ANNUAL REPORT 2019

GATEWAY
REAL ESTATE

AT A GLANCE

—

Key Financial Indicators

in € thousand	2019	2018
Financial performance indicators		
Revenues	94,442	18,568
Gross profit	413,201	82,436
EBIT adjusted	158,861	73,309
EBT	131,804	41,665
Consolidated profit	126,975	33,248
Earnings per share	0.69	0.22
Financial position and liquidity ratios		
Total assets	1,039,965	798,616
Equity	325,991	148,425
Equity ratio	31.3%	18.6%
Cash and cash equivalents	216,045	73,931
Net financial debt	405,774	519,318
Leverage ratio (net financial debt/EBIT adjusted)	2.6	7.1
Cash flows from operating activities	–216,205	–64,491
Portfolio indicators		
Average gross development volume (GDV) in € billion	5	4
Number of projects (as at 31.12.)	24	42

OVERVIEW OF THE FISCAL YEAR 2019

Gateway Real Estate AG closes the fiscal year 2019 with **the best business performance in company history**

EBIT adjusted rises to

€158.9 million

in the fiscal year 2019

Average **gross development volume (GDV)** amounts to

€5 billion

in 2019

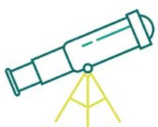
Earnings per share amounts to

€0.69

in 2019

Sales volume in 2019

€1 billion



Company guidance for 2019 significantly **exceeded**

ABOUT US

GATEWAY REAL ESTATE AG, TOGETHER WITH ITS SUBSIDIARIES, IS ONE OF THE LEADING LISTED REAL ESTATE DEVELOPERS WITH A FOCUS ON COMMERCIAL REAL ESTATE. IT IS SPECIALIZED IN THE DEVELOPMENT AND THE SUBSEQUENT SALE OF PROPERTIES, AS WELL AS THE ACQUISITION AND LONG-TERM LEASING OF COMMERCIAL PROPERTIES AS YIELD INVESTMENTS. IN PARTICULAR, WE FOCUS ON THE DEVELOPMENT OF OFFICE PROPERTIES AND INNER-CITY COMMERCIAL BUILDINGS IN GERMANY'S TOP 7 CITIES AND SELECTED HIGH-GROWTH REGIONS.

IN TERMS OF DEVELOPMENT, GATEWAY REAL ESTATE AG AND ITS SUBSIDIARIES COVER THE VALUE CHAIN FROM THE ACQUISITION OF LAND AND PROJECTS THROUGH DEVELOPMENT AND CONSTRUCTION TO THE SALE OF THE PROPERTIES. IN ADDITION, WE HAVE AN EXCELLENT NETWORK AND ESTABLISHED PARTNERSHIPS. THIS ENABLES US TO GENERATE ATTRACTIVE RETURNS FOR OUR SHAREHOLDERS.

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Average gross development volume (GDV) amounts to in 2019

€ 5 billion

€ 158.9 million

EBIT adjusted

€ 0.69

earnings per share

Tobias Meibom

Manfred Hillenbrand

MANFRED HILLENBRAND
Surveyor for land, rents and leases and Master of Corporate Real Estate
CEO

Member of the Management Board (initial appointment in 2016) and responsible for operations, acquisitions and portfolio optimization

More than 25 years of real estate experience in the commercial investment sector; transaction volume of more than €5 billion

TOBIAS MEIBOM
Master of Business Administration and tax consultant
CFO

Member of the Management Board (initial appointment in 2011) and responsible for finance, investor relations, financing and taxes

More than 20 years of real estate experience

Dear Shareholders, dear Ladies and Gentlemen,

we look back on a fiscal year 2019 which was very successful for Gateway Real Estate AG, a year in which we achieved a lot of milestones. We succeeded in advancing the strategic positioning of Gateway Real Estate AG as one of the leading exchange-listed developers of commercial properties. In this context, we have focused primarily on the development of office properties in the top 7 cities of Germany as well as in selected high-growth regions. In addition, the existing business of managing and developing our standing asset portfolio of commercial real estate is continued successfully.

In the past fiscal year, we were able to acquire additional attractive development projects, sold both standing real estate properties and development projects, completed the first successful German initial public offering (IPO) of 2019 and paid an attractive dividend to our shareholders. Before we go into detail, we would first like to explain the figures underlining our positive business development:

EBIT adjusted, which is a key financial indicator for us and represents the operating profit plus the result from investments accounted for using the equity method, rose to €158.9 million in the fiscal year 2019. Thus, the result significantly exceeded our own forecast of more than €130 million. Earnings before taxes (EBT) amounted to €131.8 million in the fiscal year 2019 and was also significantly above our communicated expectation of between €105 million and €110 million. Consolidated profit (earnings after tax) amounted to €127.0 million, corresponding to earnings per share of €0.69.

> "Gateway Real Estate AG has strengthened its development activities and secured promising development sites."
>
> — Manfred Hillenbrand, CEO

The major contributors to this success were the sales we completed during the past fiscal year. We have substantially trimmed down our standing asset portfolio and sold single properties in Bochum, Siegen and Duesseldorf as well as a large property portfolio consisting of 21 commercial properties for a total amount of €242 million to a special fund of German pension schemes. In addition, we successfully sold various development projects. This refers to three projects in Cologne, Frankfurt and Wiesbaden as well as all development projects that we do not include in our financial statements via full consolidation, but only under the equity method. As a result of these measures, we successfully implemented and greatly optimized our company strategy – focusing on project developments. Further highlights include the forward sales of two development projects in Cologne and Duesseldorf, where we will receive the purchase price in instalments already during the implementation of the projects.

In addition to the sales transactions, we were also able to secure attractive development projects. For example, we expanded our activities in Berlin through the purchase of three further development sites; as a result, approximately 29 per cent of our overall portfolio, measured by gross development volume (GDV), is now attributable to Berlin. However, Gateway Real Estate AG intensified its development activities not only in Berlin but also in other attractive locations, and has secured promising development sites. In 2019, we acquired the former Osram production site in Augsburg to implement a quarter development. Also, we managed to secure for Gateway Real Estate AG the new IBM technology campus near Stuttgart where we are developing a property with 40,000 sqm. A long-term rental agreement has already been concluded with IBM. After the purchases and sales and the portfolio optimization in 2019, GDV – i.e. the gross value of all of our secured development projects – amounted to around €4.2 billion as of year-end 2019.

In April 2019, Gateway Real Estate AG was able to carry out an uplisting to the quality segment "Prime Standard" of the regulated market of the Frankfurt Stock Exchange, thus making it the first successful German IPO in the year 2019. On the one hand, the IPO strengthened the Company's equity position, on the other hand, the proceeds were used for the repayment of high-interest loans as well as for the new acquisitions mentioned above.

"The IPO strengthened the company's equity capital and the inflow of funds was used to repay high-interest loans and for new acquisitions."

— Tobias Meibom, CFO

We were particularly excited about meeting our shareholders in August 2019 at the first Annual General Meeting since the change to the Prime Standard of the Frankfurt Stock Exchange and about talking directly with them. The proposal of a dividend payment of €0.10 per share for the fiscal year 2018 was approved by a large majority of our shareholders. Thanks to the very good company development in 2019, we will propose to this year's Annual General Meeting to distribute a dividend of even €0.30 per share for the fiscal year 2019.

We believe that the Company is well positioned, and the Group's pipeline is very strong due to the large volume of purchases made in 2019. However, the outbreak of the corona pandemic led to radical changes in social and business life, and the current situation of the economy and the society is dominated by large uncertainties. Against this backdrop, we cannot yet finally estimate the extent and the effects of the corona pandemic on the business performance in 2020. Like most of the companies, GATEWAY observes the current developments very closely at the moment, analyzes the circumstances, risks and opportunities within the framework of the implemented risk management system and manages its decisions based on the results. We will issue a forecast for 2020 as soon as this is reasonably possible.

We sincerely thank you, dear shareholders, for your loyalty to our Company. The same applies to our business partners: our Company's positive development as shown above would not have been possible without their close and constructive collaboration. We would like to thank you very much for your support. A very big thank you goes to all the Group's employees who were even more challenged than in the years before in light of the Company's realized growth.

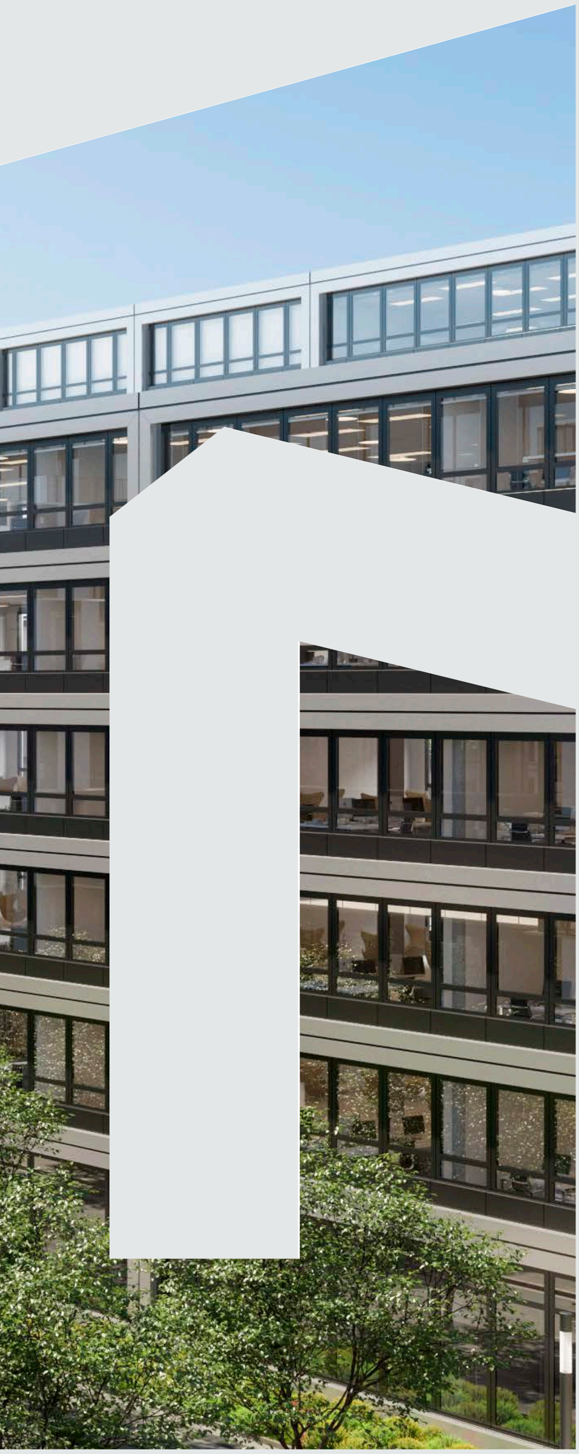
We are looking forward to continuing our good and trusting cooperation in 2020 and to making the next step on our journey together with you.

Frankfurt, March 30, 2020

Manfred Hillenbrand

Tobias Meibom

COMPANY PROFILE



29

%

of gross development volume (GDV) in Berlin

36

%

of gross development volume (GDV) in Bavaria

BUSINESS MODEL

GATEWAY FOLLOWS A HOLISTIC BUSINESS MODEL COVERING THE ENTIRE VALUE CHAIN.

Gateway Real Estate AG (in the following also referred to as "GATEWAY", "Company" or "Group") is one of the leading real estate developers. The focus of the listed company is on developing real estate for the commercial sector, in particular office properties and inner-city commercial buildings in Germany's top 7 cities and selected high-growth regions. Apart from the prioritized implementation of new buildings, our range of services also includes revitalization and conversion of buildings.

The Company's strategy is to sell the major part of the properties through forward sales to institutional investors. A minor part is held by GATEWAY as lessor. The existing business of portfolio management of commercial real estate and project development of existing properties is continued, which, in addition to sustainable cash flow generation through sales and over the course of construction activities of the development projects, results in stable cash flows from rental revenues. The development business as our growth driver is additionally fueled by sales of standing assets.

GATEWAY follows a holistic approach for project development which covers the most essential steps in the value creation chain of a development project. These steps include, among others, the acquisition of land and projects, planning and management of the development process, the sale of properties as well as offering assets and property management following the completion of a development project. The most significant steps in detail are as follows:

IDENTIFICATION, PROCUREMENT AND ACQUISITION

- MARKET RESEARCH
- BUSINESS PLANNING AND DUE DILIGENCE
- LAND ACQUISITION

PLANNING AND MANAGEMENT

- COST ESTIMATION AND BUDGET CONTROL
- COORDINATION OF ARCHITECTS, ENGINEERS AND INTERIOR DESIGNERS
- PERMITS, LICENCES, AUTHORISATIONS AND ACCOUNTING

MARKETING AND SALES

- LETTING
- CASH FLOW OPTIMIZATION AND RISK REDUCTION THROUGH FORWARD SALES TO INSTITUTIONAL INVESTORS
- ADVERTISING AND COMMUNICATION
- B2B SALES

CONSTRUCTION ACTIVITIES

- STRICT CONTROLLING OF COSTS AND DEADLINES BY DEDICATED PROJECT MANAGERS
- STANDARD PACKAGE AND INDIVIDUAL CONTRACTS

ASSET AND PROPERTY MANAGEMENT

- VALUE GENERATION THROUGH ACTIVE ASSET MANAGEMENT
- RENEGOTIATION AND SUCCESSFUL EXTENSION OF CONTRACTS WITH MAIN TENANTS

HIGHLIGHTS 2019

GATEWAY WAS ABLE TO REACH SIGNIFICANT MILESTONES IN THE FISCAL YEAR 2019 – FROM THE INITIAL PUBLIC OFFERING IN THE PRIME STANDARD TO THE SUCCESSFUL EXPANSION OF THE PROJECT PORTFOLIO.

The year 2019 was characterized by major highlights for GATEWAY. After successfully having paved the way in 2018 and after the takeover of Development Partner AG, the beginning of the reporting year was dominated by the intense preparations for the uplisting to the regulated market of the Frankfurt Stock Exchange (Prime Standard). GATEWAY and Development Partner were combined to form the GATEWAY Group as it is today – one of the leading developers of commercial real estate in Germany.

While GATEWAY's goals were affected by a volatile market environment and uncertainties on the global capital markets in the second half of 2018, the opportunity arose in 2019 to become the first successful German initial public offering to the Prime Standard in the past fiscal year. This was preceded by a successful capital increase. On April 10, 2019, GATEWAY placed 16,895,939 new shares from the capital increase announced on March 20, 2019, at a placement price of €4.00 per share within the context of an international private placement with institutional investors. The transaction led to a significant increase in the free float. The total issue volume of the capital increase amounted to approximately €180 million.

The year 2019 was defined by a large expansion of our development portfolio through the acquisition of a number of large plots of land for development projects. This included, among others, the IBM technology campus near Stuttgart (with a plot area of 69,000 sqm), the Campus Park Munich, four office development projects in Berlin as well as the acquisition of the former Osram production site in Augsburg, where we plan to develop an urban quarter on a plot area of more than 120,000 sqm. More details to the individual – new and existing – developments can be found in the following chapter "The GATEWAY project portfolio".

