7. Corporate Governance Statement

in accordance with § 289f HGB

On 3 December 2018, the Management Board of Deutsche Konsum REIT-AG issued a statement on corporate governance in accordance with § 289f HGB and made it available on the website www.deutsche-konsum.de/en in the Investor Relations section under Corporate Governance.

Broderstorf, 5 December 2018
Deutsche Konsum REIT-AG

Rolf Elgeti	**Alexander Kroth**	**Christian Hellmuth**
CEO	CIO	CFO

Photo: Local retail centre Verden
Holzmarkt 7–15, 27283 Verden (Aller)

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Photo: Local retail centre Löwenpark Leipzig
Merseburger Straße 255-263, 04178 Leipzig

Balance sheet

as at 30/09/2018

kEUR	Notes	30/09/18	30/09/17
Assets			
Non-current assets			
Investment properties	2.1	418,707.3	275,433.9
Intangible assets		2.0	2.9
Tangible assets	2.3	3.8	0.0
Other non-current assets	2.6	18,518.5	413.1
		437,231.6	**275,849.9**
Current assets			
Trade and other receivables	2.5	772.4	222.6
Tax assets	2.4	0.1	113.4
Other current assets	2.6	14,788.3	3,328.1
Cash and cash equivalents	2.7	140.5	1,160.5
		15,701.3	**4,824.6**
Total assets		**452,932.9**	**280,674.5**
Equity and liabilities			
Equity	2.8		
Issued share capital		27,236.3	24,760.3
Capital reserve		94,164.9	72,533.0
Other reserves		855.7	855.7
Retained earnings		87,505.5	56,587.0
		209,762.4	**154,736.0**
Non-current liabilities			
Financial liabilities	2.9	146,709.3	40,891.3
Convertible bonds	2.11	36,098.9	35,541.0
Corporate bond	2.10	40,158.4	0.0
Other provisions	2.13	3.5	3.5
Other non-current liabilities	2.14	7,863.0	4,166.0
		230,833.1	**80,601.9**
Current liabilities			
Financial liabilities	2.9	8,513.7	31,471.8
Liabilities to other creditors	2.12	116.2	10,819.1
Other provisions	2.13	2,043.2	1,655.5
Trade payables	2.15	1,023.4	1,117.3
Other current liabilities	2.14	640.9	273.0
		12,337.5	**45,336.7**
Total equity and liabilities		**452,932.9**	**280,674.5**

Statement of comprehensive income

kEUR	Notes	1/10/17 – 30/09/18	1/10/16 – 30/09/17
Rental income	3.1	28,601.3	19,248.9
Operating expenses	3.1	–6,333.0	–4,743.2
Net rental income		**22,268.3**	**14,505.8**
Proceeds from disposal of properties		30.0	8.3
Expenses on the sale of properties		–30.0	–4.0
Net proceeds from the disposal of properties		**0.0**	**4.3**
Other income	3.2	**50.2**	**96.3**
Gain/loss from the revaluation of investment properties		**16,336.8**	**28,403.8**
Subtotal		**38,655.3**	**43,010.2**
Personnel expenses	3.4	–578.9	–194.2
Amortisation of intangible assets, depreciation of property, plant and equipment		–1.3	–0.9
Impairment loss of inventories and receivables	3.5	–256.7	–129.2
Other operating expenses	3.6	–1,919.3	–1,009.5
Operating expenses		**–2,756.2**	**–1,333.7**
EBIT		**35,899.1**	**41,676.5**
Interest income	3.7	575.0	443.0
Interest expense	3.7	–5,546.7	–4,696.8
Net finance costs		**–4,971.7**	**–4,253.8**
EBT		**30,927.4**	**37,422.6**
Income tax	3.8	–8.5	0.0
Other tax		–0.4	–17.6
Net income		**30,918.5**	**37,405.0**
Total comprehensive income		**30,918.5**	**37,405.0**
Earnings per share (in EUR)			
Undiluted result per share	3.9	1.15	1.66
Diluted result per share		0.80	1.06

Cash flow statement

	kEUR	Notes	01/10/17 – 30/09/18	01/10/16 – 30/09/17
	Period result		30,918.5	37,405.0
+/–	Interest expense/interest income	3.7	4,971.7	4,253.8
+/–	Depreciation, amortisation and write-down/reversals of intangible assets, tangible assets and financial assets		1.3	0.9
+	Impairments on inventories and receivables	3.5	256.7	129.2
–/+	Gains/Losses from the revaluation of investment properties	3.3	–16,336.8	–28,403.8
–/+	Gain/Loss on disposal of investment properties		0.0	–4.3
+/–	Increase/decrease in provisions	2.13	387.7	825.7
+/–	Income tax expense/-income effective	2.4	8.5	0.0
+/–	Deferred tax expenses/income	2.4	0.0	0.0
+	Income taxes received		104.8	2.0
–	Income taxes paid		0.0	0.0
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	2.5, 2.6	–5,174.0	–1,894.1
+/–	Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	2.15	–618.1	–330.7
+/–	Other expense/income		0.0	0.0
	Cash flow from operating activities		**14,520.3**	**11,983.8**
+	Cash receipts relating to disposals of investment properties		30.0	8.3
–	Cash payments related to property investments	2.1	–140,447.2	–83,249.1
–	Cash payments related to other investments in intangible and tangible assets		–4.3	0.0
–	Cash payments related to short-term cash investments		–7,382.9	0.0
+	Interest received		865.1	0.0
	Cash flow from investing activities		**–146,939.2**	**–83,240.9**
+	Cash proceeds from the issue of shares	2.8	2,476.0	4,653.3
+	Cash proceeds from capital increases	2.8	22,284.3	34,899.6
–	Costs related to capital increases	2.8	–652.4	–1,253.3
+	Proceeds related to the isse of corporate bonds		40,000.0	0.0
–	Costs related to the issue of corporate bonds		–83.9	0.0
+	Proceeds from borrowings	2.9, 2.12	115,968.0	44,019.1
–	Cash payments related to the issue of borrowings		–600.9	–451.6
–	Amortisation of loans	2.9, 2.12	–43,315.8	–15,928.1
–	Interest paid		–4,676.5	–3,856.1
	Cash flow from financing activities		**131,398.8**	**62,083.0**
	Change in cash and cash equivalents		–1,020.1	–9,174.1
	Cash and cash equivalents at the beginning of the period	2.7	1,160.5	10,334.6
	Cash and cash equivalents at the end of the period	**2.7**	**140.4**	**1,160.5**

Statement of changes in equity

kEUR	Notes	Issued share capital	Capital reserve	Other reserves	Retained earnings	Total equity
As at 01/10/2016		**18,447.0**	**45,786.9**	**855.7**	**13,941.7**	**79,031.3**
Period result		0.0	0.0	0.0	37,405.0	37,405.0
Cash capital increase/-reduction		4,653.3	34,899.6	0.0	0.0	39,552.9
Addition/Withdrawal from reserves		0.0	–5,240.3	0.0	5,240.3	0.0
Costs of capital measures		0.0	–1,253.3	0.0	0.0	–1,253.3
Capital increase from conversion of mandatory bond		1,660.0	–1,660.0	0.0	0.0	0.0
As at 30/09/2017	2.8	**24,760.3**	**72,533.0**	**855.7**	**56,587.0**	**154,736.0**
As at 01/10/2017		**24,760.3**	**72,533.0**	**855.7**	**56,587.0**	**154,736.0**
Period result		0.0	0.0	0.0	30,918.5	30,918.5
Cash capital increase/-reduction		2,476.0	22,284.3	0.0	0.0	24,760.3
Costs of capital measures		0.0	–652.4	0.0	0.0	–652.4
As at 30/09/2018	2.8	**27,236.3**	**94,164.9**	**855.7**	**87,505.5**	**209,762.4**

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for the financial year from 1 Oktober 2017 to 30 September 2018

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Photo:
Hypermarket/DIY Store Elstercenter Elsterwerda
Lauchhammerstraße 60, 04910 Elsterwerda

1. General information

1.1. Deutsche Konsum REIT-AG

Deutsche Konsum REIT-AG (hereinafter referred to as "DKR") is a portfolio company specialising in German retail real estate with headquarters in Broderstorf. The object of the Company is the purchase and long-term holding and leasing of retail real estate in Germany. In individual cases, a sale of an object can be made. DKR is registered in the commercial register of the Local Court of Rostock under HRB 13072. The registered office is at August-Bebel-Str. 68 in 14482 Potsdam.

The DKR share (ISIN DE000A14KRD3) has been listed since 15 December 2015 and quoted in the Prime Standard of Deutsche Börse AG on 3 March 2017. As of 1 January 2016, the Company has the status of a REIT (Real Estate Investment Trust) and is, therefore, exempt from income tax at company level.

The individual financial statements of DKR, as of 30 September 2018, were set up on 5 December 2018. The Supervisory Board is expected to approve this individual financial statements in its meeting on 17 December 2018. The IFRS individual financial statements were prepared voluntarily based on the stock exchange listing.

1.2. Basics of the individual financial statement

The individual financial statements as of 30 September 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. In addition, the commercial law provisions of § 315e (1) HGB were applied.

All relevant and for the financial year mandatory standards and interpretations have been considered.

The individual financial statements comprise the components balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes and are prepared in euros (EUR). All amounts are generally shown in thousands of euros (kEUR) (exceptions are indicated), which may result in rounding differences.

The company is currently a one-segment company. Sales are generated exclusively with customers based in Germany in the area of commercial real estate and to a lesser extent with residential real estate. All properties are located in Germany, in the internal control is no distinction of the geographical areas; various services are not present. In the financial year, revenues amounted to kEUR 28,631.3 (previous year: kEUR 19,248.9). Revenues of kEUR 1,894.0 (previous year: kEUR 2,833.0) were attributable to the largest customer in 2017/2018. All income and expenses as well as all assets and liabilities can be found in the overall financial statements. The annual financial statements were prepared under the going concern assumption of the Company (going concern).

The statement of comprehensive income was prepared according to the total cost method.

1.3. Key discretionary decisions and estimates

In applying the accounting policies, the Board of Directors made the following discretionary decisions that materially affect the amounts in the separate financial statements:

- With regard to the real estate held by the Company, the Management Board must decide at each reporting date whether it will be held for long-term rental or for capital appreciation or sale. Depending on this decision, the real estate is accounted for in accordance with the principles of investment properties, properties held for sale with unfinished and finished buildings (inventories) or non-current assets held for sale and valued at (amortised) cost or at fair value in accordance with the classification.

- The rental agreements and leaseholds concluded by the Company are classed as finance leases or operating leases. Further details are included in Note 6.2.

The company makes estimates and assumptions concerning the future. The derived estimates may of course differ from the later actual conditions. The estimates and assumptions that involve significant risk in the form of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- The market values of the investment properties are based on the results of independent experts appointed for this purpose. The valuation is based on the discounted cash flow method on the basis of expected future cash inflows. Accordingly, factors such as future rental income and applicable interest rates are estimated by the Company in collaboration with the assessor, which directly affect the fair value of the investment properties. The fair values of investment properties, including those reported under IFRS 5, amounted to kEUR 418,707.3 as of the balance sheet date (previous year: kEUR 275,433.9).

- As part of the review of financial assets, at the end of each financial year, the carrying amounts with which the other financial assets are recognised, are compared with the fair values. The appropriateness of the valuations is assessed on the basis of the information available to the borrowers. If there are foreseeable reductions in the fair values, appropriate impairments will be made to the carrying amounts. The gross book value of the financial assets, which is reported under trade receivables, amounts to kEUR 772.4 as of the reporting date (previous year: kEUR 706.7) and is regarding claims against tenants.

- For other provisions and contingent liabilities, different assumptions have to be made, e.g. about the probability of occurrence and the amount of the claim. All information available at the time the balance sheet was prepared was considered. The amount of other provisions amounts to kEUR 2.046.7 as at the reporting date (previous year: kEUR 1.659.0).

1.4. Application of IFRS in financial year 2017/2018

DKR continued to apply the accounting and valuation methods and disclosure requirements that were applied in the previous year as far as no new standards or interpretations were required to be applied.

The following new standards, changes to standards and new interpretations were applied by DKR for the first time in the year under review.

EU Endorsement	Standard	Content	First-time adoption mandatory for financial years beginning with	Effect on the financial statements of DKR
06/11/2017	Amendments to IAS 12	Income taxes: clarifications	01/01/2017	None
06/11/2017	Amendments to IAS 7	Cash flow statements: Indicative initiative	01/01/2017	None

All mandatory new standards have no impact on the financial statements of DKR.

The following new standards, interpretations and amendments to published standards, which were not yet mandatory for DKR in the 2017/2018 financial year, were not applied prematurely by the Company:

EUR Endorsement	Standard	Content	First-time adoption mandatory for financial years beginning with	Effect on the financial statements of DKR
26/02/2018	Amendments to IFRS 2	Classification and Measurement of Share-based Payment (Amendments to IFRS 2)	01/01/2018	None
14/03/2018	Amendments to IAS 40	Transfers of investment property	01/01/2018	Presently none
22/11/2016	IFRS 9	Financial instruments: classification and valuation of financial instruments	01/01/2018	No significant ones
03/11/2017	Amendments to IFRS 4	IFRS 4 Insurance Contracts: Application of IFRS 9 and IFRS 4	01/01/2018	None
07/02/2018	Annual improvement project	Improvements 2014-2016	01/01/2017/ 01/01/2018	None
28/03/2018	IFRIC 22	Transactions in foreign currency and prepayments paid in advance	01/01/2018	None
22/09/2016	IFRS 15	Revenues from contracts with customers	01/01/2018	Changes in presentation
31/10/2017	Clarification to IFRS 15 (2016)	Revenues from contracts with customers: Clarification	01/01/2018	None
31/10/2017	IFRS 16	New standard "Leases"	01/01/2019	No significant ones
Not yet adopted	IFRS 17	New standard "Insurance Contracts"	01/01/2021	None
22/03/2018	Amendments to IFRS 9	Prepayment arrangements with negative compensation	01/01/2019	None
Not yet adopted	Amendments to IAS 19	Plan changes, cuts or settlements	01/01/2019	None
Not yet adopted	Amendments to IAS 40	Long-term investments in associates and joint ventures	01/01/2019	None
Not yet adopted	Annual improvement project	„Improvements to IFRSs 2015 – 2017 Cycle"	01/01/2019	None
Not yet adopted	IFRIC 23	Uncertainties regarding income tax treatment	01/01/2019	None
Not yet adopted	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	01/01/2019	None
Not yet adopted	Framework	Changes to the framework	01/01/2020	None

Accounting effects may arise from the newly applicable standards as follows:

IFRS 9 „Financial Instruments“ supersedes the previous IAS 39 standard and revises the classification of financial instruments. In future, the classification will be dependent on the business model. In addition, hedge accounting will result in changes to the previously rigid designation of financial instruments. Due to the simple structure of DKR‘s financial instruments, however, no material effects are expected from this. In addition, according to IFRS 9, expected losses on certain assets must already be anticipated and accounted for. This could result in an additional value adjustment expense, which is to be recognised directly in profit reserves upon initial application.

IFRS 15 („Revenue from Contracts with Customers“) replaces the previous IFRS requirements for revenue recognition IAS 18 and IAS 11. The new standard aims to standardise the model for revenue recognition in one standard.

The analysis of customer contracts in the context of the introduction of IFRS 15 at the Company, for the time being, has revealed, also including the presentation practice in the peer group, that DKR is a principal in terms of ancillary operating expenses and that the ancillary costs attributable to the tenants are to be presented as revenues, the corresponding management expenses are therefore reported as expenses within the rental result. Net rental income remains unaffected.

As a result of the change in presentation, revenue, which corresponds to rental expenses, would increase by up to EUR 3.2 million compared to the presentation used until 30 September 2018 for the 2017/2018 financial year. The change in presentation has no effect on the financial performance indicators of DKR.

IFRS 16 will reorganise the accounting for leases and replace the previous IAS 17 standard. The core of the new regulation is that in the future all leases must be recognised in the balance sheet in the form of rights of use and leasing liabilities to be depreciated. DKR does not expect the first-time adoption of IFRS 16 to have a material impact on its accounting because it acts as the lessor of commercial real estate. Furthermore, according to IFRS 16, certain ancillary rental costs such as property tax and building insurance, which do not provide additional benefits to the tenants, are classified as pure cost allocations and are therefore not covered by the new disclosure requirements of IFRS 15.

In addition, DKR does not expect the other published new standards and interpretations to have a significant accounting impact.

1.5. Individual accounting and valuation principles

Principle

The present financial statements are based on the assumption of going concern. The accounting and valuation is carried out at amortised cost. An exception to this are the investment properties at DKR, which are measured at fair value.

Changes in accounting and valuation methods were not made in the 2017/2018 financial year.

Investment property and real estate held for sale

Upon initial recognition, DKR classifies real estate regarding its intended use as either investment property (IAS 40), inventory properties (IAS 2) or property for own use in fixed assets (IAS 16). Real estate under operating leases with the Company as lessee is classified and accounted for as investment property. Real estate that is highly likely to be sold within twelve months is reported as real estate held for sale. As a rule, DKR has only investment property, as the long-term and sustainable leasing of the real estate takes place in accordance with the business model.

Investment property is initially recognised at acquisition or production costs, including ancillary costs. As part of the subsequent valuation, investment properties are recognised at their fair values, which reflect market conditions at the balance sheet date. Any gain or loss on the change in fair value is recognised in the income statement. Subsequent costs for the expansion and conversion of the property are considered, insofar as these contribute to an increase in the fair value of the property.

According to the provisions of IFRS 13, the valuation of investment properties is based on the best possible use of an object. Planned changes of use will, therefore, be considered in the evaluation, provided that the technical feasibility, the legal admissibility and the financial feasibility are given.

Every year on 30 June, the real estate is revalued. If significant changes in the input factors occur by the balance sheet date, appropriate adjustments are made. Valuation is performed by an independent external expert using recognised valuation techniques such as the discounted cash flow method. The experts have the appropriate professional qualifications and experience to carry out the assessment. The results of the appraisals are based on information provided by the Company. Thus, input factors such as the current tenant list, maintenance and administrative costs, vacancy data as well as the assessor’s assumptions, which are based on market data and are assessed based on their professional qualifications, e. g. future market rents, typical maintenance and administrative costs, structural vacancy rates or discount and capitalisation rates, are used in determining the fair value.

The information provided to the appraiser and the assumptions made as well as the results of the real estate valuation are analysed by the Board of Management.

Investment properties are classified as held for sale if Deutsche Konsum decides to sell the properties in question, they are immediately available for sale and from then on, the realisation of the sale is expected within twelve months (IFRS 5). The valuation remains unchanged at the fair value.

Intangible Assets

Individually acquired intangible assets are initially valued at acquisition or production cost. After initial recognition, intangible assets are carried at their acquisition or production cost and amortised over their respective useful economic lives of generally three to eight years using the straight-line method.

Tangible Assets

Tangible assets are stated at acquisition or production cost less cumulative depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method with the estimated useful lives of generally 3 to 13 years (factory and office equipment) or 30 to 50 years (real estate). The carrying amounts of tangible assets are tested for impairment as soon as there are indications that the book value exceeds the recoverable amount.

Financial assets

Non-derivative financial assets within the meaning of IAS 39 are classified as:

- Loans and receivables (LaR) or as
- available-for-sale financial assets (afs).

Deutsche Konsum does not hold any financial assets held for trading or held-to-maturity investments.

The Company determines the categorisation of its financial assets at initial recognition.

Spot transactions in non-derivative financial assets are recognised at the settlement date. Initial recognition is at fair value. The Company determines the categorisation of its financial assets at initial recognition. A financial asset is de-recognised when the power to dispose of contractual rights to cash flows from a financial asset no longer exists. The current trade receivables and other current assets as well as long-term receivables recognised in the Company's balance sheet are assigned to the loans and receivables category. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any depreciation. An allowance is made if there is an objective substantive indication that the Company will not be able to recover the claims. The basis of this analysis is essentially the age structure of the assets, financial difficulties of the debtor or bankruptcy as well as any concessions already required.

Available-for-sale financial assets basically include investments or short-term investments without fixed payments that have not been allocated to any other category. After initial recognition, the asset is measured at fair value, if reliably determinable, with gains and losses recognised directly in other comprehensive income and in equity in a separate reserve. If the fair value cannot be reliably determined, it is recognised at historical acquisition cost. Upon disposal of the asset or if an impairment is identified, the amount previously recognised in equity is recognised in the income statement. Write-ups of assets measured at fair value are made if the reasons for the impairment no longer exist.