> "With the additional capital and the uplisting to the Prime Standard, we have laid the financial foundation for accelerated growth."
>
> — Manfred Hillenbrand on the successful capital increase

One of the most prominent highlights in 2019 for GATEWAY was the sale of a standing asset portfolio of 21 commercial and retail properties for a selling price of around €242 million; the sale was initiated in August 2019 and completed in the fourth quarter of 2019. Other planned sales of standing assets, such as in Duesseldorf, Bochum and Siegen, contributed to our successful results in 2019. One standing asset in Hamburg was also sold in the fourth quarter of 2019, with the transfer of benefits and burdens expected for the current fiscal year.

“In the past financial year, the opportunity arose for us to become the first successful German IPO in the Prime Standard in 2019.”

— Tobias Meibom about the IPO

Moreover, one project development in Frankfurt am Main was sold in the fourth quarter, and the transfer of benefits and burdens also occurred in December 2019. In addition, the Group signed two forward sales agreements for one development project in Duesseldorf and another one in Cologne. Finally, 24 project developments accounted for using the equity method were sold in December. The transfer of benefits and burdens also occurred in December 2019.

Another notable highlight of 2019 was, in our view, the resolution adopted by the Annual General Meeting to distribute a dividend of €0.10 per share, which led to a payout of approximately €18.7 million to holders of shares entitled to dividends in August 2019. The Company intends to continue this attractive dividend policy, based on the Company’s success. In 2020, GATEWAY plans to propose to the Annual General Meeting the payment of a dividend of €0.30 per share, as announced by the Company in March 2020 (for more information, please see chapter “Annual General Meeting and dividend payment”).

04/2019

Full placement of new shares from capital increase

Successful IPO in Frankfurt (Prime Standard)

04/2019

Securing the IBM technology campus near Stuttgart as a lighthouse project

08/2019

Announcement of new rental and building project for Leipzig University of Applied Sciences (HTWK) + 196 student accommodations

42,400 sqm

€ 450 million

08/2019

Sale of the standing asset portfolio to a German special fund for a price of €242 million

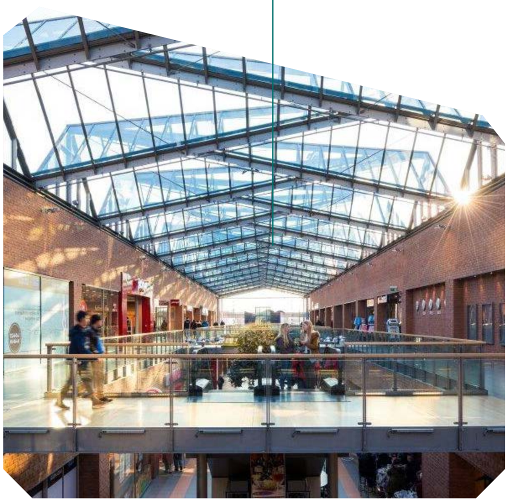
09/2019

Acquisition of three office development projects in Berlin with a volume of more than €450 million

12/2019

Acquisition of former Osram production site in Augsburg with a gross development value of €800 million

Successful sales of various project developments



THE GATEWAY PROJECT PORTFOLIO

IN 2019, GATEWAY IMPRESSED BY CONTINUING ON ITS GROWTH PATH IN THE DEVELOPMENT SEGMENT THROUGH THE ACQUISITION OF KEY PLOTS OF LAND FOR LARGE DEVELOPMENT PROJECTS.

GATEWAY has a regionally diversified development pipeline with projects located in Germany's strongest growth regions.

MEDIASPREE, BERLIN
Type of use office
Usable area approx. 15,000 sqm

In mid-2019, GATEWAY secured another top plot of land for the development of an office building at the Berlin-Mediaspree location, after office development space had been acquired with the "Elements" project on the last available plot of land with a direct connection to the river Spree between Michaelkirchbruecke and Schillingbruecke. On a plot of land of approximately 3,550 sqm, located at the corner of Helen-Ernst-Strasse/Marianne-von-Rantzau-Strasse, GATEWAY will develop a high-quality office building with a floor space of approximately 15,000 sqm.

KENNEDYDAMM, DUESSELDORF
Type of use office and marginal use
Usable area approx. 42,500 sqm

Located directly on Kennedydamm, the new "GATEWAY Duesseldorf" office building is a lighthouse project and will shape the city's silhouette. Within the framework of an architectural-city planning competition and in coordination with the City of Duesseldorf, a winning design was chosen that is characterized by its modern architectural language as well as by the creation of innovative office environments with marginal uses such as gastronomy, local supply and hotel. The development of the plot of land – which currently accommodates the so-called Kennedydamm-Center that was built in 1972 and has been used by the Ministry for the Environment of the German federal state of North Rhine-Westphalia – has a special significance in terms of urban planning since the project is located at one of the busiest main roads leading into the city, with an extraordinary visibility and presence. GATEWAY is currently in the process of obtaining planning permission.

IBM TECHNOLOGY CAMPUS NEAR STUTTGART

Type of use office
Usable area approx. 42,400 sqm

In April 2019, GATEWAY secured a plot of land in Ehningen near Stuttgart of approximately 69,000 sqm on which various business units of the Böblingen and Ehningen branches will be merged by the global IBM Group. Upon completion, a workforce of circa 3,500 employees will be working for the technology group in Ehningen.

RUDOLFPLATZ, COLOGNE

Type of use office, retail

Usable area approx. 9,400 sqm (office: 3,000 sqm, retail: 6,400 sqm)

On Rudolfplatz in Cologne, GATEWAY develops a premium commercial building in a prime location, close to the historical Hahnentorburg. Rental agreements for the retail space have already been concluded with prestigious tenants. After work in the run-up to construction activities was successfully completed at the end of 2019, GATEWAY will start construction activities in 2020 and plans to handover the retail space in mid-2021 and to complete the entire project in 2022.

FORMER OSRAM FACILITIES, AUGSBURG

Type of use mixed-used city quarter
Plot area approx. 120,000 sqm

In December 2019, GATEWAY acquired the former Osram production site at Berliner Allee in Augsburg and, in cooperation with Aventin Real Estate GmbH, plans to develop a mixed-use city quarter. The property is an inner-city area at Berliner Allee, directly located at the river Lech. In the coming years, a new city quarter is planned to be erected on the area of approximately 120,000 sqm. The background for this development project is an architectural-city planning competition which is expected to be held in cooperation with the City of Augsburg in the first quarter of 2020. The land-use plan procedure is intended to be initiated subsequently. The project development volume for the realization of the urban district development amounts to approximately €800 million.

THE MANAGEMENT TEAM

MANAGEMENT BOARD

The Management Board is responsible for Gateway Real Estate as a Group. Our Board members have many years of industry experience in project development, asset management, real estate portfolio management and finance. Our Executive Management has been responsible for the Group as a whole for many years and has been instrumental in expanding our project portfolio.

As of December 31, 2019, the Management Board of Gateway Real Estate AG had two members.

Manfred Hillenbrand
Chief Executive Officer (CEO)

Responsible for: Strategy, Acquisitions, Portfolio Management and Development

Manfred Hillenbrand, Master of Corporate Real Estate (MCRS), has more than 25 years of real estate experience in the commercial investment sector and worked for many years as a founder and partner in large international companies and German real estate companies. He accompanied real estate transactions of well over € 5 billion in his professional career. Manfred Hillenbrand is an expert for real estate, rents and leases. He was first appointed to the Management Board of Gateway Real Estate AG in 2016.

Tobias Meibom
Chief Finance Officer (CFO)

Responsible for: Finance, Financing, Taxes, Investor Relations

Tobias Meibom has more than 15 years of experience in the real estate industry and in the areas of finance, due diligence and taxes. He holds a master's degree in Business Administration (Diplom-Kaufmann) and worked at business law firm Nörenberg Schröder as a tax consultant and auditor for various listed companies. Afterwards, he spent many years as Director Finance at the listed TAG Immobilien AG and subsequently in its operating subsidiaries as a member of the management boards (JUS Aktiengesellschaft für Grundbesitz, AGP AG). After a board membership in a company from the renewable energy sector, Tobias Meibom was first appointed Chief Financial Officer of Gateway Real Estate AG in 2011.

SUPERVISORY BOARD

The Supervisory Board of Gateway Real Estate AG, which is the Company's controlling body, combines many years of business experience and a strong real estate expertise. In accordance with the Articles of Association, GATEWAY's Supervisory Board consists of five members.

Jan Hendrik Hedding and Marcellino Graf von und zu Hoensbroech were elected as members of the Supervisory Board of Gateway Real Estate AG at the Company's Annual General Meeting on August 21, 2019. Detailed information regarding the previous experience of the two new Supervisory Board members can be found in the invitation to the Annual General Meeting 2019, which is available on the Company's website. Mr. Jan Hedding is, inter alia, Chief Operating Officer (COO) at Sayano Family Office AG, the family office of the Ketterer family, whereas Marcellino Graf von und zu Hoensbroech does not hold any positions at Sayano Family Office AG and also does not hold any other interest in this company. Accordingly, as of December 31, 2019, GATEWAY's entire Supervisory Board consisted of the following experienced experts:

Norbert Ketterer
Chairman of the Supervisory Board

Thomas Kunze
Deputy Chairman of the Supervisory Board

Ferdinand von Rom
Member of the Supervisory Board

Jan Hendrik Hedding
Member of the Supervisory Board

Marcellino Graf von und zu Hoensbroech
Member of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

The year 2019 was entirely dominated by the successful combination of Gateway Real Estate AG and Development Partner AG to become the GATEWAY Group. The Company not only made the first successful initial public offering (IPO) of the year to the Prime Standard of the Frankfurt Stock Exchange, but also achieved significant milestones as regards its further growth. This includes the significant capital increase in the immediate run-up to the IPO as well as the considerable expansion of the development portfolio by a wide range of newly acquired land for further development projects, the successful completion of the sale of a comprehensive standing asset portfolio as well as scheduled additional sales of individual properties. In doing so, the Company has refined its profile and established material foundations for a continued successful development in the years to come.

TRUSTING COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In the fiscal year 2019, the Supervisory Board focused on fulfilling its duties imposed upon it by legal regulations, the German Corporate Governance Code and Gateway Real Estate AG's Articles of Association with utmost care. In particular, the Supervisory Board advised the Management Board in governing the Company on a regular basis and continuously monitored its activities. The cooperation between these two corporate bodies was always characterized by a trusting and constructive atmosphere.

The Management Board informed the Supervisory Board regularly and comprehensively both in writing and verbally about the Company's business policy, strategy, business development and position of the Company and the resulting risks and opportunities as well as about corporate planning and risk management. In this context, above all, deviations between actual and planned development were timely explained and significant business transactions were coordinated with the Supervisory Board. In addition, the members of the Supervisory Board, in particular its Chairman, maintained regular contact with the Management Board even outside of Supervisory Board meetings in order to exchange information about topics of significance for the Company, in particular about its strategy and business development.

The Supervisory Board was involved early and directly in all transactions subject to approval as well as in decisions of fundamental importance for the Company.

SUPERVISORY BOARD MEETINGS

In fiscal year 2019, the Supervisory Board held a total of five meetings. The subject matter of the meetings referred to current business development as well as various significant individual matters as well as transactions subject to approval. Moreover, resolutions were passed in eight cases by way of circulation procedure, while resolutions were passed via conference calls in two cases.

During the first meeting on **February 26, 2019**, the members of the Supervisory Board discussed the draft of the rules of procedure of the Management Board, including a schedule of responsibilities, and unanimously resolved to adopt both sets of rules with immediate effect.

In the meeting on **February 27, 2019**, the Supervisory Board discussed and approved the annual financial statements of Gateway Real Estate AG as of December 31, 2018 and the auditor's report as well as the consolidated financial statements of the GATEWAY Group as of December 31, 2018 and the report of the Group auditor.

On **March 20, 2019**, the Supervisory Board decided to approve the proposal by the Management Board concerning an uplisting of the Company's shares and the partial utilization of the Authorized Capital 2018/I.

Another resolution was adopted by the Supervisory Board on **April 10, 2019**, pursuant to which the Supervisory Board approved the proposal of the Management Board to execute a capital increase partially utilizing Authorized Capital 2018/I and any associated changes in the Company's Articles of Association.

On **May 3, 2019**, the Supervisory Board adopted a resolution by way of a circulation procedure as regards the pre-approval of certain audit services.

In a meeting held on **July 5, 2019**, the Supervisory Board resolved to vote in favor of the resolution proposals made by the Management Board for the agenda of the Annual General Meeting of Gateway Real Estate AG on August 21, 2019. In this connection, the Supervisory Board proposed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Berlin, to be elected as auditor as well as Jan Hendrik Henning and Marcellino Graf von und zu Hoensbroech to be elected as further members of the Supervisory Board.

On **August 16, 2019**, by way of a circulation procedure, the Supervisory Board voted in favor of the purchase agreement regarding the sale of two interests held in property companies in the context of share deals and granted to the Management Board the required authorizations to conduct these transactions.

In its meeting on **August 21, 2019**, the Supervisory Board discussed the results of the Company's Annual General Meeting that had been held on the same day as well as strategic issues and aspects of the Group structure.

On **September 25, 2019**, the Supervisory Board resolved by way of a circulation procedure to vote in favor of an application of the Management Board to purchase a development land in Berliner Allee in Augsburg and to grant the authorizations required for this transaction.

On **October 15, 2019**, also by way of a circulation procedure, the Supervisory Board adopted the resolutions to approve the application of the Management Board to sell all of ImmVest Wolf's joint ventures in the residential developments area as well as a further application to enter into a joint venture with IMFARR Beteiligungs GmbH to jointly purchase a property in Offenbach-Kaiserlei.

On **December 4, 2019**, the Supervisory Board voted in favor of the Management Board's resolution to issue a fifth tranche of the 2016/2021 bond by way of a circulation procedure.

During the meeting on **December 4, 2019**, the Supervisory Board, together with the Management Board, resolved to propose to the Annual General Meeting in 2020 to pay a dividend of € 0.20 per share and discussed a number of current projects and transactions as well as issues regarding the Group's organization.

On **December 10, 2019**, the Supervisory Board resolved by way of a circulation procedure to recommend to the Company's Extraordinary General Meeting the appointment of Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as auditor based on a corresponding tender procedure and a corresponding vote of the Audit Committee.

By way of a circulation procedure, the Supervisory Board resolved on **December 27, 2019**, to vote in favor of the sale of shares in Projektentwicklung Taunusstraße 52–60 in Frankfurt GmbH.

SUPERVISORY BOARD COMMITTEES

Effective February 26, 2019, a Real Estate Committee, consisting of two Supervisory Board members, was established in connection with the adoption of the Management Board's rules of procedure. The members of the Real Estate Committee currently are Thomas Kunze and Norbert Ketterer.