Income taxes and deferred taxes

Tax refund claims and tax liabilities are measured at the amount expected to be refunded or paid to the tax authorities. This is based on the tax rates and tax laws that apply on the balance sheet date.

Since DKR has had the status of a REIT company since the beginning of 2016, it has since been exempted from income tax at company level if the criteria of the REIT Act are complied with. In this respect, no deferred taxes are to be recognised for the period of the tax exemption.

Liquid funds

Cash and cash equivalents include cash on hand as well as short-term and available bank balances.

Equity demarcation

Debt and equity instruments are classified as financial liabilities or equity in accordance with the substance of the contractual agreement. An equity instrument is a contract that establishes a residual claim on the assets of a company after deduction of all related debts. Equity instruments are recognised at the proceeds received less any directly attributable issue costs.

Issuing costs are those costs that would not have been incurred without the issue of the equity instrument. Such costs of an equity transaction (such as costs arising from capital increases), less any associated income tax benefits, are accounted for as a deduction from equity and offset against the capital reserve with no effect on income.

The components of a compound instrument issued by the Company (such as a convertible bond) are recognised separately as a financial liability and as an equity instrument in accordance with the substance of the agreement to the extent that the conditions for an equity component exist.

At the time of issue, the fair value of the liability component is determined using market interest rates applicable to comparable non-convertible instruments. This amount is accounted for as a financial liability based on amortised cost using the effective interest method until fulfilment of the instrument's conversion or maturity date. The determination of the equity component is made by subtracting the value of the liability component from the fair value of the entire instrument. The resulting value, less income tax effects, is recognised as part of equity and is not subsequently valued.

Financial liabilities

Upon initial recognition of liabilities, they are measured on the trade date at the fair value of the consideration received after deduction of transaction costs. After initial recognition, liabilities are measured at amortised cost using the effective interest method. Financial liabilities are de-recognised when the obligations underlying this liability are met, cancelled or extinguished.

Other provisions

A provision is recognised when the Company has a present legal or constructive obligation because of a past event, the outflow of economic benefits to settle the obligation is probable, and a reliable estimate of the amount of the obligation, despite uncertainties regarding the amount or temporal use, is possible. Other provisions are measured at the amount that would reasonably have to be paid to settle the obligation at the balance sheet date or when the obligation was transferred to a third party at the time of the transfer. Risks and uncertainties are considered by applying appropriate estimation methods, including probabilities of occurrence. Long-term provisions with a remaining term of more than one year are discounted if the interest effect is material.

Revenue recognition

Income is recognised when it is probable that the economic benefit will flow to the Company and the amount of the income can be reliably measured.

Proceeds from the sale of real estate are recognised when the risks and rewards of ownership of the property have been transferred to the buyer (transfer of ownership, benefits and encumbrances of the property).

Rental income from investment property and real estate held for sale is recognised on a straight-line basis over the term of the lease.

In addition, the rental result includes the effects of the utility bill with the tenants.

Interest income is realised pro rata temporis, considering the residual receivable and the effective interest.

Leases

Leases are classified as finance leases if the leasing agreement transfers all material risks and rewards of ownership to the lessee. This is the case for some leasehold contracts where DKR is a recipient of the ground lease and which qualify as a finance lease.

Due to the leasing activity, DKR has significant operating leases in which the company acts as a lessor. The economic ownership of the leased real estate and, thus, the capitalisation obligation lies with DKR. Income from leases corresponds to rental income.

In the case of finance leases, the leased asset (leasehold property) is recognised as an asset and the liability towards the lessor is recognised in the balance sheet as a liability to the Company in the same amount. It is recognised at the fair value of the leased asset at the inception of the lease or at the present value of the minimum lease payments, if lower. The payable lease instalments are split into an interest and a repayment instalment. The interest portion is recognised in interest expense, while the repayment portion leads to a reduction of the liability.

2. Notes to the balance sheet

2.1. Investment properties

In the 2017/2018 financial year, ownership was transferred from 28 acquired investment properties. As a result, DKR's real estate assets accounted for as of 30 September 2018, comprise 90 properties with a fair value of kEUR 410,974.3 plus leasehold rights recognised as finance leases (kEUR 7,733.0).

The development of investment properties is as follows:

The development of investment properties is as follows:

kEUR	30/09/2018	30/09/2017
Initial holding at 1/10/PY	**275,433.9**	**147,822.5**
+ Real estate purchases	115,001.5	96,050.8
+ Activation of leased assets (finance leases)	3,760.3	717.9
+ New construction costs	0.0	0.0
+ Subsequent acquisition and production costs	8,174.8	2,438.9
+ Valuation result from fair value measurement	16,336.8	28,403.8
Closing on the key date	**418,707.3**	**275,433.9**

Of the investment property, real estate with a carrying amount of kEUR 282,510.0 (30/09/2017: kEUR 175,434.9) was secured by mortgages or by the assignment of rental income.

There are leasehold contracts in which commercial real estate is built on associated building plots. The leasehold contracts are accounted for as finance leases. The capitalised amount as at 30/09/2018 amounts to kEUR 7,733.0 (30/09/2017: kEUR 4,095.9). The liability recognised as of 30/09/2018 amounts to kEUR 7,914.6 (30/09/2017: kEUR 4,189.9).

The income statement includes the following significant amounts for investment property:

kEUR	2017/2018	2016/2017
Valuation result investment properties	16,336.8	28,403.8
Rental income	28,601.3	19,248.9
Operating expenses (maintenance expenses, property management, property taxes, etc.)	-6,333.0	-4,743.2
Total	**38,605.1**	**42,909.5**

The valuation by an external expert is carried out on the valuation date 30 June on the basis of the valuation parameters existing at that time. Acquired real estate with ownership transfers between 1 July and 30 September is initially recognised at cost and subsequently at its fair value as of 30 June (provided that the assets can already be included in the valuation). Significant fluctuations in the value of the properties until 30 September are considered as far as signs of this become apparent.

As in the previous year, the fair value was determined on the basis of internationally recognised valuation methods based on the discounted cash flow method.

With the discounted cash flow method, future expected cash surpluses of an object are discounted to the valuation date using a market-specific, object-specific discount rate. While the payments regularly include net rents, the payments relate in particular to the management costs borne by the owner. The underlying detailed planning period is ten years. At the end of this period, a potential discounted disposal value (terminal value) of the valuation object is forecasted. This reflects the most likely realisable selling price less costs to sell. Methodically, the discounted deposit surpluses of the tenth year are capitalised with the so-called capitalisation interest rate as perpetuity. The sum of discounted cash flows and the discounted potential realisable value is the gross capital value of the valuation object, which, net of transaction costs, represents the fair value. For a property acquired shortly before the balance sheet date, the market value has been determined on the basis of the purchase price plus ancillary costs.

The following overview shows the key assumptions used in the discounted cash flow process:

Valuation parameter	Financial year	
	2017/2018	2016/2017
Market rent increase p.a. (in %)	0.0% to 2.5%	0.0% to 1.0%
Maintenance costs p.a. (EUR / m²)	4.33 to 11.82	5.25 to 11.20
Non-recoverable operating costs p.a. (EUR / m²)	0.00 to 12.00	0.00 to 18.00
Administrative costs p.a. (% of annual gross profit)	0.95 to 4.78	0.95 to 5.33
Discount rate (%)	3.00 to 9.00	1.35 to 9.25
Capitalisation rate (%)	5.50 to 16.00	5.00 to 17.00

All valuation parameters correspond to level 3 of the fair value hierarchy.

The assumptions used to value the real estate were made by the independent valuer based on his professional experience and are subject to uncertainty. If the discount and capitalisation rate is increased/decreased by 1.0%, the fair value is decreased/increased as follows:

EUR million	30/09/2018		30/09/2017	
Change in the discount and capitalisation rate	+1 %	-1 %	+1 %	-1 %
Fair value of investment properties	-52.7	+66.0	-33.3	+42.8

Corresponding effects result from changes in future rental income as a function of rental income, vacancies and administrative and maintenance costs.

On 30/09/2018, DKR is entitled to set future minimum lease payments (operating leases) of kEUR 298,055.5 (30/09/2017: kEUR 115,104.9) from its rental agreements with commercial tenants. These are distributed as follows:

in kEUR	Total	Up to 1 year	1 to 5 years	over 5 years
Minimum lease payments 30/09/2018	298,055.5	34,044.4	23,136.0	240,875.1
Minimum lease payments 30/09/2017	115,104.9	24,875.2	57,667.2	32,562.5

Tenant extension options are not included here. For flats in the portfolio, there are usually rental agreements with a statutory notice period of three months.

Additional claims for minimum lease payments do not exist. The number of residential properties is of minor importance.

2.2. Intangible assets

Intangible assets comprise capitalised expenses for the creation of the website, which are amortised on a straight-line basis over five years.

2.3. Tangible assets

Property, plant and equipment (kEUR 3.8, previous year: kEUR 0.0) essentially comprises the inventory for the management of the property in Weißwasser, which was acquired during the financial year. The useful lives are between 3 and 10 years. The depreciation (kEUR 0.5, previous year kEUR 0.0) is linear.

2.4. Taxes and deferred taxes

Since 1 January 2016, DKR has been granted the status of REIT and is therefore exempt from corporate and trade tax. Decisive for the tax exemption is compliance with the criteria of the REIT Act.

As long as the REIT criteria are adhered to, temporary differences between IFRS and the tax balance sheet due to the income tax exemption will not have any future tax effects. Therefore, no deferred taxes are currently recognised at DKR.

• Income taxes are composed in the income statement as follows:

kEUR	2017/2018	2016/2017
Actual taxes for previous years	-8.5	0.0
Deferred taxes	0.0	0.0
Total	**-8.5**	**0.0**

2.5. Trade and other receivables

• Trade and other receivables break down as follows:

kEUR	30/09/2018	30/09/2017
Receivables from rental	772.4	222.6
Receivables from other deliveries and services	0.0	0.0
Others	0.0	0.0
Total	**772.4**	**222.6**

• The individual value adjustments on trade and other receivables developed as follows:

kEUR	30/09/2018	30/09/2017
As of 01/10/PY	484.1	354.9
Consumption	-	-
Resolution	-	-
Additions	256.7	129.2
Closing on the key date	**740.8**	**484.1**

Impairment losses (individual value adjustments and bad debts) amounting to kEUR 256.7 were recognised in profit or loss in the financial year (2016/2017: kEUR 129.2). Impairment losses are included in the item Impairment loss of inventories and receivables in the profit and loss account, the reversals are recognised under Other income. In the financial year, the assessment of impairment was more effectively graded due to the refinement of the age structure.