In its meeting on December 4, 2019, the Supervisory Board followed the recommendation of the German Corporate Governance Code to establish an Audit Committee and appointed Jan Hendrik Hedding as its Chairman. The other members of the Audit Committee are Ferdinand von Rom and Thomas Kunze.

CORPORATE GOVERNANCE

The Supervisory Board continuously monitored and discussed the development of corporate governance within the GATEWAY Group. Comprehensive information is included in the corporate governance report (see Corporate Governance Report, p. 32). The corporate governance report also provides information about the structure and the level of the remuneration of the members of the Management Board and the Supervisory Board.

Management Board and Supervisory Board have adopted the joint declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz; AktG) after detailed discussions in relation to the requirements of the German Corporate Governance Code, as amended in 2019, and the implementation of such requirements. This declaration has been published as part of the corporate governance report as well as on GATEWAY's website under https://gateway-re.de/en/investor-relations/corporate-governance/declarations-of-compliance/ (German only)

AUDIT OF ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The auditor appointed by the Extraordinary General Meeting on January 20, 2020 – Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg – has audited the annual financial statements of Gateway Real Estate AG as well as the consolidated financial statements as of December 31, 2019, as prepared by the Management Board, including the respective management reports, and issued an unqualified audit opinion.

Any of these filings, including the Management Board's proposal on the appropriation of the net retained profit and the report on relationships with affiliated companies for the fiscal year 2019 pursuant to Section 312 AktG ("dependent company report"), were made available to the Supervisory Board and the Audit Committee in due time and were the subject of the meetings of the Audit Committee and the Supervisory Board on March 27, 2020; representatives of the auditor also participated in these meetings. The auditors presented the key audit matters and the material findings of their audit and discussed in more detail the particularly important audit matters and the audit procedures employed. The auditors were available to the members of the Audit Committee and the Supervisory Board for detailed discussions. No circumstances were identified that would indicate any partiality on the part of the auditor.

The Audit Committee presented to the Supervisory Board the material contents and findings of its preliminary audit and provided recommendations regarding the resolutions to be passed by the Supervisory Board. The Supervisory Board reviewed the annual and consolidated financial statements for the fiscal year 2019, the respective management reports and the proposal on the appropriation of the net retained profit made by the Management Board, and concurred with the findings of the audit conducted by the auditor. Based on its own review, the Supervisory Board determined that no objections have to be raised against the annual and consolidated financial statements and the respective management reports. According to the recommendation of the Audit Committee, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board. The annual financial statements of Gateway Real Estate AG were thus adopted.

PROPOSAL ON THE APPROPRIATION OF NET RETAINED PROFIT

In connection with the Management Board's proposal on the appropriation of net retained profit, the Audit Committee and the Supervisory Board have also discussed in detail the accounting policy and the financial planning. Based on its own review, the Supervisory Board followed the proposal of the Management Board to propose to the Annual General Meeting that the net retained profit for the fiscal year 2019 shall be used to distribute a dividend to the shareholders in the amount of € 0.30 per eligible share and to carry forward the remaining amount to new account.

REVIEW OF THE DEPENDENT COMPANY REPORT

In the fiscal year 2019, Gateway Real Estate AG was a dependent company of SN Beteiligungen Holding AG within the meaning of Section 312 AktG. Therefore, the Management Board of Gateway Real Estate AG has prepared a dependent company report which includes the following closing statement:

"We herewith declare in accordance with Section 312 (3) AktG that our Company has received an appropriate compensation as regards the legal transactions set out in the abovementioned report about relationships with affiliated companies, based on the circumstances of which we were aware at the point in time at which such legal transactions were entered into. There were no measures taken or refrained from upon the initiation or in the interest of SN Beteiligungen Holding AG and enterprises affiliated with this company."

The auditor issued the following unqualified audit opinion for the dependent company report:

"On the basis of our audit performed in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the Company's compensation with respect to the transactions listed in the report was not inappropriately high."

Based on its own review, the Supervisory Board followed the opinion of the auditor. The review did not give rise to any objections. Moreover, the Supervisory Board did not raise any reservations against the Management Board's closing statement in the dependent company report for the fiscal year 2019.

DISCLOSURE OF CONFLICTS OF INTEREST

In compliance with the German Corporate Governance Code, each member of the Management Board and the Supervisory Board shall disclose any conflicts of interest that may arise. In connection with the sales discussed in the Supervisory Board meetings on October 15, 2019 and December 27, 2019, Mr. Ketterer disclosed that he holds majority stakes in the respective buyer companies. In order to avoid conflicts of interest, Mr. Ketterer did not participate in the related consultations and resolutions passed by the Supervisory Board.

CHANGES IN THE SUPERVISORY BOARD

The Supervisory Board, which consisted of three members, including its Chairman, at the beginning of the fiscal year 2019, was enlarged by the resolution adopted by the Annual General Meeting on August 21, 2019, to appoint two further members, thus increasing the number of members to five, as prescribed by the Articles of Association. The two newly elected members of the Supervisory Board are Jan Hendrik Hedding and Marcellino Graf von und zu Hoensbroech. Accordingly, as of December 31, 2019, the Supervisory Board consisted of Norbert Ketterer (Chairman), Thomas Kunze (Deputy Chairman), Ferdinand von Rom, Jan Hedding and Marcellino Graf von und zu Hoensbroech.

By a letter dated March 16, 2020, Marcellino Graf von und zu Hoensbroech informed the Company's Management Board in accordance with the Articles of Association and in due time to resign from his Supervisory Board office effective April 30, 2020. The Supervisory Board very much regrets the retirement of Marcellino Graf von und zu Hoensbroech and is already looking intensively for a suitable successor.

In the name of the whole Supervisory Board, I wish to thank the members of the Management Board as well as all employees of the GATEWAY Group for their high level of commitment and their trusting and constructive collaboration during the fiscal year 2019.

Frankfurt am Main, March 2020
the Supervisory Board

Norbert Ketterer
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT AND CORPORATE GOVERNANCE STATEMENT OF GATEWAY REAL ESTATE AG

Gateway Real Estate AG attaches great importance to good corporate governance. In the following, Management Board and Supervisory Board jointly report about the Company's corporate governance in accordance with Section 3.10 of the German Corporate Governance Code, as amended on February 7, 2017. The remuneration report is also included in the corporate governance report. The corporate governance statement for the Company and the Group is part of the Group management report.

In the fiscal year 2019, the Management Board and the Supervisory Board have continued to elaborate on principles of good corporate governance. Prior to the IPO and thus before the change to the Prime Standard of the Frankfurt Stock Exchange, intensive discussions and deliberations took place between the Management Board and the Supervisory Board as regards the recommendations of the German Corporate Governance Code. Since Gateway Real Estate AG's listing on the regulated market (Prime Standard) of the Frankfurt Stock Exchange on April 12, 2019, the Company is obliged to issue an annual statement in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz; AktG) that it is or was in compliance with the recommendations of the Government Commission of the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex) published by the German Federal Ministry of Justice in the official section of the German Federal Gazette (Bundesanzeiger) and which recommendations were or are not applied and the reasons for this. The first declaration of compliance was adopted on January 22, 2020, and was made permanently accessible on the Company's website under: https://gateway-re.de/en/investor-relations/corporate-governance/declarations-of-compliance/ (German only)

There are no previous declarations of compliance of GATEWAY that are no longer applicable. If, in future, changes are made to the declaration of compliance adopted on January 22, 2020, GATEWAY will make accessible the no longer applicable declarations of compliance with the Code on its website.

Comment as regards the application of the German Corporate Governance Code ("GCGC" or "Code"), as amended on February 7, 2017: The Government Commission on the German Corporate Governance adopted a new version of the Code on December 16, 2019. The new Code was submitted to the German Federal Ministry of Justice and Consumer Protection for review and publication on January 23, 2020. The Code 2020 will come into force upon its publication in the electronic German Federal Gazette (*elektronischer Bundesanzeiger*) by the Ministry and will replace the then applicable Code, as amended on February 7, 2017. The Government Commission makes available the new Code prior to its effective date in order to enable companies and capital market participants to prepare themselves for the new recommendations and suggestions. The companies may opt, in their discretion, for early application of the new recommendations and suggestions in the sense of best practices. The GCGC version dated February 7, 2017, remains the basis for the declaration of compliance until the new Code is published in the Federal Gazette.

DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 AKTG

The Management Board and the Supervisory Board of Gateway Real Estate AG hereby declare pursuant to Section 161 AktG that since April 12, 2019, the Company has complied with the recommendations of the Code, as amended on February 7, 2017 (published on April 24, 2017, and published in an amended version on May 19, 2017) and will comply with them in future, save for the following deviations that are explained in more detail below:

1. **Section 3.8 of the Code:** The Code recommends to agree on a corresponding deductible in the D&O (directors' and officers' liability insurance) policy. This deductible shall cover at least 10% of the loss up to at least the amount of one and a half times the fixed annual remuneration of the Supervisory Board member. Gateway AG has waived such regulation. The Management Board and the Supervisory Board are of the opinion that a deductible is neither necessary nor suitable to improve the sense of responsibility and the motivation of the Supervisory Board members.

2. **Section 4.1.3 of the Code:** Pursuant to the recommendation of the Code, employees and third parties shall be given the opportunity to report, in a protected manner, suspected breaches of the law within the company ("**whistleblowing**"). The Management Board believes that the Company has an effective compliance management system even without establishing such a whistleblowing system since the Management Board and the Group legal department are closely integrated in the operating and legal units of Gateway Real Estate AG. Against this backdrop, the Management Board currently does not believe that establishing a formal whistleblowing system is necessary. The effort associated with introducing such a system is not reasonable in view of the potential benefits for the Company and stakeholders, particularly with respect to the Company's size, structure and business activities.

3. **Section 4.1.5, 5.1.2 and 5.4.1 of the Code:** The Code recommends to consider the principle of diversity when appointing the Company's executives and as regards the composition of Management Board and Supervisory Board and in particular to endeavor to achieve an appropriate consideration of women. The Management Board currently consists of two men and there are no female Management Board members standing for election. Nevertheless, the Supervisory Board holds a positive stance towards the principle of diversity. However, with respect to the Management Board, continuity represents a key criterion. In addition, the focus as regards new appointments of vacant executive positions in the Company is on the respective candidate's professional expertise and experience. Against this backdrop, the appointment of Management Board positions will not primarily focus on the principle of diversity. The same applies to the appointment of executive positions in the Company as well as to proposals for the appointment of Supervisory Board members.

4. **Section 4.2.3 of the Code:** Pursuant to Section 4.2.3 of the Code, the monetary remuneration of the Management Board members shall comprise fixed and variable components. In derogation from the Code recommendation, the members of the Management Board are not granted variable remuneration. However, both of the members of the Management Board hold shares in Gateway Real Estate AG to a considerable extent (cf. https://gateway-re.de/en/investor-relations/corporate-governance/managers-transactions/); therefore, they directly participate in the Company's development.

5. **Section 5.1.2 para. 2 sentence 3 of the Code:** The Company considers the specification of an age limit for Management Board members, as recommended by the Code, as unnecessary since reaching a certain age limit is no indication for the qualification of a member of the Management Board. Therefore, no age limit has been specified.

6. **Section 5.1.3 of the Code:** Against the backdrop of the young and expanding business activities of the Company and the number of its members, the Supervisory Board does not currently believe that it is necessary to adopt rules of procedure. As the Company and/or the Supervisory Board increase in size, the Supervisory Board will consider the preparation of rules of procedure.

7. **Section 5.3.1, 5.3.3 of the Code:** In derogation from the recommendation set out in Section 5.3.3 of the Code, the Supervisory Board has not established a Nomination Committee. The Supervisory Board is of the opinion that the Supervisory Board as a whole shall early deal with decisions such as the appointment or nomination of Management Board and/or Supervisory Board members.

8. **Section 5.4.1 of the Code:** In accordance with Section 5.4.1, the Supervisory Board shall determine concrete objectives regarding its composition and shall prepare a profile of skills and expertise for the entire Board and shall aim at fulfilling the overall profile when making proposals to the Annual General Meeting concerning new appointments. The Supervisory Board of Gateway Real Estate AG has not yet determined concrete objectives for its composition and has not prepared a profile of skills and expertise for the entire Board. Since there are currently no women in the Supervisory Board, the principle of diversity is also not complied with. In its election proposals for the Supervisory Board, the Supervisory Board so far has based its decisions solely on the individual professional and personal suitability of candidates. This is a tried-and-tested procedure in the view of the Supervisory Board.

9. **Section 7.1.2 sentence 3 of the Code:** In accordance with the recommendation set out in Section 7.1.2 sentence 3 of the Code, the consolidated financial statements and the Group management report shall be made publicly accessible within 90 days from the end of the fiscal year, while mandatory interim financial information shall be made publicly accessible within 45 days from the end of the reporting period. In contrast, the legal provisions require that the consolidated financial statements, including the Group management report, have to be published within four months from the end of the fiscal year, and that interim financial reports have to be published within three months after the end of the reporting period. Pursuant to the Stock Exchange Regulations of the Frankfurt Stock Exchange for the Prime Standard, quarterly statements shall be transmitted to the Management Board of the Frankfurt Stock Exchange within two months from the end of the reporting period. The Company has been in compliance with these terms since the Management Board deems these terms as appropriate. The Company may publish reports earlier if the internal procedures allow such earlier publication.

Frankfurt am Main, January 22, 2020
Gateway Real Estate AG
Management Board and Supervisory Board

DISCLOSURES REGARDING CORPORATE GOVERNANCE PRACTICES

WORKFLOWS AND COMPOSITION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

Dual management structure

A dual board management system is required by law for German stock corporations. Gateway Real Estate AG has a dual management structure consisting of the governing bodies Management Board and Supervisory Board. Management and monitoring structures are therefore clearly separated. Apart from the legal requirements and the recommendations of the German Corporate Governance Code, authorities, rights and obligations of Gateway Real Estate AG's Management Board and Supervisory Board are set out in the Company's Articles of Association, which are accessible on the Company's website. Moreover, obligations, responsibilities and workflows of the Management Board as well as the collaboration with the Supervisory Board are prescribed in the Management Board's rules of procedure in its current version dated February 26, 2019. The Supervisory Board currently does not have rules of procedure (see the comments on the declaration of compliance with the GCGC, Section 5.1.3).

The Management Board manages the business operations of the Company on its own responsibility with the aim of a sustainable value creation and in the interest of the Company, i.e. taking into consideration the interests of shareholders, employees and other groups affiliated with the Company (stakeholders). The Management Board and the Supervisory Board cooperate based on a trusting relationship for the benefit of the Company. The Management Board determines the Company's business policy and develops the strategic orientation of the Company, coordinates it with the Supervisory Board, and ensures its implementation. The management is divided into business units based on a defined schedule of responsibilities, which in turn are allocated to the members of the Management Board. Adoption, amendment and revocation of the schedule of responsibilities require a resolution to be made by the Supervisory Board. Each Management Board member reports to the Management Board about its business areas or about measures, transactions and developments in the respective business areas that are material for the Company. In addition, the Management Board informs the Supervisory Board on a regular basis in a timely and comprehensive manner about the planning of business development, the risk situation, risk management and compliance. Reporting shall be made as early as possible.