This resulted in a EUR 87.4 million lower write-down of receivables.

For the first time, new value adjustment criteria were used in accordance with the rules of IFRS 9. Accordingly, now uniform value adjustments are made in the following maturity bands:

Due date of the claim	Up to 30 days	Over 30 days to 60 days	Over 60 days to 180 days	Over 180 days to 360 days	More than 360 days
Flat rate adjustment	0%	25%	50%	75%	100%
Value adjustment in kEUR	0.0	45.0	44.5	526.3	125.0

There were no impairments on other financial assets.

2.6. Other non-current and current assets

The other non-current assets mainly include advance payments on acquired investment property in the amount of kEUR 18,518.5 (2016/2017: kEUR 413.1), for which the transfer of benefits and encumbrances has not yet taken place. They are classified as non-current assets as they are part of the long-term balance sheet item Investment Properties.

Other current assets are made up as follows:

kEUR	30/09/2018	30/09/2017
Short-term investment in acquired loan shares via Creditshelf	7,425.6	-
Trust Accounts	2,755.0	479.2
Unfinished services after offsetting with advance payments received	1,930.9	767.6
Mortgage credit	1,328.3	899.9
Receivables from double payments	0.0	0.0
VAT claims	520.8	845.9
Acquirer settlement	337.5	0.0
Tenant deposits	330.9	0.0
Claims against shareholders	0.0	290.1
Others	159.3	45.4
Total	**14,788.4**	**3,328.1**

In financial year 2017/2018, DKR initially has invested liquidity in the acquisition of short-term loans, which are brokered through Fintech Creditshelf AG, Frankfurt. The loans have terms of up to two years and are between 6.89% and 13.5% p.a. interest at the loan amount less a 1% fee. However, the loans can be resold at any time at short notice, which means that these funds are also available to DKR at short notice.

2.7. Liquid funds

Cash and cash equivalents include cash on hand and bank balances. Cash and cash equivalents include deposit money amounting to kEUR 0.0 (previous year: kEUR 75.0), which is offset by corresponding other liabilities. In the financial year, the deposit balances are reported separately under other current assets.

The cash flow statement contains bank and cash accounts considering current account liabilities. In this respect, the cash and cash equivalents in the cash flow statement may differ from the cash and cash equivalents reported in the balance sheet.

2.8. Equity

2.8.1. Issued share capital

DKR's fully paid up share capital amounted to kEUR 27,236.3 as of 30 September 2018 (2016/2017: kEUR 24,760.3) and is divided into 27,236,313 no-par value bearer shares of equal value.

With a capital increase without subscription rights on 8 December 2017 (entry in the commercial register), Deutsche Konsum increased its share capital by EUR 2,476,028.00 to EUR 27,236,313.00.

Powers of the Management Board to issue new shares

Authorised capital

By resolution of the Annual General Meeting of 8 March 2018, registered in the commercial register on 5 April 2018, the Management Board was authorised to issue the share capital of the Company until 7 March 2023, with the approval of the Supervisory Board, by issuing new no-par value bearer shares against cash or a contribution in kind once or several times to increase up to a total of EUR 13,618,156.00 (Authorised Capital 2018). Shareholders must in principle be granted a subscription right within the scope of the authorised capital. However, the Management Board is authorised to exclude the subscription rights of shareholders in accordance with the Articles of Association and the approval of the Supervisory Board in certain cases. The authorised capital 2017 has been cancelled.

Conditional capital

The Management Board was authorised by the Annual General Meeting on 8 March 2018, with the approval of the Supervisory Board, to issue single or multiple bearer bonds with warrants or convertible bonds (together „Notes") with a total nominal value of up to EUR 150,000,000.00 with or without a maturity restriction and to grant or impose the holders of bonds with warrants option rights or obligations and the holders of convertible bonds conversion rights or obligations for bearer shares of the Company with a proportionate amount of capital stock in the amount of EUR 1.00 each according to more detailed conditions of the Notes. Further details can be found in the announcement in the Federal Gazette.

The share capital is conditionally increased by up to EUR 11,238,014.00 through the issue of up to 11,238,014 new bearer shares (Contingent Capital I). The conditional capital increase will only be carried out to the extent that option or conversion rights from the aforementioned convertible bonds are exercised.

Conditional Capital II amounts to EUR 2,380,142.00 (Conditional Capital II), the Management Board was authorised to do so at the Annual General Meeting on 9 March 2017.

2.8.2. Capital reserve

The capital reserve increased from kEUR 72,533.0 at the beginning of the financial year by kEUR 21,631.9 to kEUR 94,164.9 at the end of the financial year. The increase results from the cash capital increase of 8 December 2017.

2.8.3. Other reserves

Other reserves are composed as follows:

kEUR	30/09/2018	30/09/2017
IFRS first-time application reserve	855.7	855.7
Total	**855.7**	**855.7**

2.8.4. Retained earnings

The development of this item is shown in the statement of changes in equity.

The Management Board is planning a dividend proposal of 0.20 per share for the 2017/2018 financial year at the next Annual General Meeting as well as the presentation of the remaining balance sheet profit to new account. This proposal requires the approval of the Supervisory Board and the Annual General Meeting.

2.9. Financial liabilities

Fianancial liabilities are as follows:

kEUR	30/09/2018	30/09/2017
Non-current	146,709.3	40,891.3
Current	8,513.7	31,471.8
Total	**155,223.0**	**72,363.1**
Of these secured	155,223.0	72,363.1

Liabilities to banks increased significantly as a result of new secured bank loans being used to build up the real estate portfolio. This was offset by current repayments.

As of the balance sheet date, most of the financial liabilities are interest bearing. The repayment rates are generally between 1.0% and 16.7% p. a. Liabilities to banks are fully collateralised. The collateral provided is essentially mortgages and guarantees from related parties. These collateral can only be utilised by the banks after a material breach of the financing agreement (for example, in the event of a breach of financial covenants).

2.10. Corporate bond

Liabilities from corporate bond, considering the issue costs, are composed as follows:

Liabilities from bonds in kEUR	30/09/2018		30/09/2017	
	Non-current	Current	Non-current	Current
Bond kEUR 40,000.0 (nominal), 1.8% coupon p.a..	40,158.4	0.0	0.0	0.0

On 31 May 2018, the Company issued a bond of 400 shares with a nominal value of EUR 100,000.00 each. The nominal amount of the bearer bonds amounts to kEUR 40,000.0. The bond is remunerated at 1.8% p. a. It has a term until 31 May 2024. The interest is paid annually on 31 May.

2.11. Convertible bonds

The liabilities from convertible bonds, considering the issue costs, are composed as follows:

kEUR	30/09/2018	30/09/2017
Convertible bond I kEUR 30,000 (nominal), 5% coupon p.a.	29,590.9	29,337.6
Convertible bond II kEUR 7,000 (nominal), 1% coupon p.a.	6,508.0	6,203.4
Total	**36,098.9**	**35,541.0**

By agreement dated 26 September 2018, DKR and the convertible bondholder agreed to adjust the terms of the bond. Accordingly, the maturity of the two bonds was extended by five years until 30 January 2025, and the convertible I coupon was reduced from 5.0% to 1.35%. Furthermore, the conversion prices for convertible bond I were increased by 7% to EUR 4.09 per share and for convertible bond II by 5% to EUR 1.06 per share. The reduction of the coupon of convertible bond I will take effect from 1 November 2018.

Both convertible bonds are fully recognised as non-current financial liabilities.

2.12. Liabilities to other creditors

Liabilities to other creditors result from loans from Obotritia Capital KGaA and from related parties with an agreed maximum basic term, which are subject to variable and permanent repayment. There is only interest on outstanding amounts.

There are loans to Obotritia Capital KGaA in the amount of kEUR 116.2 (30/09/2017: kEUR 10,819.1).

2.13. Other provisions

Other provisions are composed as follows:

kEUR	As of 01/10/2017	Consumption	Resolution	Addition	As of 30/09/2018
Archiving	3.5	0.0	0.0	0.0	3.5
Legal, consulting and auditing costs	147.8	147.8	0.0	150.0	150.0
Pending invoices	1,507.7	940.4	1.0	1,326.9	1,893.2
Total	**1,659.0**	**1,088.2**	**1.0**	**1,476.9**	**2,046.7**

Since material provisions are utilised at short notice, discounting is waived for materiality reasons. There are also no significant uncertainties with regard to the time or amount of the claim.

2.14. Other non-current and current liabilities

Other non-current liabilities include leasing liabilities for hereditary building rights for which DKR is the building lease holder and which are accounted for as finance leases. The corresponding assets are reported as investment properties.

The development of other non-current and current liabilities is as follows:

kEUR	30/09/2018	30/09/2017
Liabilities from finance leases	7,863.0	4,166.0
Total non-current other liabilities	**7,863.0**	**4,166.0**
Rental deposit	330.9	0.0
Liabilities to tenants	212.5	160.1
Liabilities from finance leases	51.5	23.9
Other	46.0	89.0
Total current other liabilities	**640.9**	**273.0**
Total	**8,503.9**	**4,439.0**

2.15. Trade payables

Trade payables amounted to kEUR 1,023.4 in the year under review (30/09/2017: kEUR 1,117.3) and consist mainly of kEUR 864.5 (30/09/2017: kEUR 603.5) of real estate transfer tax liabilities for the new real estate additions.

3. Notes to the statement of comprehensive income

3.1. Rental income

The rental result is calculated from the rental income less management expenses and is as follows:

kEUR	2017/2018	2016/2017
Rental income	28,601.3	19,248.9
Total proceeds	**28,601.3**	**19,248.9**
Maintenance	-2,081.4	-1,520.2
Non-recoverable additional costs	-4,251.6	-3,223.0
Total management expenses	**-6,333.0**	**-4,743.2**
Rental result	**22,268.3**	**14,505.7**

The maintenance expenses relate to repairs and maintenance work. In 2017/2018, value-enhancing maintenance measures in the amount of kEUR 8,174.8 were capitalised.

The non-recoverable incidental costs include, among other things, property management expenses of kEUR 913.0 (2016/2017: kEUR 593.8) and expenses for asset management in the amount of kEUR 1,283.5 (2016/2017: kEUR 667.8).

The reimbursements of tenants for operating and ancillary costs were netted against the expenses.

3.2. Other income

Other operating income in the financial year amounted to kEUR 50.2 (2016/2017 kEUR 96.4) and mainly includes income from insurance compensation in the amount of kEUR 47.6 (2016/2017: kEUR 67.5).

3.3. Valuation result of investment property

The valuation result includes the net valuation gains and losses from the fair value measurement of the investment properties as of the balance sheet date by an external and independent expert.

3.4. Personnel expenses

The personnel expenses of the Company in the 2017/2018 financial year amounted to kEUR 578.9 (2016/2017: kEUR 194.2) and comprise two members of the Management Board, three salaried employees and five marginally employed employees. Further services for the Company are provided by employees of Obotritia KGaA. For this purpose, a cost allocation is levied, which is recognised in other operating expenses.

The increase in personnel expenses resulted from the hiring of new employees to reflect the growth of the Company. Of personnel expenses, kEUR 40.9 (previous year: kEUR 22.8) relates to social security contributions and pension expenses and kEUR 1.3 (previous year: kEUR 0.4) to capital-building benefits.

As of 30 September 2018, ten employees (30/09/2017: nine employees) were employed directly by the Company. This included two members of the Management Board, one employee, one technician, one property manager and five marginal employees.

3.5. Impairment loss of inventories and receivables

The impairments break down as follows:

Impairment losses in kEUR	2017/2018	2016/2017
Impairment on rental receivables	256.7	129.2
Impairment on trade receivables	0,0	0,0
Total	**256.7**	**129.2**

In the financial year, the assessment of impairment was more effectively graded due to the refinement of the age structure. This resulted in a kEUR 87.4 lower write-down of receivables.

3.6. Other operating expenses

Other operating expenses are as follows:

kEUR	2017/2018	2016/2017
Legal, consulting and auditing costs	572.7	477.5
Agency fees	414.2	334.2
Others	932.4	197.8
Total	**1,919.3**	**1,009.5**
thereof one-off expenses	669.0	20.3
Adjusted	**1,250.3**	**989.2**

Legal and consulting expenses mainly include the ongoing costs for the preparation of expert reports, external accounting and auditing costs as well as legal advice. The remaining other operating expenses mainly comprise non-recurring expenses in connection with the refinancing, such as land charges and fees (totalling kEUR 669.0). Adjusted for special effects and one-off expenses, there was an increase in other operating expenses of kEUR 261.1.

3.7. Interest result

The interest result has the following structure:

kEUR	2017/2018	2016/2017
Interest income from shareholder loans	520.5	442.9
Interest income from Creditshelf loans	48.9	-
Other interest income	5.6	0.1
Total interest income	**575.0**	**443.0**
thereof not cash-effective	0.0	442.9
Interest on bonds	-2,360.2	-2,104.7
Interest expense from shareholder loans	-368.0	-566.2
Other interest expenses for loans to banks	-2,555.5	-1,836.2
Ground rent	-263.0	-189.7
Total interest expenses	**-5,546.7**	**-4,696.8**
thereof not cash-effective	-870.2	-1,310.8
Total	**-4,971.7**	**-4,253.8**

3.8. Other taxes

Other taxes in the current financial year amount to kEUR -0.4 (previous year: kEUR 17.6). The real estate tax on investment properties is reported under rental expenses.

3.9. Earnings per share

• Earnings per share are as follows:

kEUR	2017/2018	2016/2017
Period result (undiluted)	**30,918.5**	**37,405.0**
Interest expenses on convertible bonds	2,127.9	2,104.7
Period result (diluted)	**33,046.4**	**39,509.7**
Average number of shares issued in the reporting period (undiluted)	**26,775,026**	**22,516,050**
Potential conversion shares	14,792,787	14,792,787
Average number of shares issued in the reporting period (diluted)	**41,567,813**	**37,308,837**
Earnings per share (EUR)		
Undiluted	**1.15**	**1.66**
Diluted	**0.80**	**1.06**

4. Notes to the cash flow statement

The cash flow statement was prepared with regard to the operating part using the indirect method. A distinction was made between current business, investment and financing activities. The cash and cash equivalents shown as of the balance sheet date include all credit balances and current account liabilities due within three months of the balance sheet date. The cash flow statement shows how cash and cash inflows and outflows changed during the financial year. In accordance with DRS 21 / IAS 7 („Cash Flow Statements"), a distinction is made between cash flows from operating activities and investing and financing activities.

Cash flow from operating activities amounted to kEUR 14,520.4 in the financial year (previous year: kEUR 11,983.7). The positive cash flow from operations is directly related to the increase in rental properties, which will continue to improve in subsequent years.

Cash flow from investing activities in the year under review amounted to kEUR -146,939.2 (previous year: kEUR -83,240.8). The main investment activities of the Company in the reporting year include payments for the various real estate acquisitions in the amount of kEUR 140,447.2 (previous year: EUR 83,249.1).

The cash flow from financing activities in the year under review amounted to kEUR 131,398.8 (previous year: kEUR 62,083.0). In the year under review, the proceeds from capital increases of kEUR 24,760.3 (previous year: kEUR 39,552.9) as well as the proceeds from taking out loans from various banks totalling kEUR 115,968.0 (previous year: kEUR 33,200.0) and the deposit from the previous year were material from corporate bonds of kEUR 40,000.0 (previous year: kEUR 0.0). These payments were mainly offset by payments for the repayment of loans amounting to kEUR 32,621.9 (previous year: kEUR 2,588.4) and the repayment of the utilised current account loan facility with Obotritia Capital KGaA in the amount of kEUR 10,702.9 (previous year: kEUR 13,339.7).

5. Disclosures on financial instruments and fair value

5.1. Financial risk management

Through its business activities, DKR is exposed to various financial risks. These risks mainly include default, liquidity and market risk (interest rate risk). Accordingly, there is a policy-based risk management system, which is managed by the Corporate Finance department. The scope of the financial policy is determined by the Management Board and monitored by the Supervisory Board.

5.1.1. Default risks

Default risk is the risk of loss if a counterparty fails to meet its contractual payment obligations. These can be essentially tenants as well as banks. In order to counteract this risk, DKR basically only enters into business relations with creditworthy contracting parties and obtains appropriate collateral. DKR uses available financial information to assess the credit-worthiness of business partners. The risk exposure of the Company is monitored continuously.

There are also trade accounts receivable from a large number of customers, so that only a low risk concent-ration exists. Existing receivables are regularly tested for their recoverability. Valuation adjustments are generally made on the basis of the age structure of the receivables.

The financial assets recognised in the financial statements, less any impairments, represent the maximum credit risk of the Company. However, collateral received is not considered. There are no overdue, not impaired receivables.

5.1.2. Liquidity and financing risk

Liquidity risk is the risk that DKR will be unable to meet its payment obligations at a contractually agreed date.

To ensure liquidity, liquidity planning is carried out, which continuously compares the expected liquidity requirements with the expected cash inflows. In doing so, DKR manages liquidity risks by holding appropriate reserves and credit lines, as well as by continuous target/actual comparisons of forecast and actual cash flows, considering the maturity profiles of receivables and liabilities.

The following tables show the contractual and undiscounted disbursements of the recognised liabilities by residual maturity:

		Remaining term		
Remaining term to 30/09/2018 in kEUR	**Book value**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
Liabilities to banks	156,180.7	8,743.2	121,075.3	26,362.7
Liabilities to other creditors[1]	116.2	116.2	0.0	0.0
Liabilities from convertible bonds	37,261.7	261.7	37,000.0	0.0
Liabilities from the corporate bond	40,242.6	242.6	0.0	40,000.0
Liabilities from leasing	7,914.6	51.5	453.2	7,409.9
Liabilities from services and deliveries	1,023.4	1,023.4	0.0	0.0
Other current liabilities	640.9	640.9	0.0	0.0

		Remaining term		
Remaining term to 30/09/2018 in kEUR	**Book value**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
Liabilities to banks	72,825.6	31,578.9	26,002.7	15,244.0
Liabilities to other creditors [1]	10,819.1	10,819.1	0.0	0.0
Liabilities from convertible bonds	37,261.7	261.7	37,000.0	0.0
Liabilities from leasing	4,189.9	23.9	109.3	4,056.7
Liabilities from services and deliveries	1,117.3	1,117.3	0.0	0.0
Other current liabilities	249.2	249.2	0.0	0.0

[1] Claimed repayable credit line at any time

The Company may use credit lines. The total amount not yet used amounts to approximately kEUR 27,515.8 as of the balance sheet date (previous year: kEUR 15,480.9). The Company expects to be able to meet its liabilities from operating cash flows, the inflow of maturing financial assets and capital measures as well as existing credit lines at all times. In addition, there are estimated future cash outflows from interest on financial liabilities of around kEUR 6,174.3 (previous year: around kEUR 2,531.7) within one year, of more than one but less than five years of around kEUR 13,461.4 (previous year: around kEUR) 5,194.5) and after more than five years of around kEUR 3,215.1 (previous year: around kEUR 2,078.0). The future interest payments for leasing are shown in 6.2.

With 4 credit agreements for 8 properties, maintenance reserves amounting to kEUR 33.5 per month have been agreed under loan agreements.

In addition, there are one-off maintenance reserves of kEUR 497.0 (previous year: kEUR 409.1). As of the balance sheet date, maintenance reserves of kEUR 1,328.3 (previous year: kEUR 899.9) were accrued. An order for maintenance measures is possible against invoice.

Part of the loan agreements contain obligations to comply with certain financial covenants. These typically include standard codes such as DSCR, ICR and LTV or maintenance reserves to be met for certain items. A breach of the agreed loan requirements could result in a premature repayment obligation, which in individual cases could severely impair liquidity. As of 30 September 2018, all credit and bond contracts were complied with.

The reported financial assets have no fixed maturities and are therefore classified as current.

Furthermore, DKR is fundamentally dependent on being able to obtain debt capital on reasonable terms for refinancing its current business activities or for acquisitions. For example, crises on the international financial markets can make debt financing more difficult and then lead to liquidity problems. If, as a result, the debt service should no longer be met, lenders could forcibly recover real estate assets, and distress sales could lead to significant financial penalties. In this respect, DKR continues to exploit favourable market conditions in order to make financing favourable and sustainable.