In 2019 and up until today, the Management Board has consisted of two members.

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SCHEDULE OF RESPONSIBILITIES PURSUANT TO SECTION 2 PARA. 1 OF THE RULES OF PROCEDURE

Name and function	Date of appoint-ment	End of term of office	Responsibilities
Manfred Hillenbrand, CEO	05.11.2018	31.12.2020	Chairman of the Management Board; Real Estate, Strategy, HR
Tobias Meibom, CFO	05.11.2018	31.12.2020	Finance, Legal, Investor Relations, IT

The Supervisory Board appoints, supervises and advises the Management Board and is directly involved in key decisions affecting the Company. In accordance with the German Corporate Governance Code, the Supervisory Board shall include what it considers to be an appropriate number of independent members, thereby taking into account the shareholder structure. The Supervisory Board of Gateway Real Estate AG consists of five members pursuant to the Articles of Association. Jan Hendrik Hedding and Marcellino Graf von und zu Hoensbroech were appointed members of the Supervisory Board of Gateway Real Estate AG at the Annual General

Meeting on August 21, 2019; the Supervisory Board was thus enlarged from three to five members, i.e. to the size prescribed by the Articles of Association.

The Supervisory Board has since consisted of the following members:

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Name	Function	Date of appointment	End of term of office
Norbert Ketterer	Chairman of the Supervisory Board	24.08.2016	Annual General Meeting 2021
Thomas Kunze	Deputy Chairman of the Supervisory Board	24.08.2016	Annual General Meeting 2021
Ferdinand von Rom	Member of the Supervisory Board	22.08.2018	Annual General Meeting 2021
Jan Hendrik Hedding	Member of the Supervisory Board	21.08.2019	Annual General Meeting 2021
Marcellino Graf von und zu Hoensbroech	Member of the Supervisory Board	21.08.2019	Annual General Meeting 2021

The members of the Supervisory Board are elected by the shareholders during the Annual General Meeting.

COMMITTEES

Pursuant to the recommendations of the German Corporate Governance Code, the Supervisory Board shall establish an audit committee that addresses in particular the monitoring of the accounting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the audit and compliance. The audit committee submits to the Supervisory Board a reasoned recommendation for the appointment of the auditor, which comprises at least two candidates if the audit engagement is put out to tender. The audit committee monitors the auditor's independence and concerns itself with the additional services rendered by the auditor, the issuance of the audit engagement, the determination of key audit areas and the fee agreement.

Effective as of the Supervisory Board meeting on December 4, 2019, the Supervisory Board of Gateway Real Estate AG followed this recommendation and established an Audit Committee and appointed Jan Hendrik Hedding as its Chairman. The other members of the Audit Committee are Ferdinand von Rom and Thomas Kunze.

Already before the Company's IPO and the change to the Prime Standard of the Frankfurt Stock Exchange, a Real Estate Committee had been in place, consisting of two members of the Supervisory Board. The Real Estate Committee was established on February 26, 2019, upon the adoption of the rules of procedure for the Management Board. The members of the Real Estate Committee currently are Thomas Kunze and Norbert Ketterer. Unless, pursuant to the Management Board's rules of procedure, the governing body as a whole has to be involved, the Chairman of the Real Estate Committee has to be informed in a timely manner about each intended sale of real estate and development projects. Subsequently, the Real Estate Committee approves or rejects the transaction concerned by a simple majority of the votes cast.

DIVERSITY CONCEPT

In accordance with Section 76 para. 4 as well as Section 111 para. 5 AktG of the German Stock Corporation Act (*Aktiengesetz,* AktG), GATEWAY is obliged to determine target figures for the share of women and terms for achieving such target figures. The target figure for the share of women in the Supervisory Board was set at 20 per cent until December 31, 2024. The target figure for the share of women in the Management Board was set at 25 per cent until December 31, 2024. The share of women in the first management level below the Management Board was set at 20 per cent until December 31, 2024. Currently, there is only one further management level at Gateway Real Estate AG below the Management Board; therefore, there was no resolution adopted as regards the share of women in the second management level below the Management Board.

DISCLOSURE OF CONFLICTS OF INTEREST

In compliance with the German Corporate Governance Code, each member of the Management Board and the Supervisory Board shall disclose any conflicts of interest that may arise. In connection with the sales discussed in the Supervisory Board meetings on **October 15, 2019 and December 27, 2019**, Mr. Ketterer disclosed that he holds majority stakes in the respective buyer companies. In order to avoid conflicts of interest, Mr. Ketterer did not participate in the related consultations and resolutions passed by the Supervisory Board.

D&O INSURANCE

See the comments on the declaration of compliance with the GCGC, Section 3.8

DIRECTORS' DEALINGS/MANAGERS' TRANSACTIONS/NOTIFIABLE SECURITIES TRANSACTIONS

Pursuant to Art. 19 of the Market Abuse Regulation (MAR), executives and persons closely associated with them shall notify managers' transactions in shares or debt securities within three business days after the conclusion of the transaction if a total volume of €5,000 is reached in the calendar year (since January 1, 2020: €20,000). These notifications may be accessed on the Company's website under: https://gateway-re.de/en/investor-relations/corporate-governance/managers-transactions/

COMPLIANCE

The Management Board of GATEWAY has prepared a compliance policy which, in its version dated November 2019, is applicable to all employees of the GATEWAY Group and the members of the Supervisory Board; adherence to this policy is mandatory. The compliance policy sets out statements and requirements regarding conduct in accordance with legal provisions and sets out the Company's values. The GATEWAY Group expects that all executives and employees are familiar with and adhere to all relevant legal requirements and the company-internal compliance policy. They receive regular training for this purpose. In addition, the GATEWAY Group has appointed a Compliance Officer and a Data Protection Officer. The Compliance Officer maintains close contact with the Management Board and the Supervisory Board, informs, amongst other things, about applicable lock-up periods as regards the purchase or sale of the Company's shares and maintains the register of insiders. The Compliance Officer also informs about all relevant legal provisions, upcoming legal changes and the consequences of breaches of law. The Group legal department and/or its head are responsible for compliance monitoring.

THE GATEWAY SHARE

LISTED IN THE PRIME STANDARD SEGMENT OF THE FRANKFURT STOCK EXCHANGE SINCE APRIL 12, 2019

STOCK MARKETS

In 2019, the international stock markets faced a number of economic and geopolitical uncertainties, ranging from the as yet unresolved trade dispute between the USA and China and the continuing uncertainty around the Brexit (which finally was effected as at January 31, 2020) to tensions between Iran and the USA and fears of recession in major trading markets (see chapter “Market environment/macroeconomic situation”). Despite all of these uncertainties, most of the European and U.S. stock markets managed to achieve a positive performance, subject to, however, a sometimes significantly higher volatility.

As a result of, among other things, the positive impact from the interest rate signs set by the central banks and the low inflation rates, there were historically high developments of major indices in some cases. The key interest rate in the eurozone remained at the record low of zero per cent in December 2019. In the USA as well, the federal funds rate, which had been cut by the Federal Reserve during summer several times, remained at a low level of 1.75 per cent in December 2019.

In Germany, the DAX climbed 25.5 per cent in 2019 to 13,249 points, slightly under the all-time high of 13,596 points. This represents the largest annual gain since 2013. However, a comparison with the weak performance of the previous year 2018 when the DAX lost approximately 18.3 per cent in value throws a somewhat different light on the 2019 performance. Nevertheless, the DAX development was very encouraging from the investors’ point of view.

The MDAX posted a new record high of 28,313 points in 2019, rising 31.2 per cent, which is an even higher growth than what the DAX generated over the same period. Although the SDAX could not reach a record level in 2019, the index gained 31.6 per cent and closed the year at 12,512 points, thus outperforming the DAX and achieving a similar performance like the MDAX.

Against this strong backdrop of the indices from the DAX family, real estate equities mostly lagged in 2019. However, European real estate stocks had a positive development. For example, FTSE EPRA Nareit Europe Index and the FTSE EPRA Nareit Germany Index rose by around 24.7 per cent and around 10.5 per cent, respectively, in 2019. Primarily owners of residential housing with a portfolio in Berlin were partially faced with stock price declines and a deceleration of the stock price growth in June 2019 after the Berlin senate had announced it would introduce a so-called “rent cap” (see chapter “Report on expected developments, risks, and opportunities”). For a while, the resulting uncertainties had spill-over effects on the entire sector. Although the Berlin senate specified its plans during remainder of the year, German real estate stocks mostly recovered from the price declines in the second half of 2019.

For the German commercial and residential real estate market, 2019 was a year in which the consolidation of listed real estate companies continued. TLG IMMOBILIEN and Aroundtown, for example, announced merger plans, and at the end of the year, Adler Real Estate, ADO Properties and Consus Real Estate informed the capital markets about their intention to combine their businesses.

PERFORMANCE OF THE GATEWAY SHARES

The performance of the GATEWAY share in the fiscal year 2019 has to be viewed against the backdrop of the relevant changes that were made by GATEWAY as a result of the successful capital increase, the issuance of new shares and the change from the over-the-counter (OTC) market of the Stuttgart Stock Exchange to the quality segment "Prime Standard" of the Frankfurt Stock Exchange. Until their successful admission to the Prime Standard of the Frankfurt Stock Exchange at an IPO price of €4.00 on April 12, 2019, the GATEWAY shares had been traded exclusively on the OTC market of the Stuttgart Stock Exchange. GATEWAY is now an exchange-listed, publicly traded company within the meaning of stock corporation and commercial law. The change of Gateway Real Estate AG into the Prime Standard was the first successful German IPO in the year 2019.

Since the IPO, the price range of the GATEWAY shares in the reporting period on the Xetra trading platform was between €3.47 and €4.36.

As of the reporting date (December 31, 2019), the Xetra closing price was €4.36, representing an increase by 9.0 per cent compared to the IPO price as of April 12, 2019 (€4.00). Including the dividend distributed in August 2019 in the amount of €0.10 per qualifying no-par value share, the increase in value amounts to 11.5 per cent (total shareholder return).

The market capitalization of Gateway Real Estate amounted to more than €814 million at the end of the fiscal year 2019.

ANNUAL GENERAL MEETING AND DIVIDEND PAYMENT

The first Ordinary Annual General Meeting of Gateway Real Estate AG since the Company's uplisting to the Prime Standard of the Frankfurt Stock Exchange was held on August 21, 2019. All resolution proposals made by the Management Board and the Supervisory Board were approved by a large majority of the Annual General Meeting. This also included the proposal to use the Company's distributable profit for the fiscal year 2018 in the amount of €19,156,410.00, as reported in the annual financial statements, for distribution of a dividend of €0.10 per qualifying no-par value share (a total of €18,676,404.00) and to carry forward to new account the residual amount of €480,006.00. The corresponding dividend payment was made on August 26, 2019.

It is the declared objective of GATEWAY for the future to grant shareholders an appropriate participation in its business performance. In view of the positive results for the fiscal year 2019, it will be proposed to the Annual General Meeting in 2020 to distribute a dividend of €0.30 per share for the 2019 fiscal year.

Further important resolutions made by the Annual General Meeting in August 2019 were the election of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as auditor for the annual and consolidated financial statements 2019, the election of Jan Hendrik Hedding and Marcellino Graf von und zu Hoensbroech to the

Supervisory Board of GATEWAY, the creation of a new Authorized Capital, the authorization to issue convertible bonds and/or bonds with warrants, as well as the signing of a profit transfer agreement between GATEWAY and Development Partner AG.

As a result of an unexpected change of a legal opinion in the public accounting profession at the end of the year 2019, the Supervisory Board decided, in November 2019, to conduct another audit tender procedure for the fiscal year 2019. According to the new legal opinion, a mere renewal of an audit engagement has to be preceded by an audit tender procedure as an exception when the previous audit was conducted only on a voluntary basis. Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft finally won the tender procedure, and the Extraordinary General Meeting on January 20, 2020 confirmed the audit firm as new auditor for the fiscal year 2019.

SHAREHOLDER STRUCTURE

The fiscal year 2019 was characterized by a substantial broadening of the shareholder base for GATEWAY and a significant increase in free float. In the context of a successful capital increase on April 10, 2019, GATEWAY placed 16,895,939 new shares with institutional investors in connection with an international private placement at a placement price of €4.00 per share and offered a further 82,610 shares for subscription by the existing shareholders. The number of no-par value shares issued thus increased by around 10 per cent to 186,764,040 (December 31, 2018: 169,785,491 no-par value shares in issue). In addition, GATEWAY shares held by the main shareholder in the amount of around 15 per cent of subscribed capital following the capital increase were sold to institutional investors.

The free float increased significantly as a result of these measures and amounted to 21.96 per cent as of December 31, 2019 (December 31, 2018: 0.5 per cent). The largest shareholder as of the reporting date (December 31, 2019) is SN Beteiligungen Holding AG with a holding of 65.75 per cent (December 31, 2018: 87.5 per cent).

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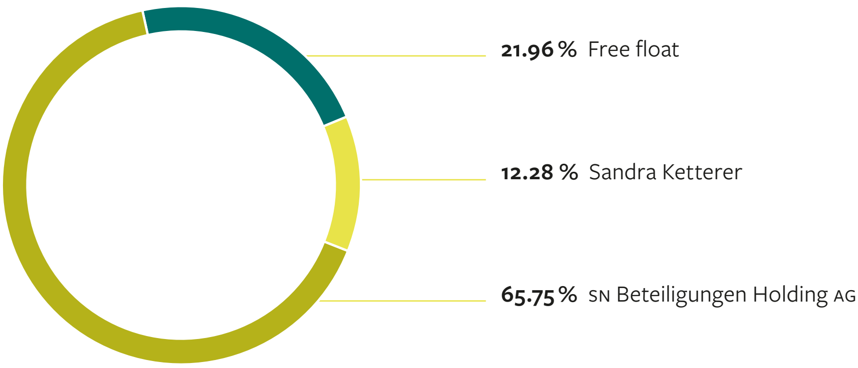
SHAREHOLDER STRUCTURE AS AT DECEMBER 31, 2019



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SHARE INFORMATION

ISIN / WKN	DE000A0JJTG7 / WKNA0JJTG
Number of shares	186,764,040
Share capital	€186,764,040,00
Ticker-Symbol	GTY
Market segment	Regulated market (Prime Standard)
Subsector	Immobilien
Trading venues	Xetra, Frankfurt/Main, Düsseldorf, Munich, Berlin, Hamburg, Stuttgart
Designated Sponsor	Credit Suisse
Opening price* (April 12, 2019)	€4.20
Closing price* (December 30, 2019)	€4.36
Highest price* (December 30, 2019)	€4.36
Lowest price* (June 04. 2019)	€3.47
Market capitalization* (December 30, 2019)	€814.3 Mio.