This also applies to the convertible bonds issued.

5.1.3. Interest rate risk

Due to its business activity, DKR is exposed to interest rate risk. This applies in particular to loans with variable interest rates and the recalculation of fixed-rate loans at the end of the fixed-interest period, if the interest rate increases by the ECB result in higher interest payments.

If required, DKR uses derivative financial instruments such as interest rate swaps or caps, which minimise interest rate risk or interest rate sensitivity when interest rates rise. As at 30 September 2018, the Company has no interest hedging instruments. For speculative purposes no derivatives are used.

In addition, DKR is in ongoing discussions with its banking partners in order to extend expiring fixed-interest periods in good time or to repay loans prematurely or to repay them if necessary. In principle, forward loans are also eligible.

As of 30 September 2018, only loans with a fixed interest rate exist. Only individual loans have a variable interest rate, which is subject to fluctuations depending on market developments.

If interest rates had been 1% higher (lower) in the reporting period, the annual result would have been kEUR 703.5 lower (2016/2017: kEUR 414.4) or kEUR 698.5 higher (2016/2017: kEUR 417.2).

5.1.4. Net results from financial instruments

Net gains and losses from financial instruments are allocated to the respective IAS 39 valuation categories as follows:

30/09/2018	IAS 39 Category	Interest in kEUR	Value adjustments in kEUR
Loans and receivables	LaR	575.0	-256.7
Financial liabilities	FLaC	-5,546.7	0.0

30/09/2017	IAS 39 Category	Interest in kEUR	Value adjustments in kEUR
Loans and receivables	LaR	443.0	-129.2
Financial liabilities	FLaC	-4,696.8	0.0

5.1.5. Offsetting financial assets and liabilities

Financial assets and liabilities are netted on the basis of master netting agreements only if there is an enforceable right to offset on the balance sheet date and it is intended to settle on a net basis. If a claim for netting is not enforceable in the ordinary course of business, the master netting agreement creates only a conditional right to offset. In this case, the financial assets and liabilities are shown on the balance sheet date with their gross amounts in the balance sheet.

In the balance sheet as of 30/09/2018, receivables from operating costs not yet invoiced of kEUR 6,940.5 (30/09/2017: kEUR 4,113.7) were offset, in line with the industry, with down payments received from operating cost prepayments in the amount of kEUR 5,009.5 (30/09/2017: kEUR 3,346,1).

5.2. Capital management

The objectives of capital management are to maintain a high credit rating and to maximise shareholder value by striving for an optimal equity/debt ratio (equity ratio) and to comply with the provisions of the REIT Act, which require a minimum equity ratio of 45%.

The equity ratio at the end of the year is as follows:

In kEUR	30/09/2018	30/09/2017
Equity	209,762.4	154.736,0
Total assets	452,932.9	280.674,5
Equity ratio in%	**46.3**	**55,1**

The equity ratio according to the REIT Act is as follows:

In kEUR	30/09/2018	30/09/2017
Equity	209,762.4	154,736.0
Investment property / immovable property	418,707.3	275,433.9
Equity ratio in%	**50.1**	**56.2**

Another key performance indicator is the loan-to-value, which represents the ratio of net financial liabilities to the value of the real estate assets. DKR aims for an LTV of between 50 and 55%:

In kEUR	30/09/2018	30/09/2017
Financial liabilities	231,596.4	118,723.2
minus cash	-140.6	-1,160.5
minus short-term lendings	-7,425.5	0.0
Net borrowings	**224.030,3**	**117,562.7**
Investment properties	418,707.3	275,433.9
Prepayments on acquired investment properties	18,518.5	413.1
Total property assets	**437,225.8**	**275,847.0**
Loan-to-Value (LTV), %	**51.2%**	**42.6%**

5.3. Fair value of assets and liabilities

IFRSs determine the fair value of various assets and liabilities.

The fair value is defined in IFRS 13 and is to be determined using the most near-to-market valuation methods and input parameters. A valuation hierarchy divides the input data according to their quality in three stages:

Level 1 Quoted (unadjusted) prices in active markets for identical assets or liabilities, such as stock prices

Level 2 Input factors other than quoted prices included in Level 1 but which are observable for the asset or liability either directly or indirectly (i.e. derived from prices)

Level 3 Factors not based on observable market data for the valuation of the asset or liability

Insofar as input factors of different levels are used, the fair value is assigned to the respective lower hierarchy level. The Company recognises reclassifications between different levels in principle as of the end of the reporting period in which the change occurred. In financial year 2017/2018, there were no reclassifications between the respective hierarchy levels.

The assets and liabilities measured at fair value in the balance sheet are as follows:

In kEUR	Valuation hierarchy	30/09/2018	30/09/2017
Investment properties	Level 3	418,707.3	275,433.9
Total assets		**418,707.3**	**275,433.9**

In addition, there are the following financial instruments that are carried at amortised cost:

30/09/2018	IAS 39 Category[2]	Book Value in kEUR	Fair Value in kEUR	Valuation hierarchy
Trade receivables	LaR	772.4	772.4	Level 2
Other current assets	LaR	11,523.0	11,523.0	Level 2
Liquid funds	LaR	140.5	140.5	Level 2
Total financial assets		**12,435.9**	**12,435.9**	
Liabilities to banks	FLaC	155,223.0	150,780.1	Level 2
Liabilities to other creditors	FLaC	116.2	116.2	Level 2
Liabilities from convertible bonds (FK component)	FLaC	36,098.9	154,014.8	Level 1
Liabilities from the corporate bond	FLaC	40,158.4	42,000.0	Level 2
Liabilities from leasing	FLaC	7,914.6	7,914.6	Level 2
Trade payables	FLaC	1,023.4	1,023.4	Level 2
Other current liabilities	FLaC	258.5	258.5	Level 2
Total financial liabilities		**280,951.4**	**356,157.6**	

30/09/2017	IAS 39 Categorie	Book Value in kEUR	Fair Value in kEUR	Valuation hierarchy
Trade receivables	LaR	222.6	222.6	Level 2
Other current assets	LaR	1,668.7	1,668.7	Level 2
Liquid funds	LaR	1,160.5	1,160.5	Level 2
Total financial assets		**3,051.8**	**3,051.8**	
Liabilities to banks	FLaC	72,363.1	72,391.5	Level 2
Liabilities to other creditors	FLaC	10,819.1	10,819.1	Level 2
Liabilities from convertible bonds (FK component)	FLaC	35,541.0	144,763.3	Level 1
Liabilities from leasing	FLaC	4,189.9	4,189.9	Level 2
Trade payables	FLaC	1,117.3	1,117.3	Level 2
Other current liabilities	FLaC	244.7	244.7	Level 2
Total financial liabilities		**124,275.1**	**233,525.8**	

2 LaR: Loans and Receivables; FLaC: Financial Liabilities at Cost (financial liabilities, which are carried at amortised cost)

The fair value of long-term assets or liabilities corresponds to the present value of the expected payments, considering maturity and risk-adjusted market interest rates. Short-term trade receivables and other assets and cash and cash equivalents therefore approximate their fair values.

6. Other information

6.1. Other financial obligations and contingent liabilities

The company has the following financial obligations from long-term contracts:

kEUR	30/09/2018	30/09/2017
Asset and property management contracts	7,381.0	5,446.0
Contract management fees	551.1	334.2
Car leasing	22.1	0.0
Total	**7,954.2**	**5,780.2**
of which up to 1 year	3,014.4	2,166.8
of which one year to five years (undiscounted)	4,939.8	3,613.3
of which over five years (undiscounted)	0.0	0.0

On the balance sheet date of 30 September 2018, the Company has purchase price obligations from notarised purchase agreements for properties in Schwedt, Frankfurt/Oder, Altentreptow, Rudolstadt, Wolgast, Salzwedel and Uelzen Merseburg, Mainleus and Erkner totalling EUR 19.6 million for the purchase price deposits on notary accounts are done.

There are no other contingent liabilities.

6.2. Lease obligations

Finance leasing as lessee

As a lessee of leasehold agreements, there are long-term lease liabilities, which result in disbursements in subsequent years. These are distributed as follows:

in kEUR	Total	Up to 1 year	1 to 5 years	Over 5 years
Minimum lease payments 30/09/2018	**28,036.3**	**507.5**	**2,030.3**	**25,498.5**
of which interest payments	20,121.7	456.0	1,577.1	18,088.6
of which repayments	7,914.6	51.5	453.2	7,409.9
Minimum lease payments 30/09/2017	**12,886.7**	**251.7**	**1,006.9**	**11,628.1**
of which interest payments	8,696.8	227.8	897.5	7,571.5
of which repayments	4,189.9	23.9	109.3	4,056.7

The leasehold agreements have a remaining useful life of 44.75 years on average and are adjusted to agreed indexes by means of value assurance clauses. There were no index adjustments in the year under review. Furthermore, some extension options are available. Contingent leases were also not available.

6.3. Information on related parties

The companies and persons affiliated to the Company in accordance with IAS 24 comprise the following groups:

- Parent company,
- Other shareholders,
- Other related parties - including subsidiaries, joint ventures and associates of the shareholders with at least significant influence and companies controlled by the management,
- Members of the Management and Supervisory Boards of the Company and the Management and Supervisory Boards of the parent company and their close family members.

The Company maintains business relationships with related companies and persons. Essentially, these relationships include financial services through short-term provision of liquidity on the basis of concluded master agreements and services.

The scope of transactions with related parties is shown below:

Obotritia Capital KGaA has a significant stake in Deutsche Konsum REIT AG. For the use of business premises, the provision of office equipment and administrative staff, including the activities of the Management Board, Obotritia Capital KGaA charged a fee of kEUR 414.2 (2016/2017: kEUR 334.2) in the reporting period under the concluded agency agreement.