* Xetra prices | The change to the Prime Standard of the Frankfurt Stock Exchange and the admission to Xetra trading were effected as of April 12, 2019, at an IPO price of €4.00.

INVESTOR RELATIONS ACTIVITIES

As a result of the admission of Gateway Real Estate to the regulated market of the Frankfurt Stock Exchange (Prime Standard), both the visibility of the GATEWAY share and the transparency requirements applicable to the Company increased. The significant expansion of the group of shareholders (see chapter "*Shareholder structure*") also required intensifying the work of the Company's Investor Relations unit. Prior to the IPO, GATEWAY's management team expanded its road show activities and held events for national, European and U.S. investors, including a road show in New York. As of August 1, 2019, Sven Annutsch became Head of Investor Relations and Corporate Finance at Gateway Real Estate. In November 2019, GATEWAY ateway participated in the German Equity Forum in Frankfurt and gave a comprehensive company presentation and had various individual discussions with institutional investors over two days.

CONTACT

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Information on the GATEWAY share, dates and documents concerning important company activities can be found on the Company's website in the Investor Relations section:
https://gateway-re.de/en/investor-relations/share/

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

1. FUNDAMENTAL INFORMATION ON THE GROUP

1.1 BUSINESS MODEL

Gateway Real Estate AG (in the following also referred to as "GATEWAY", "Company" or "Group", in each case referring to the GATEWAY Group as a whole) is a leading listed developer of commercial and residential real estate in Germany with a market capitalization of more than €814 million (as of December 31, 2019). Established in 2006, GATEWAY and its subsidiaries can look back on extensive expertise in the German real estate market and are currently (as of December 31, 2019) developing real estate with a gross development volume (GDV) of approximately €4.2 billion. The subsidiary Development Partner AG has been developing inner-city commercial properties in so-called prime locations in sought-after German shopping cities since 2001 and is now one of the leading developers in this segment.

In this context, GATEWAY focuses on Germany's top 7 cities – Berlin, Duesseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – as well as on selected high-growth areas and covers all of the important steps in the value creation chain of a development project with its own in-house teams. In all of its project developments, GATEWAY pursues the strategy to generate attractive margins and, at the same time, to minimize the project development risk by means of a detailed process management.

GATEWAY regularly carries out sensitivity analyses in connection with the calculation and supervision of projects, in which the effects of potential increases in construction costs are examined and suitable countermeasures taken to offset them. Upon purchase, all our projects are generally evaluated and analyzed on an individual basis. In order to facilitate a close cost control and management, a regular internal meeting is held each month for each project, with the Management Board also being involved. In connection with all sales of real estate and development projects, the Management Board, in turn, has to liaise with the Real Estate Committee which consists of two members of the Supervisory Board and must grant its approval.

When acquiring new plots of land, GATEWAY focuses on space where there are no finally approved zoning or land use plans. This enables GATEWAY to leverage potential value thanks to its long-standing expertise in the process of obtaining planning permissions and to actively determine the planning process for developments early on. GATEWAY's focus as regards the land purchases is always on real estate development rather than the speculative resale of undeveloped sites. Accordingly, GATEWAY also lives up to its corporate social responsibility by newly constructing much needed office and residential space in Germany's metropolitan growth regions.

In connection with the sale of our development projects, GATEWAY exclusively addresses institutional investors, operates on the basis of lean and recurring sales structures and primarily follows a forward sales model pursuant to which properties are sold to investors when the building permit is obtained. GATEWAY then completes the projects, but generates revenue already upon the conclusion of a forward sales contract based on the progress of the construction activities. This strategy, together with contractually agreed payment schedules, enables GATEWAY to generate long-term and stable cash flows from our development projects.

Alternatively, in the case of selected commercial property development projects, GATEWAY seeks to integrate such projects into the successful standing asset business and develops properties with pre-let rates of 50–60 per cent. GATEWAY continues the previous standing asset business of commercial real estate in order to diversify risks.

EMPLOYEES OF GATEWAY GROUP

As of December 31, 2019, the Gateway Group employed 47 (previous year: 53) and on average 46.6 (previous year: 39.85) employees in addition to the Management Board.

The commitment and the extensive technical and professional expertise of the employees and managers are major prerequisites for GATEWAY's success, which is why the Group has set itself the goal of retaining employees in the long term and creating an attractive working environment. In addition to competitive remuneration models in line with market conditions, these include external and internal trainings and advanced training courses geared to the needs of the respective employees for individual support and development. By providing a modern, digital work infrastructure, GATEWAY wants to enable its employees to work from their home office (telecommuting) and thus also promote a reasonable work-life balance. At the same time, GATEWAY offers its employees at its modern office premises in THE SQUAIRE in Frankfurt a wide range of measures to improve employee health and satisfaction as well as to create a sense of team spirit. These include daily fresh fruit, free drinks such as coffee or ergonomic office seating to prevent spinal diseases. GATEWAY is characterized by flat hierarchies and a flexible model of working hours and flexitime.

1.2 MANAGEMENT SYSTEM

As a company that has only been publicly traded since April 2019, GATEWAY is continuously developing its internal management system with the aim of supporting sustainable corporate growth through planning, reporting and controlling processes. In this respect, GATEWAY distinguishes three segments: Standing Assets, Commercial Properties Development and Residential Properties Development.

— **Standing Assets**: This segment covers a profitable and diverse portfolio of existing properties. This portfolio comprises properties acquired by Development Partner AG prior to the latter's acquisition in October 2018. The segment revenues consist primarily of rental income from the investment properties.

— **Commercial Properties Development:** The development activities for commercial properties are combined in the Commercial Properties segment. The objective of this segment is to develop attractive and high-quality office buildings with modern architecture and flexible usage formats. Geographically, these activities are concentrated on the top 7 cities in Germany (i.e. Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart) and selected metropolitan areas such as Nuremberg.

— **Residential Properties Development:** In the Residential Development segment, the Group concentrates on development activities in selected metropolitan regions in Germany, normally cities with a population of at least 100,000, such as Dresden, Berlin, Erfurt, Frankfurt am Main, Leipzig and Munich. The focus here is on the new construction of medium-sized apartment buildings for modern living and mixed-use properties and real estate. So far, joint ventures with local project developers and general contractors were regularly established in this segment. In future, however, the Group intends to develop the majority of its assets on its own.

The **internal management system** at GATEWAY essentially consists of the following components:

— Planning, process and risk management
— Project controlling including sensitivity analyses
— Structured management reporting
— Financial indicators and real estate industry control indicators

FINANCIAL PERFORMANCE INDICATORS

At Group level, EBIT adjusted is one of the most important performance indicators. GATEWAY evaluates and controls the Company's profitability on the basis of EBIT adjusted. The EBIT adjusted is defined by the Group as the operating profit plus the result from investments accounted for using the equity method.

In the Commercial Properties Development and Residential Properties Development segments, the real estate performance indicator GDV (Gross Development Volume) is the key performance indicator for GATEWAY. The GDV is the gross development value, i.e. the expected value that a development property would achieve if sold or let normally on the open market to a willing buyer.

1.3 CORPORATE GOVERNANCE STATEMENT

The corporate governance statement in accordance with Section 289 f and 315 d HGB comprises, among other things, the declaration of compliance pursuant to Section 161 AktG ("declaration of compliance"), relevant disclosures regarding corporate governance practices as well as a description of Management Board and Supervisory Board work processes. The corporate governance report, as part of the annual report, includes the corporate governance statement.

The corporate governance report is also available on the Company's website in the Investor Relations section under the following link:

https://gateway-re.de/en/investor-relations/corporate-governance/corporate-governance-report/

2. REPORT ON ECONOMIC POSITION

2.1 GENERAL STATEMENT ON THE REPORT ON ECONOMIC POSITION

GATEWAY Group's operating business developed very positively in the past 2019 reporting year due to scheduled sales from the portfolio, forward sales from development with simultaneous expansion of the platform as well as a significant increase in cash and cash equivalents and a strengthening of the equity base by means of a capital increase.

GATEWAY assesses the economic, sociodemographic and industry-specific development in 2019 in Germany, and especially in the cities in which GATEWAY operates, as positive for the Group's future business activities. Nevertheless, GATEWAY believes that the German real estate industry will not be able to uncouple itself from negative developments caused by the coronavirus pandemic. The measures to contain the virus have a significant impact on all sectors of the economy, international supply chains and consumption – both nationally and internationally. Despite the planned fiscal measures to ease the financial burden on companies, considerable negative effects on the global and German economy are to be expected. Reliable forecasts of how significant the effect on economic growth will be cannot be made at present due to the uncertain time frame of the pandemic.

2.2 ECONOMIC FRAMEWORK

2.2.1 MARKET ENVIRONMENT/ MACROECONOMIC SITUATION

In 2019, a combination of several factors triggered a merely subdued economic growth in Germany: the continuing trade dispute between the USA and China, the imminent Brexit (which finally was implemented on January 31, 2020) and the globally declining demand for goods from Germany. According to the German Federal Statistical Office, the German economy grew only by 0.6 per cent in 2019, which is the weakest growth in six years and significantly below the growth rate of 1.5 per cent in 2018. Nevertheless, the economic output increased for the tenth consecutive year.

The German economic growth was below the EU average of 1.5 per cent, also representing the weakest economic growth for the EU in five years.

According to the Federal Statistical Office, Germany's inflation rate at year-end 2019 was 1.5 per cent, thus below the ECB's 2.0 per cent target that is deemed appropriate for a sound economic development. In the eurozone, the annual inflation rate rose from 0.7 per cent in October 2019 to 1.3 per cent in December 2019, after 1.5 per cent a year earlier.

In view of growing economic risks and low inflation rates, the ECB gradually postponed the date of a possible departure from its zero-interest policy further into the future in the course of the year. The negative interest rate on deposits from commercial banks was reduced even further to –0.50 per cent in September 2019. At the end of 2019, bond purchases were resumed that had only been terminated at the beginning of the year. The uncertainty caused by the trade dispute and the associated fears of recession drove investors into federal government bonds, which were considered safe. The yield on ten-year government bonds fell to a historic low of –0.63 per cent on average in August 2019. It increased slightly at the end of the year, but remained negative. According to the ECB (as of March 12, 2020), the interest rates on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00, 0.25 and –0.50 per cent, respectively.

2.2.2 SOCIODEMOGRAPHIC DEVELOPMENT

According to the German Federal Statistical Office, Germany's population has reached a new peak of 83.2 million people at the end of 2019. This is an increase by around 200,000 people compared to 2018. Against the backdrop of a growth rate of 0.2 per cent, the growth of the population was considerably weaker than in the years 2013 to 2018, where annual growth of 0.6 per cent on average was roughly three times as high. The German population has been increasing since 2011 now, thus for the eighth consecutive year. This increase is exclusively attributable to a positive net migration. The balance of inbound and outbound migration for 2019 is estimated to range from +300,000 to +350,000 people. Accordingly, net immigration has been decreasing from the extremely high figure reached in 2015 but still remains on a high level. Without positive net migration, the population would have decreased since 1972 since the birth rate has been lower than the mortality rate since that time.

The population trend in Germany is characterized by considerable regional differences. Overall, there is a west-east gap: While the population increased in all of the states of the former West Germany (except for Saarland) between 2017 and 2018, the population declined in the new German states (excluding Berlin) in all territories with the exception of Brandenburg. Overall, the population in the states of the former West Germany (excluding Berlin) rose by 0.3 per cent, while it fell slightly by 0.2 per cent in the new German states.

However, there is not only a gap between east and west but also between urban and rural areas: the seven A cities (Berlin, Hamburg, Munich, Cologne, Duesseldorf, Frankfurt am Main and Stuttgart) achieved an average population growth between 2017 and 2018 of 0.7 per cent on average, which is significantly above the nationwide rate of 0.2 per cent. Munich achieved the highest growth rate year on year (1.1 per cent), followed by Frankfurt am Main and Berlin, each with a rate of 0.9 per cent compared to the previous year.

The population in the further GATEWAY focus city of Leipzig is also developing positively. It rose by about 0.9 per cent from 2018 to 2019, bringing the population to over 600,000.

Not only the population is steadily increasing in Germany, the number of households is also characterized by a distinct development. While Germany's population grew by 2.8 per cent between 2013 and 2018, the number of households increased by 3.6 per cent. This was primarily due to two developments: the increasing life expectancy and a growing trend towards single-person households. The share of single-person households has increased to 42 per cent as of today.

2.2.3 ECONOMIC DEVELOPMENT IN GERMANY AND IN GATEWAY'S FOCUS CITIES

According to the first estimates of the German Federal Statistical Office, the price-adjusted gross domestic product in 2019 was up 0.6 per cent over the previous year. Thus, the German economy increased its GDP for the tenth consecutive year. This is the longest expansion phase of the German economy since reunification. Nevertheless, the growth rate is markedly lower compared to the prior years: GDP grew by 2.5 per cent in 2017 and by 1.5 per cent in 2018. At 1.3 per cent, average growth in the past ten years is also higher than the growth achieved in the past year. While economic output rose in the services sector, output fell considerably in the industrial sector. The construction industry recorded the strongest gain, with growth amounting to 4.0 per cent.

The German labor market is also flourishing in line with the GDP development. According to the German Federal Employment Agency, the number of people in employment subject to social security contributions was at around 33.9 million at the end of November 2019, thus nearly 480,000 people more than in the previous year. A cities managed to grow at an even faster pace. The average growth in the number of employees between 2018 and the first half of 2019 in GATEWAY's focus cities (A cities plus Augsburg and Leipzig) was 2.1 per cent, whereas the number of people in employment in Germany as a whole rose only by 0.4 per cent in the same period.

According to the Federal Employment Agency, the unemployment rate was 4.9 per cent in December 2019 and was thus at one of the lowest levels since the turn of the millennium, as was the case as of the end of the prior year. In 2009, the unemployment rate had still amounted to 7.8 per cent. At the end of 2019, the unemployment rate in the A cities averaged 5.8 per cent, thus slightly exceeding the average for Germany as a whole. Berlin (7.7 per cent) and Cologne (7.6 per cent) had the highest unemployment rates, while Munich with a rate of 3.4 per cent had the lowest rate.

2.2.4 DEVELOPMENT OF REAL ESTATE MARKETS

Office market

According to the Real Estate Market Outlook 2020 published by CBRE, with an investment volume of just under €40 billion, office buildings remain the asset class with the strongest demand on the German real estate market. More than €32 billion or over 85 per cent of the investments were invested in A cities. The growing tertiarization of the German economy, changing working habits and also requirements made by employees result in a continued high demand for office space. This demand is supported primarily by the positive development of the economy during the past years. According to the office market overview published by JLL, office space take-up in the A cities of Berlin, Duesseldorf, Frankfurt, Hamburg, Cologne, Leipzig, the Munich region and Stuttgart totals at well over 4.03 million sqm in 2019, up just under 1.6 per cent on the previous year. The only factor limiting the take-up is the existing supply shortage.

Berlin only just misses the one million square meter mark and in 2019 achieves a space take-up of 998,500 sqm. The federal capital thus shows an increase of 18.6 per cent over the previous year. This is followed by Munich (760,000 sqm) in second place and Frankfurt am Main (579,500 sqm) in third place. While both cities recorded a decline of the take-up compared to the previous year, this decrease is not attributable to low demand, but to the insufficient supply.

Further evidence for this are declining vacancies as well as the high share of newly constructed space that is not available to the market due to pre-letting or own use. At the end of 2019, a total of 2.85 million sqm of office floor space is vacant in the A cities. This means a reduction in vacancies by 16 per cent compared to 2018. The average vacancy rate has fallen to 3.3 per cent. Berlin has a substantially lower vacancy rate of only 1.8 per cent, which is the lowest rate among all of the seven A cities. The sharpest decline can be observed in both Duesseldorf and Cologne, each with a drop of 1.1 percentage points.

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DEVELOPMENT OF THE VACANCY RATE ON THE A CITIES OFFICE MARKET

in %	Vacancy rate Q4 2019	Vacancy rate Q4 2018
Berlin	1.8	2.0
Cologne	2.2	3.3
Duesseldorf	5.8	6.9
Frankfurt am Main	5.5	6.3
Hamburg	3.0	3.9
Munich region	2.3	2.9
Stuttgart	2.3	2.2

Source: JLL

The development of the number of space newly completed shows that the construction activity is slowly gaining momentum. This figure increased by 21 per cent to 1.1 million sqm compared to 2018. Here, the Munich region leads the way with 335,600 completed square meters. The strongest increase in completed new space occurred in Berlin with a plus of 61.5 per cent, followed by Frankfurt with 47 per cent.

Rents continue to trend upwards. On average, peak rents rose by 5.4 per cent in 2019. The banking metropolis of Frankfurt am Main continues to occupy the top position with €41.50 per square meter, closely followed by the Munich region with €41.00 per square meter. Berlin follows in third place and is also approaching the 40 euro mark in large steps. The biggest jump in prices compared to the previous year was made by Cologne with an increase of well over ten per cent to 26 euros per square meter.

In Augsburg, one of the focus cities in which GATEWAY is active with large project developments, the prime rent rose to around €18.50 per square meter in the top segment. The average rent for new buildings is hovering at around €13.50 per sqare meter. With existing office space of approximately 1.4 million sqm, Augsburg has been characterized up to now by a relatively small office market for a city of almost 300,000 inhabitants. However, the high pre-let rate for new building projects of 50 per cent is proof of a stable demand.

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DEVELOPMENT OF PRIME RENTS AMONG OFFICE RENTS IN A CITIES

in €/qm	Prime rent Q4 2019	Prime rent Q4 2018
Berlin	37.00	34.00
Cologne	26.00	23.50
Duesseldorf	28.50	28.00
Frankfurt/M	41.50	40.00
Hamburg	29.00	28.00
Munich region	31.00	39.00
Stuttgart	24.50	23.50

Source: JLL

Retail market

In 2019, driven by rising real wages, increasing purchase power and a positive consumer sentiment, retail sales in Germany rose for the tenth consecutive year. The Federal Statistical Office forecasts an increase by 2.9 per cent (in real terms) compared to 2018.

However, against the backdrop of a strengthening online trade, brick-and-mortar retail trade is coming increasingly under pressure. According to CBRE's Real Estate Market Outlook 2020 for Germany, sales revenue generated via the internet in 2010 amounted to 4.7 per cent; this figure has increased to 10.9 per cent already by 2019. The market shares of online trade in sales revenue vary considerably by industry. While the market shares of the electronics and fashion sectors amount to up to 25 per cent, they are significantly lower in the food and DIY industries.

Nevertheless, the space take-up on the retail rent market is more than stable with space of 500,000 sqm and an increase of 4 per cent compared to the previous year, according to the analysis of JLL. A good quarter of new and first-time lettings were in the seven A cities, two thirds were in small and medium-sized towns. The dominant industries in terms of rental revenue are the textile industry as well as the gastronomy and food segment, combining a share of 51 per cent.

Apart from the take-up, the investment volume also rose slightly compared to the previous year according to Colliers. Investments in retail properties increased by 3 per cent, reaching €10.1 billion in 2019. While the share of foreign investments declined to 39 per cent (2018: 44 per cent), foreign investors appreciate the variety of operating types and locations of German retail properties which enables them to allocate their capital on a very selective basis. In times of fundamental changes in the retail landscape due to online retailers, specialty stores and specialty retail parks with a food retail anchor represent a crisis-proof revenue driver for investors.

According to JLL, the prime rents in the A cities fell by 0.6 per cent on average, which is, however, exclusively attributable to the decrease in Cologne. In the other cities, the values remained stable.

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DEVELOPMENT OF PRIME RETAIL RENTS IN A CITIES

in €/qm	2019	2018
Berlin	330	330
Cologne	250	260
Duesseldorf	290	290
Frankfurt/Main	310	310
Hamburg	280	280
Munich	360	360
Stuttgart	270	270

Source: JLL

According to the vdp index, new contract rents for retail properties in Germany at the end of the fourth quarter of 2019 were 0.9 percentage points below the previous year's figure. For 2019 as a whole, the index records a minus of 0.3 per cent compared to 2018 – the first decline since 2007.

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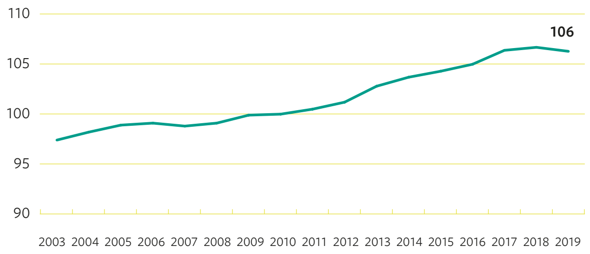
DEVELOPMENT OF NEW CONTRACT RENTS FOR RETAIL PROPERTIES IN GERMANY



Source: vdpResearch (Index: 2010 = 100)

The prime yields of commercial properties in the A cities remained largely stable in 2019 and ranged between 2.75 and 3.3 per cent. Only in Berlin and Munich did they fall slightly.

In Augsburg, despite rising take-up, the retail rents in top locations decreased marginally from €78 per sqm to €75 per sqm in the size category of 80–120 sqm of space and by €49 per sqm to €45 per sqm in the size category of 300–500 sqm of space. Nevertheless, Augsburg is an attractive retail location. This is highlighted by the COMFORT High Streets Report, which ranks the city on place 16 among the most attractive retail locations of Germany.

Residential real estate market

According to the Federal Statistical Office, the number of building permits in 2019 totaled 360,600 permits for residential units, up 4.0 per cent year on year. Due to the capacity bottlenecks in the construction industry in the past few years, the number of completed construction projects did not rise at the same pace, leading to a backlog of around 700,000 residential units.

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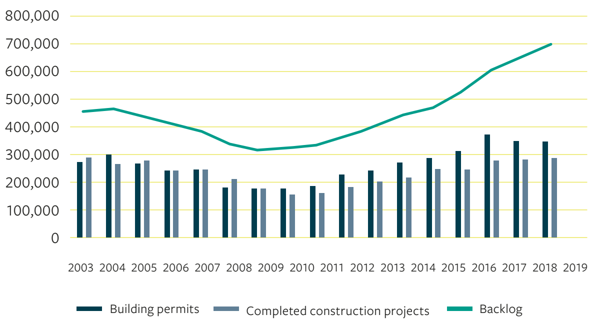
DEVELOPMENT OF BUILDING PERMITS, COMPLETIONS AND CONSTRUCTION BACKLOG IN GERMANY



Source: Federal Statistical Office

Despite the overall increasing construction activities, the demand for residential space remains on a high level. This is illustrated by the vacancy index of CBRE-empirica, which has been declining for twelve consecutive years and reached a new record low of 2.8 per cent for Germany as a whole at the end of 2018. The lowest rate (0.2 per cent) was recorded for Munich. Vacancy reserves have been fully utilized especially in the growth regions, the flourishing vibrant cities, in German known as "Schwarmstädte". Vacancies rose, however, in the shrinking rural regions.

According to the vdp index, the price achieved for owner-occupied residential space in Germany rose by more than 50 per cent between 2008 and 2019. The price increase in the A cities even amounted to nearly 90 per cent.

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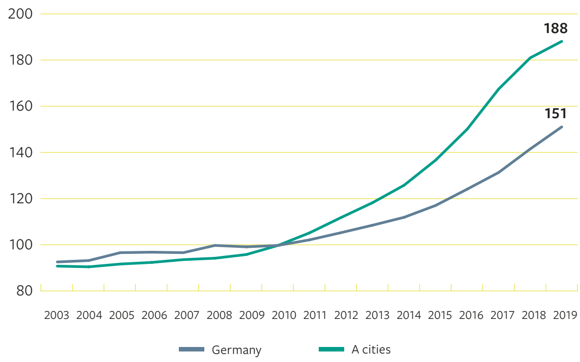
INDEXED DEVELOPMENT OF PRICES FOR OWNER-OCCUPIED HOUSING IN GERMANY AND THE A CITIES



Source: vdp-Research (Index 2010 = 100)

However, a price level seems to have been reached in the A cities that no longer allows large price jumps. Since the highest growth rate of 12.3 per cent in the fourth quarter of 2017, the growth rates have fallen continuously to 3.6 per cent in the fourth quarter of 2019. This means that the momentum of the A cities is now below the overall German development, which was 6.6 per cent in the fourth quarter of 2019. The strongest performer across the A cities was Berlin with an average price increase of 5.0 per cent, followed by Frankfurt am Main (4.0 per cent).

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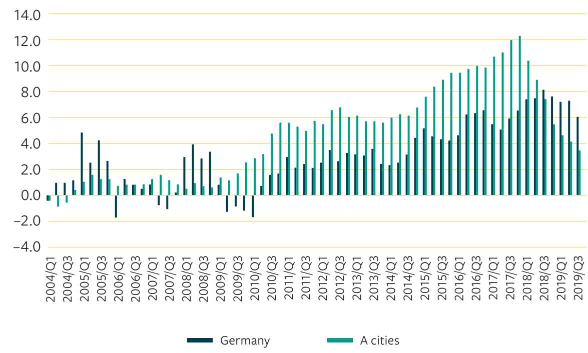
ANNUAL PRICE CHANGE FOR OWNER-OCCUPIED HOUSING IN GERMANY AND THE A CITIES (DEVELOPMENT COMPARED TO THE SAME QUARTER OF THE PREVIOUS YEAR IN %)



Source: vdp-Research

The development of rental prices for new tenancies shows a similar picture. The strong performance of the A cities is gradually weakening and was topped by the overall price increase in Germany in 2019, i.e. decline of 3.1 per cent compared with growth of 4.5 per cent. The leader in terms of rental price development is Cologne with an average increase of 3.8 per cent, followed by Germany's capital Berlin with 3.4 per cent.

According to the 2019 housing demand model designed by the German Economic Institute (Institut der deutschen Wirtschaft, IW Cologne), approximately 342,000 new apartments will be needed across Germany in the years 2019 and 2020. While construction activities have steadily increased in the past years, the increase was not sufficient to meet the higher demand. Between 2016 and 2018, only 83 per cent of the demand was satisfied, and only 71 per cent in the A cities.

In the other GATEWAY focus cities, the degree of coverage through new construction is in some cases even lower than in the A cities. In Leipzig, approximately 1,900 residential units p.a. were completed between 2016 and 2018. However, the demand for residential space per year until 2020 for Leipzig is approximately 4,200 units. Thus, the coverage of the demand for new residential units is just 45 per cent, which is the worst figure in the federal state of Saxony, according to IW Cologne data. In Augsburg, where GATEWAY will develop a mixed-use city quarter at the former Osram site, the coverage of required residential units is 69 per cent, according to IW Cologne.

As a result of the supply shortage, in particular with respect to one- and two-room flats and the changing requirements for living in general, new types of housing have emerged and are currently finding their way out of their niche role. These concepts include serviced apartments, student flats, co-living and micro apartments and vary in terms of furnishings, the services offered, the length of stay and the target group. All of these concepts have in common that they represent a commercial type of housing. According to Savills and C&W, the investments in this segment have increased significantly in the past years – pension funds, sovereign funds, insurance companies and institutional investors increasingly invest their capital into projects of commercial housing.

2.2.5 COMPETITIVE SITUATION AND MARKET POSITION OF THE GROUP

The competitive situation in the individual markets and asset classes in which GATEWAY is active is very diverse. When acquiring new plots of land for future development projects, GATEWAY in some cases competes not only with local, medium-sized real estate developers, but also – especially in the area of residential development – with municipal and communal enterprises as well as with large listed real estate groups. In this latter group, the expansion of the development business is a noticeable trend. For example, the DAX-listed Vonovia Group announced the takeover of the Hanau-based project developer Bien-Ries AG in March 2020, following the acquisition of the residential property developer BUWOG completed in 2018. However, GATEWAY does not primarily compare itself with the large listed portfolio holders, such as Deutsche Wohnen or LEG, who are now building up their own development segments in addition to their standing assets business and who are not primarily active in office development, but rather with listed German-speaking companies with a development focus. These include Consus AG, listed in the Scale stock exchange segment, with a market capitalization of around €1 billion at the end of 2019, and the SDAX-listed Instone Real Estate Group AG with a market capitalization of around €816 million at December 31, 2019. Both companies have a strong residential focus. These are followed by smaller listed project development companies such as Eyemaxx Real Estate AG, which is listed on the regulated market (General Standard) of the Frankfurt Stock Exchange and focuses more strongly on the area of office property development, although it only had a market capitalization of €54.6 million at the end of 2019. Also worth mentioning is UBM Development AG, which is listed in Austria but has a strong presence in Germany and is active in office development, with a market capitalization of around €350 million at the end of 2019. With a market capitalization of more than €814 million as of December 31, 2019, GATEWAY is one of the top developers listed on the stock exchange and has a unique selling point with its stronger focus on office and commercial properties. After the outbreak of the coronavirus epidemic in Germany in March 2020 and the negative impact of this crisis on the stock markets, the listed development companies suffered heavy price losses and thus also a significant reduction in their market capitalization, while GATEWAY showed stability in this crisis and has a market capitalization of approximately €751 million as of March 26, 2020.

2.3 BUSINESS DEVELOPMENT

After successfully having paved the way in 2018 and after the takeover of Development Partner AG, the beginning of the reporting year was dominated by the intense preparations for the uplisting to the regulated market of the Frankfurt Stock Exchange (Prime Standard). GATEWAY and Development Partner were combined to form the Gateway Group as it is today – one of the leading developers of commercial and residential real estate in Germany. This was preceded by a successful capital increase. On April 10, 2019, GATEWAY placed 16,895,939 new shares from the capital increase announced on March 20, 2019, within the context of an international private placement with institutional investors at a placement price of €4.00 per share. The transaction led to a significant increase in the free float. The total issue volume of the capital increase amounted to approximately €180 million.