With a contract dated 13/04/2013 and a supplement dated 30/06/2016 and 01/12/2016, DKR was granted a credit line from Obotritia Capital KGaA within the framework of a current account loan facility of kEUR 25,000. The loan is paid out at the request of Deutsche Konsum REIT-AG and must be repaid at any time, but no later than the end of the contract period on 31/12/2023. Interest will be charged exclusively on the outstanding amount; provisioning fees will not be charged additionally. In the 2017/2018 financial year, this amount was used up to kEUR 17,119.1 (2016/2017 kEUR 23,518.5) and partially repaid in the near future. As at 30/09/2018, there was a liability of kEUR 116.2 (30/09/2017: kEUR 10,819.1). Overpayments are subject to the same contractual conditions that apply to the claim. For these cases, a loan framework agreement was concluded on 30/04/2015. The interest rate is 8.0% p.a. The interest payments are deferred and are due at the latest upon termination of the loan. Interest income of kEUR 520.5 was generated for the 2017/2018 financial year (2016/2017: kEUR 442.9) and interest expenses of kEUR 368.0 (2016/2017: kEUR 566.3).

There is a management agreement with GV Nordost Verwaltungsgesellschaft mbH, Rostock, on the property management of the main real estate portfolio. Depending on the object, the agreed remuneration amounts to between 2% and 3% of the net rental income received (plus value added tax) per month. Expenses of kEUR 913.0 (2016/2017: kEUR 593.8) were incurred in the reporting period.

There is also a management and consulting agreement with Elgeti Brothers GmbH, Berlin. The agreed remuneration amounts to 0.5% of the gross asset value of the real estate annually, calculated on the basis of purchase prices and transaction costs, and is paid in quarterly discounts. In the reporting period, expenses amounted to kEUR 1,283.5 (2016/2017: kEUR 667.8).

In addition, the Company has invested excess short-term liquidity in the acquisition of loans through Creditshelf AG, Frankfurt. Due to the amount of the shares held by Obotritia Capital KGaA, Creditshelf AG is to be classified as a related party. All transactions are made on market terms. In the 2017/2018 financial year, DKR achieved interest income of kEUR 48.9. Creditshelf received kEUR 5.1 from DKR as the agency commission for the loan purchase.

The following receivables and liabilities to related parties exist in the balance sheet:

kEUR	30/09/2018	30/09/2017
Other current assets		
versus Obotritia Capital KGaA	0.0	290.1
Other related companies	0.0	5.0
Liabilities to other creditors		
against Obotritia Capital KGaA	116.2	10,819.1

No loans and advances were granted to related persons. Close family members of the Management Board and the Supervisory Board have no influence on the Company‘s business decisions.

6.4. Supervisory Board and Management

In the reporting period, the Supervisory Board consisted of the following members:

Name	Profession	Memberships in other supervisory bodies
Hans-Ulrich Sutter Chairman of the Supervisory Board Dusseldorf	Business graduate Supervisory Board	• TAG Colonia-Immobilien AG, Hamburg (Deputy Chairman of the Supervisory Board)
Achim Betz Deputy Chairman of the Supervisory Board Nuertingen	Auditor, Tax consultant, Business graduate, ba audit GmbH Accounting Firm, Berlin (Managing Partner), Best Audit GmbH, Accounting Firm, Hanover (Managing Partner)	• Hevella Capital GmbH & Co. KGaA, Potsdam (Chairman of the Supervisory Board) • Deutsche Leibrenten Grundbesitz AG, Frankfurt am Main (Deputy Chairman of the Supervisory Board) • Deutsche Industrie REIT-AG, Rostock (until 22 January 2018: Deutsche Industrie Grundbesitz AG) (Supervisory Board member)
Johannes C. G. (Hank) Boot London	Fund Manager Lotus AG, Munich	• Berentzen AG, Haselünne (Supervisory Board member)
Nicholas Cournoyer London	Fund Manager Montpelier Capital Advisors, Monaco	None
Kristian Schmidt-Garve Munich (since 8 March 2018)	Lawyer LL.M., MIG Verwaltungs AG (Executive Board), Munich	• Cynora GmbH, Munich (Chairman of the Advisory Board) • Nfon AG, Munich (Chairman of the Supervisory Board) until 9 April 2018

The remuneration of the Supervisory Board in the financial year amounted to kEUR 30.0 (2016/2017: kEUR 27.5) excluding value added tax. Members of the Supervisory Board were granted no loans and advances; Likewise, no contingent liabilities were made in favour of Members of the Supervisory Board.

During the reporting period, the Management Board consisted of the following members:

Name	Profession	Memberships in other supervisory bodies
Rolf Elgeti Chairman CEO Potsdam	Business graduate	• TAG Immobilien AG, Hamburg (Chairman of the Supervisory Board) • Deutsche Leibrenten Grundbesitz AG, Frankfurt am Main (Chairman of the Supervisory Board) • creditshelf Aktiengesellschaft, Frankfurt am Main (Chairman of the Supervisory Board) (since 25 May 2018) • Staramba SE, Berlin (Member of the Board of Directors) • HLEE (Highlight Event and Entertainment AG) Pratteln, Switzerland (Member of the Board of Directors) (since 29 June 2018) • Laurus Property Partners, Munich (Member of the Advisory Board) • Fair Value REIT- AG, Munich (until 30 November 2017, Chairman of the Supervisory Board)
Alexander Kroth Member of the Board CIO Berlin	Business graduate	None
Christian Hellmuth Member of the Board CFO Berlin	Business graduate (FH)	None

The remuneration of the Management Board for the 2017/2018 financial year amounts to kEUR 344.6 (previous year: kEUR 131.3). The remuneration of the Management Board member Rolf Elgeti is based on a cost allocation and amounts to kEUR 71.3 (previous year: kEUR 71.3) from Obotritia Capital KGaA. There are no additional benefits granted.

The remuneration of the members of the Management Board in the 2017/2018 financial year breaks down as follows:

- Mr Rolf Elgeti kEUR 71.3 (fixed compensation)
- Mr Alexander Kroth kEUR 128.3 (fixed compensation) plus. kEUR 107.4 (variable remuneration)
- Mr Christian Hellmuth kEUR 120.0 (fixed compensation) plus. kEUR 107.4 (variable remuneration)

For details of the Supervisory Board and Management Board remuneration, please refer to the compensation report in the DKR management report.

6.5. Consolidated Financial Statements

DKR is no longer included as a subsidiary in the consolidated financial statements of Obotritia Capital KGaA, Potsdam.

6.6. Fee of the auditor

The fee for the auditor DOMUS AG of kEUR 89.6 (2016/2017: kEUR 203.6) calculated for the 2017/2018 financial year includes fees plus statutory value added tax exclusively for audit services in the amount of kEUR 82.8 (2016/2017: kEUR 121.6), other confirmation services of kEUR 1.9 (2016/2017: kEUR 81.1) and other services amounting to kEUR 4.9 (2016/2017: kEUR 0.9). The other confirmation services relate to the audit pursuant to Section 1 (4) REIT Act as at 31/12/2017. Subsequent calculations include kEUR 2,8 (2016/2017: kEUR 42,0) in off-period fees.

6.7. Significant events after the balance sheet date

With the transfer of benefits and encumbrances on 1 October 2018, the acquired properties in Schwedt, Frankfurt/Oder, Rudolstadt, Wolgast, Salzwedel and Uelzen became the property of the Company.

With notarial certifications in September, October and November 2018, eight other retail properties were acquired in Altentreptow (Mecklenburg-Western Pomerania), Merseburg (Saxony-Anhalt), Mainleus (Bavaria), Erkner (Brandenburg), Hof (Bavaria, Dortmund (North Rhine-Westphalia), Weida (Thuringia) and Bad Harzburg (Lower Saxony). The investment volume for these properties amounts to approximately EUR 24 million, which are current purchase price payment obligations. The annualised rent of the acquired properties amounts to more than EUR 2 million. The transfer of benefits and encumbrances is expected to be on 1 January 2018.

On the liabilities side, two loans were taken out and paid out on 16 October and 19 October at Sparkasse Oder-Spree and Stadtsparkasse Schwedt for EUR 5.0 million and EUR 3.0 million. Both loans have a term of eight years and each 2.09% p.a. interest.

Utilising the Authorised Capital 2018 and with the approval of the Supervisory Board, on 22 November 2018, DKR carried out a cash capital increase without subscription rights of 10% of the share capital. 2,723,631 new no-par value shares were issued at a subscription price of EUR 11 per share. From this, DKR received net proceeds of around EUR 29.3 million, which are to be used for the purchase of additional properties.

6.8. Corporate Governance Code (Declaration on the German Corporate Governance Code pursuant to Section 161 AktG)

On 12/09/2018, with supplement from 12/11/2018 the Management Board and the Supervisory Board of Deutsche Konsum REIT-AG issued the latest declaration of compliance with the German Corporate Governance Code pursuant to Section 161 AktG. The declaration was made permanently available to shareholders at www.deutsche-konsum.de.

Potsdam, 5 December 2018

Rolf Elgeti	**Alexander Kroth**	**Christian Hellmuth**
Chairman	Member of the Board	Member of the Board

Statement from the Company's legal representatives

„We assure to the best of our knowledge that, in accordance with the applicable accounting standards, the financial statements as of 30 September 2018 give a true and fair view of the asset, financial and earnings position of the Company and that the management report gives a true and fair view of the development of the business including the business result and the situation of the Company and describes the main opportunities and risks associated with the Company's expected future development."

Potsdam, 5 December 2018

Rolf Elgeti	**Alexander Kroth**	**Christian Hellmuth**
Chairman	Member of the Board	Member of the Board

Audit certificate of the independent auditor

To Deutsche Konsum REIT-AG, Broderstorf

Audit certificate for the audit of the separate financial statements and management report

Audit opinions

We have audited the separate financial statements of Deutsche Konsum REIT-AG – consisting of the balance sheet to 30 September 2018, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the 1 October 2017 to 30 September 2018 financial year and the Appendix, including a summary of significant accounting methods. Also, we have audited the management report of Deutsche Konsum REIT-AG for the 1 October 2017 to 30 September 2018 financial year.

In our assessment, on the strength of the findings gained as a result of the audit,

- the attached separate financial statements comply with the IFRS, as applicable in the EU, in all material aspects and with the German statutory regulations applicable in addition subject to § 315e (1) German Commercial Code (HGB) and so presents, subject to these regulations, a picture of the company's asset and finance situation matching the actual circumstances obtaining at 30 September 2018 and matching the company's earnings position for the 1 October 2017 to 30 September 2018 business year and
- the attached management report presents overall an accurate picture of the company's situation. In all material aspects, this management report harmonises with the separate financial statements, complies with the German statutory regulations and accurately represents the opportunities and risks inherent in future developments.