The year 2019 was defined by a large expansion of our development portfolio through the acquisition of a number of large plots of land for development projects. This included, among others, the IBM technology campus near Stuttgart (with a land area of 69,000 sqm), the Campus Park Munich, four office development projects in Berlin as well as the acquisition of the former Osram production site in Augsburg, where GATEWAY plans to develop an urban quarter on a land area of more than 120,000 sqm.

The major contributors to the successful business development in 2019 were the sales GATEWAY completed during the past fiscal year. The standing asset portfolio was trimmed down substantially and, in addition to single properties in Bochum, Siegen and Duesseldorf, a large property portfolio consisting of 21 commercial properties was also sold for a total amount of €242 million to a special fund of German pension schemes. In addition, GATEWAY successfully sold various development projects. This concerns three projects in Cologne, Frankfurt and Wiesbaden as well as all development projects that the Group does not include in its financial statements via full consolidation, but only under the equity method. As a result of these measures, GATEWAY successfully implemented its corporate strategy – focusing on project developments – and greatly optimized the portfolio. Further highlights include the forward sales of two development projects in Cologne and Duesseldorf, where GATEWAY will receive the purchase price in instalments already during the implementation phase of the projects.

2.4 FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS

2.4.1 FINANCIAL PERFORMANCE

Please note that, in connection with the presentation of the financial performance and the period-based performance indicators, the comparison with prior-year figures provides meaningful information only to a limited extent since the fiscal year 2018 was strongly characterized by the acquisition of Development Partner AG in the second half of 2018 and the related fundamental changes in the corporate structure. As a result of the so-called reverse acquisition as of October 5, 2018, the transaction can be classified as an acquisition of GATEWAY by Development Partner AG in economic terms, which means that GATEWAY has to be presented as the acquired company and Development Partner AG as the acquirer for accounting purposes. Therefore, the performance figures for the comparative year 2018 until the acquisition date include the subgroup of Development Partner AG.

In the fiscal year 2019, the Group of Gateway Real Estate AG generated revenues in a total amount of €94.4 million (previous year: €18.6 million). These mainly comprise the previous revenues from forward sales in connection with two development projects in Cologne (approximately €49 million) and Duesseldorf (approximately €10 million) as well as rental revenues of approximately €21 million. Gross profit amounted to €413.2 million (previous year: €82.4 million), which, in addition to the revenues mentioned above, comprises changes in inventories of finished goods and work in progress of €221.5 million (previous year: €39.9 million) – largely consisting of newly acquired project developments, capitalized construction work as well as the disposals in connection with the forward sales of the two project developments in Cologne and Duesseldorf – and other operating income in the amount of €97.3 million (previous year: €24.0 million), which mainly reflects the sales proceeds from sold projects as well as from the sale of investments accounted for using the equity method. Compared to 2018, the increase in gross profit results from GATEWAY's increased sales activities in 2019, which can be observed across all individual items of gross profit.

The costs for raw materials and consumables used increased significantly by €228.5 million over the previous year to €247.6 million and mainly consist of the construction costs of the inventory properties (€25.4 million), acquisition costs for land (€209.5 million) as well as management costs for the rented properties (€12.7 million). The increased costs for raw materials and consumables used is primarily attributable to the higher acquisition volume and the enlarged project volume in 2019. The employee benefits expense rose due to the takeover of Development Partner AG by way of a reverse acquisition and the higher number of employees on average for the year by €6.3 million in the previous year to €9.6 million, with GATEWAY being taken into account only since October 5, 2018. The fair value changes in investment properties and valuation of properties amounted to €20.6 million and are based on an external valuation of all standing asset properties as of December 31, 2019, as well as the fair value adjustments made during the year in the context of sales. Other operating expenses amounted to €27.0 million and were primarily attributable to higher legal and consulting costs as well as accounting, closing and auditing expenses that were incurred, among other things, in the context of the initial public offering. In addition, this item comprises agency commissions and expenses for silent partnerships. In 2019, GATEWAY achieved an overall operating profit of €149.0 million (previous year: €56.9 million).

Net finance costs amounted to €–17.2 million (previous year: €–15.2 million) and include finance costs of €–29.6 million (previous year: €–32.2 million), mainly resulting from borrowings to finance development projects as well as standing assets. The decline in finance costs is largely due to the refinancing and redemption of higher interest loans. The finance costs are offset with results from associates in the amount of €9.9 million (previous year: €16.3 million) as well as finance income of €2.5 million (previous year: €0.7 million). The increase in finance income in 2019 is primarily the result of the fair value measurement of loans. The decrease of the result from associates by €6.4 million compared to the previous year is attributable to the planned disposals of investments accounted for using the equity method.

Earnings before tax (EBT) amounted to €131.8 million (previous year: €41.7 million). After deducting income taxes of €4.8 million (previous year: €8.4 million), profit for the full year amounted to €127.0 million (previous year: €33.3 million). This corresponds to basic earnings per share of €0.69 € (previous year: €0.22) and diluted earnings per share of €0.69 (previous year: €0.22). The EBIT adjusted amounted to €158.9 million (previous year: €73.3 million).

2.4.2 FINANCIAL POSITION

The assets of the GATEWAY Group totaled approximately €1,040.0 million as of December 31, 2019. This corresponds to an increase of 30.2 per cent over the reporting date of the previous year (€798.6 million). The sum total on non-current assets of €78.6 million was significantly below the figure reported as of December 31, 2018 (€328.6 million), which is primarily due to the planned sale of 24 commercial properties from the standing assets portfolio. In contrast, the sum total of current assets of €961.4 million was considerably higher than on the prior year's reporting date (December 31, 2018: €470.0 million). These changes are largely attributable to the reduction of investment properties as well as to the increase in inventories which reflects the Group's strategic orientation and its focus on real estate project development.

The value of the investment properties held by the Group as of the reporting date amounted to only €8.3 million, after €238.2 million as of December 31, 2018. This reflects the planned sale of standing assets.

The carrying amount of inventories rose considerably to €581.6 million, after amounting to €342.7 million as of December 31, 2018. This is primarily attributable to the increased real estate project development activities conducted by the Group.

The balance of cash and cash equivalents amounted to €216.0 million as of December 31, 2019, with the strong increase over the prior-year reporting date (December 31, 2018: €73.9 million) largely being attributable to the sales proceeds received from the sale of standing assets and project developments as well as to the capital increase carried out in April.

The Group's non-current liabilities amounted to €361.5 million as of the reporting date (December 31, 2018: €421.9 million); the major portion of that amount is attributable to non-current financial liabilities of €343.4 million (December 31, 2018: €398.4 million). The decrease compared to the previous year is mainly the result of the redemption of higher interest loans and also the reduction of remaining terms to maturity. This was offset by the drawdown of the fifth tranche of the bond in the amount of €40 million.

Current liabilities totaled €352.5 million as of December 31, 2019 (December 31, 2018: €228.3 million). The major portion of that amount was attributable to current financial liabilities (€272.6 million; December 31, 2018: €191.7million); the increase in current financial liabilities is primarily attributable to the reduction of the remaining terms of existing loans to less than one year. An amount of €60.2 million referred to trade payables that largely were incurred in connection with the Group's project developments.

The changes on the liability side compared to the previous year reflect the decision taken by the Group in the context of the strategic positioning to currently reduce its holdings of investment properties and to focus on its project development business.

The GATEWAY Group's equity as of December 31, 2019 amounted to €326.0 million (December 31, 2018: €148.4 million). The increase is largely the result of the capital increase carried out in the first half of 2019 and the profit generated for the year. Accordingly, the Group's equity ratio rose significantly from 18.6% at the end of the prior year to now 31.3%.

2.4.3 CASH FLOWS

The cash inflows and outflows in the fiscal year 2019 overall led to a substantial increase in cash as of December 31, 2019, primarily caused by cash flows from investing and financing activities.

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CONDENSED CASH FLOW STATEMENT

in € thousand	31.12.2019	31.12.2018
Cash flows from operating activities	–216,205	–64,491
Cash flows from investing activities	126,903	38,015
Cash flows from financing activities	239,426	87,487
Net increase/decrease in cash and cash equivalents	**150,124**	**61,011**
Change in cash and equivalents due to consolidation group	–8,010	–1,584
Cash and cash equivalents as of January 1	73,931	14,504
Cash and cash equivalents as of December 31	216,045	73,931

The negative cash flows from operating activities increased by €151.7 million year on year and amounted to €–216.2 million in the fiscal year 2019. This development is largely the result of the expansion of inventory properties by €–106.0 million which is attributable to the Group's focus on developing properties and the associated acquisition of several development projects.

The positive cash flows from investing activities of €126.9 million primarily include the purchase price payments received from the sale of properties in the amount of €110.7 million. This is offset, among other things, by cash outflows from investments in properties of €–6.6 million.

The positive cash flows from financing activities in the amount of €239.4 million largely comprise the cash inflows from the successful capital increase in the past fiscal year amounting to €67.9 million as well as from borrowings in connection with the acquisition of properties or the financing of development projects in a total amount of €342.8 million. This was offset by cash outflows from repayments of bonds, loans and lease liabilities in the amount of €–149.7 million as well as the dividend payment to the shareholders of €–18.7 million.

The net increase resulting from the cash flows in 2019 described above totaled €150.1 million. The changes due to the consolidation group amounted to €–8.0 million, resulting in an overall increase in cash and cash equivalents by €142.1 million to €216.0 million as of December 31, 2019. As of the previous reporting date (December 31, 2018), cash and cash equivalents had amounted to €73.9 million.

As of year-end, financial liabilities amounted to €616.0 million and 44 per cent of the financial liabilities were current liabilities with a remaining term of up to 12 months.

The loans are largely (around 64 per cent) fixed-rate loans with an interest rate between 2.0 % and 20.0 %. There were no financial liabilities denominated in foreign currencies as of the reporting date. and neither were there any interest rate swaps or other stand-alone derivative financial instruments as of the reporting date.

In 2019, GATEWAY was able to meet its payment obligations at all times. Free liquidity amounted to €206.2 million as of December 31, 2019. Moreover, there are unutilized lines of credit at banks and guarantee credit lines in the amount of €191.2 million.

3. REPORT ON RISKS AND OPPORTUNITIES

3.1 RISK MANAGEMENT SYSTEM

In connection with its business activities, Gateway Real Estate AG is exposed to a number of general and specific risks that could jeopardize the implementation of its strategy and the achievement of its corporate goals.

These risks arise to a large degree from potential changes in the social, political, legal, economic, and technical framework. However, within the context of risk and opportunity management, changes may also present the possibility to identify new business opportunities and to generate additional economic success.

In order to identify, monitor and evaluate risks early, Gateway Real Estate AG has expanded its risk management system to account for the changes introduced to its Group structure and the realignment of its business model following the acquisition of Development Partner AG in the second half of the fiscal year 2018 and complies with the applicable legal requirements set out in the German Stock Corporation Act (Aktiengesetz – "AktG") and the Law on Control and Transparency in Business (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – "KonTraG"). Since the turn of the year 2019/2020, the risk management system also complies with the recommendations of the German Corporate Governance Code, with the exception of the matters mentioned in the declaration of compliance:

https://gateway-re.de/en/investor-relations/corporate-governance/declarations-of-compliance/ (German only)

Risk management in relation to the Company is understood to be a systematic, value-oriented and/or performance-oriented approach to the analysis and handling of risks and opportunities. Gateway Real Estate AG's company-wide risk management is based on the COSO framework (Enterprise Risk Management – Integrating with Strategy and Performance). The reference model is divided into the following five components:

— Governance and culture
— Strategy and objectives
— Implementation
— Review and audit
— Information, communication and reporting

The risk management system provides for a continuous assessment and analysis of all risks and opportunities relevant for GATEWAY to be able to respond to any potentially harmful risks in a timely and appropriate manner and make the best possible use of any opportunities arising.

GATEWAY distinguishes the following categories in the context of risk classification:

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Assessment of probability of occurrence	Classification of probability of occurrence	Probability of occurrence (as a percentage, within one planning year)
1	unlikely	0–30%
2	possible	31–50%
3	likely	51–70%
4	almost certain	71–90%
5	certain	91–100%

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Evaluation of the impact	Classification of impact	Share in EBIT adjusted	Impact in € thousand, rounded (based on adj. EBIT of €150 million)
1	insignificant	0.0–0.001%	0–150
2	low	0.001–0.05%	150–750
3	medium	0.05–1%	750–1,500
4	high	1–3%	1,500–4,500
5	very high	3%–	4,500–

For more detailed information, please refer to the section "*Internal control system and risk management system relating to the Group accounting process*".

3.2 RISK REPORT AND INDIVIDUAL RISKS

The risks that Gateway Real Estate AG is exposed to in its business activities can be allocated on the one hand to the area of general economic and cyclical developments and on the other hand to industry-specific trends within the real estate sector. Such risks cannot be influenced by the Company itself, but are rather attributable to political and economic developments on a global and national scale which might have an impact on key influencing factors for the business performance of GATEWAY. These influencing factors include, for example, the development of inflation and interest rates, and of income and purchasing power of the population as well as changes in the legal and tax framework and in the balance between supply and demand on the real estate markets that are relevant for GATEWAY.

In the following, we present individual risks that may have an impact on the financial position and performance of Gateway Real Estate AG's Group, with a distinction being made between property-specific and company-specific risks. The assessments of the probabilities of occurrence as well as the financial impact are made on the basis of the classifications in the matrix presented ("risk classifications"). GATEWAY's assessment of the financial risk and the underlying potential loss amount is, unless otherwise noted, always based on a potential net loss amount, which already takes into account countermeasures defined by GATEWAY and their effects for the calculation.

3.2.1 PROPERTY-SPECIFIC RISKS

Transaction risk

As a developer of commercial and residential properties operating across Germany focusing on the top 7 locations and selected high-growth regions, the acquisition of new plots of land and development projects as well as the sale of completed projects are integral parts of GATEWAY's business activities. The Company generates the major portion of its total operating revenue from the sale of development projects. If planned sales transactions do not materialize, the Company might incur, on the one hand, additional management and marketing costs as well as unplanned subsequent costs and, on the other hand, there might be a loss of budgeted income. If planned purchases of land plots or development projects do not materialize, the Company's earnings potential could also be reduced.

Risks might arise in connection with purchase contracts if contractual obligations are not complied with or if bad debts arise, which in turn may result in costs for the rescission of the relevant contracts as well as interest charges due to the later inflow of liquidity. Moreover, risks may arise in connection with the purchase of land plots and development projects if hidden defects related to the acquired properties are not identified prior to purchase, resulting in additional expenses, or when the purchase does not materialize and the Company has to bear the costs already arisen during the acquisition process.

Against the background of the current corona pandemic, it is possible that planned transactions may be delayed or may not be completed in the intended manner. As a result, projected income may not be generated or may only be realized at a later date than expected.