Pursuant to § 322 (3) sentence 1 German Commercial Code (HGB), we declare that our audit has not produced any reservations about the correctness of the separate financial statements or the management report.

Basis for the audit opinions

We have conducted our audit of the separate financial statements and the management report in conformity with § 317 German Commercial Code (HGB) and the EU Financial Statement Auditing Regulation (Abschlussprüferverordnung) (No. 537/2014; referred to below as "EU-APrVO") with reference to the German principles laid down by the Institute of Auditors (IDW) for the proper conduct of financial statement audits. Our responsibility under these regulations and principles is further described in the section 'Responsibility of the auditor for auditing the separate financial statements and management report' in our audit certificate. We are independent of the company in conformity with the regulations under European law, German commercial law and the rules of professional conduct and have satisfied our other German professional obligations in conformity with these requirements. Further, we declare, pursuant to Article 10 (2f) EU-APrVO, that we have not rendered any prohibited non-auditing services under Article 5 (1) EU-APrVO. We are of the view that the evidence obtained by us is sufficient and suitable to serve as the basis of our audit opinions on the separate financial statements and management report.

Other information

The legal representatives are responsible for the other information. The other information covers:

- the remaining parts of the annual report, with the exception of the audited separate financial statements and management report and our audit certificate,
- the corporate governance report under No. 3.10 of the German Corporate Governance Code,
- the assurance under § 264 (2) sentence 3 German Commercial Code (HGB) on the separate financial statements and the assurance under § 289 (1) sentence 5 HGB on the management report and
- the declaration on corporate governance under § 289f HGB.

Our audit opinions on the separate financial statements and the management report do not cover the other information and correspondingly we give neither an audit opinion nor any other form of audit conclusion on this information.

In connection with our audit, we have the responsibility of reading the other information and thereby of judging whether the other information

- displays material discrepancies from the separate financial statements, the management report or our other findings gained through conducting the audit or
- in any other way appears to be presented falsely.

Responsibility of the legal representatives and of the Supervisory Board for the separate financial statements and the management report

The legal representatives are responsible for the preparation of the individual financial statements, which comply with the IFRS, as applicable in the EU, and the German statutory provisions applicable in all material respects pursuant to Section 315e (1) HGB, and that the individual financial statements, under compliance with these provisions, represent a true and fair view of the financial position and performance of the Company. Also, the legal representatives are responsible for the internal controls which they have determined to be necessary in order to facilitate compilation of the separate financial statements which are free of material – intended or unintended – false representations.

When compiling the separate financial statements, the legal representatives are responsible for assessing the ability of the company to continue the corporate activity. Furthermore, they are also responsible for supplying facts linked to the continuation of the corporate activity, where relevant. They are also responsible for drawing up their balance sheet on the basis of the accounting principle that the corporate activity will continue, unless it is intended to liquidate the company or to cease trading or unless there is no realistic alternative to it.

Also, the legal representatives are responsible for compiling the management report, which conveys overall an accurate picture of the company's situation and which harmonises in all material aspects with the separate financial statements, complies with the German statutory regulations and accurately represents the opportunities and risks inherent in future developments. Also, the legal representatives are responsible for the arrangements and measures (systems) which they have determined to be necessary in order to facilitate compilation of a management report harmonising with the applicable German statutory regulations and in order to be able to furnish sufficient and suitable evidence for the statements contained in the management report.

The Supervisory Board is responsible for monitoring the company's accounting process for compilation of the separate financial statements and the management report.

Responsibility of the auditor for auditing the separate financial statements and the management report

It is our aim to establish sufficient confidence over the question of whether the separate financial statements as a whole are free of material – intended or unintended – false representations and whether the management report conveys overall an accurate picture of the company's situation and which harmonises in all material aspects with the separate financial statements and with the findings gained during the auditing process, complies with the German statutory regulations and accurately represents the opportunities and risks inherent in future developments and to issue an audit certificate containing our audit opinions on the separate financial statements and the management report.

Sufficient confidence is a high level of confidence, but no guarantee that an audit of a financial statement conducted properly in conformity with § 317 German Commercial Code (HGB) and the EU Financial Statement Auditing Regulation and in compliance with the German principles laid down by the Institute of Auditors (IDW) will always reveal a material false representation. False representations may be the result of infringements or inaccuracies and are seen as material if it could be sensibly anticipated that they, either singly or taken together, will influence the commercial decisions taken by the intended recipients on the basis of these separate financial statements and management report.

During the audit, we exercise an obligatory level of discretion and maintain a critical basic attitude. Furthermore,

- we identify and assess the risks of material – intended or unintended – false representations in the separate financial statements and management report, plan and conduct audit actions as a response to these risks and obtain audit evidence, which is sufficient and suitable for serving as the basis of our audit opinions. The risk that material false representations will not be revealed is greater with infringements than with inaccuracies because infringements may involve fraudulent collusion, falsifications, intended incomplete statements, misleading representations or the setting aside of internal controls;

- we gain an understanding of the internal control system relevant for auditing the separate financial statements and of the relevant arrangements and measures for auditing the management report in order to plan auditing actions which are appropriate under the given circumstances, though not with the aim of issuing an audit opinion on the efficacy of these systems

- we assess the appropriateness of the accounting methods used by the legal representatives and the acceptability of the estimated values presented by the legal representatives and the associated information.

- we draw conclusions on the appropriateness of the accounting principles applied by the legal representatives for continuation of the corporate activity and, on the basis of the auditing evidence obtained, whether there is material uncertainty in connection with events or circumstances which may throw significant doubt on the ability of the company to continue its corporate activity. If we come to the conclusion that there is material uncertainty, we will be obliged to draw attention in the audit certificate to the associated information in the separate financial statements and in the management report or, if such information is inappropriate, to modify our audit opinion. We draw our conclusions on the basis of the auditing evidence obtained up to the date of our audit certificate. Future events or circumstances may however cause the company to be unable to continue the corporate activity.

- we assess the overall presentation, the structure and the content of the separate financial statements including the information and whether the separate financial statements present the underlying business events and occurrences in such a way that the separate financial statements present a picture reflecting the actual circumstances of the asset, finance and earnings situation of the company in compliance with the IFRS, as applicable in the EU, and the German statutory regulations applicable in addition under § 315e (1) HGB.

- we assess conformity of the management report with the separate financial statements, its compliance with the law and the picture conveyed by it of the company's situation.

- we conduct audit actions in accordance with the future-orientated information in the management report presented by the legal representatives; on the basis of sufficient and suitable audit evidence we reproduce the significant assumptions taken as their basis by the legal representatives for their future-orientated information and assess the proper derivation of the future-orientated information from these assumptions. We do not issue an independent audit opinion on either the future-orientated information or the underlying assumptions. There is a considerable unavoidable risk that future results will differ materially from the future-orientated information.

With those responsible for monitoring, we discuss, among other matters, the planned scope and scheduling of the audit and the significant audit observations including any defects in the internal control system which we note during our audit.

We give a declaration to those responsible for monitoring that we have maintained the relevant independence conditions and discuss with them all the relations and other facts about which it may be sensibly assumed that they have an effect on our independence and have taken precautionary measures in this respect.

Of the facts which we have discussed with those responsible for monitoring we determine which facts have the greatest significance for the current reporting period in the audit of the separate financial statements and which therefore are the most important auditing facts. We describe these facts in the audit certificate, unless laws or other legal regulations exclude the publication of the facts.

Other statutory and other legal requirements

Other information under Article 10 EU-APrVO

- We were selected as auditors of the financial statements by the General Shareholders' Meeting on 8 March 2018. We were appointed by the Supervisory Board on 17 July 2018. We have been working without interruption since the 2013 financial year as auditors of the financial statements of Deutsche Konsum REIT-AG.

- We declare that the audit opinions contained in this audit certificate harmonise with the additional report to the audit committee under Article 11 EU-APrVO (audit report).

Responsible auditor

The auditor responsible for the audit is Mr. Torsten Fechner.

Berlin, dated 11 December 2018

DOMUS AG
Auditing company
Tax consultancy company

Prof. Dr. Hillebrand
Auditor

Fechner
Auditor

Declaration of compliance with the requirements of the REITG

In connection with the annual financial statements as at 30 September 2018 the Management Board issues the following declaration of compliance with the requirements of the German REIT act (REITG):

Section of German REIT act	Regulation	Date	DKR	DKR REIT criteria fulfilled
§ 11 (1)	Freefloat of shares > 15 %	31/12/2017	32.82	Yes
§ 11 (2)	No investor holds > 10 % of the shares	30/09/2018	–	Yes
§ 12 (2a)	Immovable assets of at least 75 % of all assets	30/09/2018	98,3 %	Yes
§ 12 (3a)	At least 75 % of the income is generated by immovable assets	30/09/2018	100,0 %	Yes
§ 13	Dividend distribution of > 90% end result according to German GAAP	30/09/2018	99%	Yes
§ 14	Exclusion of real estate trading	30/09/2018	< 0,1 %	Yes
§ 15	Equity of at least 45 %	30/09/2018	50,1 %	Yes
§ 19	Composition of income in terms of income subject to and not sucject to income tax	30/09/2018	n/a	Yes

Regarding the minimum freefloat of shares as at 31 December 2017 we notified the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) of this by way of letter dated 13 April 2018. The declaration of the Management Board is under reserve until approval by the auditor which will occur presumably in January 2019.

Deutsche Konsum REIT-AG
Potsdam, 5 December 2018

The Management Board

Rolf Elgeti	Alexander Kroth	Christian Hellmuth
CEO	CIO	CFO

Photo: Local retail centre Bergen
Harburger Straße 30, 29303 Bergen

Photo: Hypermarket Plauen
Morgenbergstraße 41, 08525 Plauen

Financial calendar

18/12/2018
Publication of the final annual statements/ annual financial report for the financial year 2017/2018

14/02/2019
Publication of the quarterly statement for the first quarter of 2017/2018 financial year

21/03/2019
Annual General Meeting, Berlin

15/05/2019
Publication of the half-yearly financial report of 2018/2019 financial year

14/08/2019
Publication of the quarterly statement for the third quarter of 2018/2019 financial year

18/12/2019
Publication of the final annual statements/ annual financial report for the financial year 2018/2019

For detailed information please visit the menu item „Financial Calendar“ in the Investor Relations section of the website at https://www.deutsche-konsum.de/en/.

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