In order to avoid or minimize transaction risks, GATEWAY has determined internal rules for the conduct of due diligence reviews in the course of property acquisitions and is managed by an experienced management team. With regard to transaction risks, the Management Board currently generally assumes an unlikely occurrence, and with regard to the corona issue a possible likelihood of occurrence. If the corresponding risks were to manifest themselves, this would result in insignificant to low financial consequences for the Group.

Risk of loss of rental income

The risk of loss of rental income is the risk that the actual rental income is lower than the contractually agreed rents. GATEWAY seeks to minimize the risk of loss of rental income through a prudent selection of contracting parties. In addition, the usual hedging instruments are used, such as rent deposits or guarantees. Potential bad debts are addressed through a structured receivables management process. The Management Board assumes a possible occurrence with regard to the risk of loss of rental income and, if it does occur, expects a low financial impact.

Letting risk

The letting risk is the risk that space cannot be rented out initially or subsequently or not at an appropriate price. Rental prices are subject to economic volatility and market cycles that, on the one hand, have an impact on the demand for rentable space and on the other hand on the market rent levels. This may result in a lower letting rate and thus to a reduction of rental revenues. The Management Board of GATEWAY assumes an unlikely occurrence with regard to the letting risk for the Group's current rental portfolio. Against the background of the current corona pandemic, it is possible that planned transactions may be delayed or may not be completed in the intended manner. As a result, projected income may not be generated or may only be realized at a later date than expected. With regard to the risk of loss of rental income, the Management Board assumes an unlikely occurrence and, if it does occur, expects a low financial impact.

Environmental risk and risk from contaminated sites

Within the context of the acquisition of properties, the Group is exposed to the risks that, based on applicable regulations, expenses may arise to prevent any threats to public safety and order when contaminated sites were not or not sufficiently known upon the acquisition of properties or when unforeseen adverse effects on the environment or potential threats to public safety and order arise in connection with project developments.

If environmental risks or risks from contaminated sites should materialize, this could have material effects on GATEWAY's financial position and performance. The intensive tests for contamination and other hazards carried out by external experts at GATEWAY's development projects and acquired properties currently indicate an unlikely occurrence of any environmental or contaminated site risks. The Management Board therefore considers the probability of occurrence to be unlikely, with a medium financial risk.

Project development risks
A number of specific risks arise in connection with the project developments realized by GATEWAY. Firstly, these risks refer to the situation that the Group depends on external suppliers, service providers, and other contracting parties in the realization of its projects. As a result of a strong demand for construction services, the corresponding capacities may become scarce with the consequence that planning and construction services cannot be provided as scheduled. Secondly, the required approval procedures may be subject to delays or requirements or the required approval may be denied altogether, which in turn may delay or challenge the realization of a project and may cause additional costs or even the loss of planned income from the project. In addition, the start or completion of construction activities in the context of the realization of a project might be postponed and the construction costs might increase to an extent that cannot be compensated via the selling price.

Project development risks may have a large impact on the financial position and performance of the GATEWAY Group. Against this backdrop, GATEWAY regularly carries out sensitivity analyses in connection with the calculation and supervision of projects, in which the effects of potential increases in construction costs are examined and suitable countermeasures taken to offset them. In the acquisition process, all development projects are evaluated and analyzed on an individual basis. The Management Board is closely involved in the supervision of costs and scheduling of each individual development project over the entire project period. On the basis of this close supervision, the Management Board currently only sees a possible project development risk in GATEWAY's current project portfolio as well as a low financial impact.

3.2.2 COMPANY-SPECIFIC RISKS

Financing risk
In order to finance the acquisition of new plots of land and the realization of project developments, GATEWAY uses debt funding in a way that is usual in the industry and in a significant volume. The availability of borrowings and the terms at which such borrowings can be taken out depends to a large degree on the development of the capital market environment, in particular on the development of interest rate levels, but also on the situation in the banking sector and its regulatory requirements.

In addition, risks might arise in connection with debt financing when arrangements agreed upon in financing contracts cannot be complied with.

Against the background of the current corona pandemic, it is also possible that, due to internal risk reassessments and adjustments to financing policies, banks and other financing partners may take longer than before to review and decide on financing requests. This could lead to a delay in the purchase of land or the completion of projects for which the relevant borrowed funds are to be used. In the event that the corona pandemic leads to a longer-lasting recession with related negative effects on the economy as a whole and the financial sector in particular, defaults by banks or other financing partners would also be possible.

Financing risks may have a very large impact on GATEWAY Group's financial position and performance and, in an extreme scenario, could have a very large financial impact.

GATEWAY addresses these risks by continuing to diversify its instruments and sources of financing. The Management Board currently considers the probability of financing risks occurring to be unlikely and an insignificant financial impact taking into account the measures initiated by GATEWAY.

Liquidity risk
If the Company cannot meet its payment obligations when due owing to a lack of liquidity, this could hasve a substantial negative impact on the business activities and the economic situation of the Company. Monitoring liquidity development and liquidity management is therefore a major focus of the overall corporate management. Based on this continuous monitoring and controlling of the liquidity situation, the Management Board currently considers the occurrence of liquidity risks to be unlikely and classifies the financial impact as insignificant.

Tax risks
Tax risks may result from tax-relevant matters that are not taken into consideration or from the filing of incorrect tax documents, but they may also be the result of changes in tax legislation. This can lead to higher tax burdens for the Company and hence additional outflows of liquidity. In addition, changes in the tax framework for the Company or its potential customers may exacerbate the Company's operating activities or make them less viable in economic terms.

In order to manage the corresponding risks, management regularly analyzes the current tax situation and possible scenarios for the short to medium-term development in coordination with the Group's tax advisors. The Management Board currently assesses the probability of tax risks occurring as unlikely; if they did occur, such risks could have a low to medium financial impact on the Group.

Legislation risks
GATEWAY's business activities are influenced by changes in the legal framework and applicable laws and regulations. This concerns, in particular, building law and building planning law, but also legal regulations for other more or less closely related areas such as fire protection or environmental protection. Changes in the legal framework in these areas may result in higher expenses or lower income for the GATEWAY Group. In this case, the Management Board expects a medium impact on the financial situation of the Group, but the probability of occurrence is currently assessed as unlikely.

A specific legislation risk currently exists in Berlin, where following a broad public debate on affordable housing and rising rents, the Berlin senate adopted the Berlin Rental Act (*Berliner Mietengesetz*) initiated by the ruling coalition of Social Democrats, The Left Party and The Greens; the Rental Act introduces a rental cap and a prohibition of rent increases for a period of five years. New construction activities in the residential sector are not within the scope of the Berlin rental cap. The sociodemographic developments, strong dynamics of growth and the continuing demand for space in the face of insufficient new construction and low vacancy rates in existing properties (see chapter on the market environment/macroeconomic situation) do not currently give the GATEWAY Management Board any reason to reconsider its investment decisions in Berlin. In contrast to the development of commercial properties, the share of residential properties in Berlin does not play a significant role in GATEWAY's project portfolio; thus, the Management Board considers a risk for its business activities due to the developments in Berlin as unlikely and, accordingly, expects the financial impact to be insignificant.

Human resources risk
The economic success of GATEWAY largely depends on the availability of a sufficient number of appropriately qualified specialists and executives. To that extent, there is the risk that corporate goals cannot be achieved when employees are off sick for a longer time or leave the Company or that young professionals cannot be acquired to a sufficient extent so that existing vacancies cannot be filled.

The spread and consequences of the novel coronavirus (Covid-19) have led many companies to restrict business trips even in Germany and recommend their employees to work from home in order to prevent further spread of the virus. There have already been cases of proven illnesses of employees where domestic quarantine has been ordered over the staff of entire departments or even entire companies. GATEWAY would be well prepared for such an emergency. GATEWAY employees have business mobile phones and laptops and the Company has set up a modern work infrastructure (e.g. video conferencing software), which allows a large part of the staff to work from home even at short notice. However, should a large number of employees be incapable of working due to sickness caused by the coronavirus, this could also lead to delays in acquisition activities and in the realization of ongoing project developments. Against this background, the Management Board assumes a possible probability of occurrence and a low financial impact of possible human resources risks for the Group.

Litigation risks
There is the general risk that GATEWAY becomes involved in legal disputes within the scope of its business activities. In this context, the Company may incur additional expenses for legal advice, court costs, or settlements. GATEWAY currently has no pending litigation of material importance. The Management Board currently sees only an unlikely probability of occurrence of litigation risks, which, if they manifest themselves, are likely to have a low financial impact overall.

Image risk
GATEWAY is faced with expectations and requirements of various stakeholder groups within the context of its business activities. In this context, the Group may be presented in a negative way in the media or the public which may do harm to its image and may have a negative influence on its business activities. The probability of occurrence of an image risk is currently assessed as possible; the potential financial impact is assessed as insignificant overall.

IT risk
As part of its business activities and the corporate management of GATEWAY, the use of IT systems and the processing of data play a central role. There is the risk that data may be corrupted or are lost due to application errors or external interventions and that IT systems cannot be used as intended. The potential damage of the risk before measures are taken is considered very high, but the occurrence of this risk is considered unlikely. By means of an annual IT audit, comparisons of planned and actual outcome are carried out and specific measures are derived, so that after measures have been taken it is expected that the amount of damage would not be significant.

3.2.3 OVERALL ASSESSMENT OF THE RISK SITUATION
The Management Board of GATEWAY has not identified any material influences arising from the above-mentioned risks (either individually or in their entirety) that may be a threat to the Company's continued existence or its business activities, but in view of the corona pandemic and its currently unforeseeable impacts considers the risk situation as being slightly increased in comparison with the previous fiscal year.

3.2.4 REPORT ON OPPORTUNITIES

GATEWAY is one of the developers of commercial and residential properties in Germany with activities at the national level and focuses its business activities across Germany on the top 7 locations and high-growth regions with a strong demand for high-quality properties. The parallel activities in the two property asset classes “Commercial” and “Residential” as well as the regional presence in various locations within Germany present the opportunity to react to changes in the demand at specific locations and cyclical market developments within individual asset classes with more flexibility than would be possible if there was a stronger regional concentration or a restriction on a particular asset class.

The strong dynamic of sociodemographic and economic growth in Germany’s top 7 cities provides an opportunity for a further increase in demand for the property types developed by GATEWAY in these cities. On the other hand, according to their respective statistical offices, with growth of 6.1% or around 620,000 persons by 2030, the top 7 cities in Germany (Berlin, Hamburg, Munich, Stuttgart, Frankfurt am Main, Cologne, Duesseldorf) have significantly higher forecasts for growth than the national average. In terms of employment growth, the top 7 cities are also developing well above the national average. (*more details in the chapter on the market environment/macroeconomic situation*)

When acquiring new properties and marketing its project developments, the Group benefits from the opportunities arising from good market access, which is based on the extensive network, market knowledge and many years of experience of its management and specialist and executive staff. This also applies to the market-driven design and implementation of the individual projects and their tailoring to the supply and demand situation in the respective local markets.

As a project developer, GATEWAY has the opportunity in the current market environment, in contrast to companies with larger portfolios of standing assets, not to be affected by restrictive regulations on the rental housing market such as the Berlin rental cap, as this does not apply to new residential construction. In the financing area, there are additional opportunities resulting from the low-interest environment that is set to continue and that raises the expectation of continued very favorable debt financing options. As an exchange-listed company, GATEWAY may benefit from opportunities for equity and/or debt financing via the capital market. In particular, by further strengthening the equity base by means of capital increases, a better credit rating can be achieved compared to companies that do not have this option due to a lack of a stock market listing. This, in turn, facilitates access to debt financing or allows it to be raised on more favorable terms.

4. REPORT ON EXPECTED DEVELOPMENTS

4.1 TARGET ACHIEVEMENT 2019

In the half-yearly financial report 2019, the Management Board expected a significant increase in the EBIT adjusted compared to the fiscal year 2018. In a “Corporate News” release dated September 26, 2019, the Management Board specified this forecast and expected an EBIT adjusted of more than €130 million and earnings before taxes (EBIT) of between €105 million and €110 million for the year 2019. With an EBIT adjusted of €158.9 million and earnings before taxes of €131.8 million, Gateway was able to meet its guidance, and even topped its forecast as regards earnings before taxes.

4.2 ECONOMIC ENVIRONMENT 2020

4.2.1 MARKET ENVIRONMENT/ MACROECONOMIC SITUATION

While the year 2019 was primarily affected by geopolitical uncertainties such as the trade conflict between the USA and China, the situation initially had stabilized at the beginning of the year 2020. The two world powers USA and China signed a first trade agreement in mid-January 2020. The Brexit, however, still remained a factor of uncertainty. According to the German Federal Ministry of Economic Affairs and Energy, the gross domestic product (GDP) was expected to increase by 1.1 per cent, thus exceeding the prior-year growth.

As a result of the spreading of the coronavirus, the real economic development, however, is set to be substantially slower than previously assumed. The attempts to contain the spread of the virus have several effects on the global and the German economy. Since March 11, 2020, the World Health Organization (WHO) has classified the coronavirus officially as a pandemic, thus recognizing the worldwide consequences. Due to quarantine measures, there are currently significant effects on all industrial sectors as well as on public life with cancelled cultural events or sports events behind closed doors or closed kindergartens, schools or universities. Closed borders put international supply chains at risk and consumer demand is declining significantly. Above all, the tourism and catering industry is currently strongly and directly affected, being put into a dormant state for weeks or months. The uncertain situation is also inhibiting investments in almost all industries. There are direct effects across all sectors in terms of employee availability and working ability, as well as possibly through dependence on other industries and services.

Due to the uncertain timing of the pandemic, no reliable forecasts can be made at this stage for the development of both the global and the German economy. However, it is obvious that the spread of the virus will have fundamental, negative effects. Rate hikes by the ECB are therefore not an issue in view of the corona crisis.

According to the forecasts from January 2020, Germany's gross domestic product was expected to rise further. The growth rates ranged from 0.5 to 1.4 per cent until year-end. This growth was expected to be driven by a flourishing domestic economy. However, due to the spread of the coronavirus pandemic, these forecasts are no longer valid as of today; economic growth will be significantly lower in Germany and internationally. It is currently not possible to conclusively assess the extent of the effects of the crisis.

4.2.2 SOCIODEMOGRAPHIC DEVELOPMENT

According to the forecast, Germany's population is expected to grow further in the years to come, albeit at a considerably slower pace than in previous years. Until 2030, Germany's population is set to grow to approximately 83.3 million, representing an increase by around 100,000 people. In this context, an above-average growth is projected for cities.

This can be explained by the continuing megatrends of urbanization and tendency toward one-person households. As of today, roughly 77 per cent of the German population currently lives in cities. In the next 30 years, this figure is anticipated to rise to above 84 per cent, according to a forecast of the United Nations. The share of one-person households is also expected to rise. The German Federal Statistical Office expects this share will rise to at least 44 per cent by 2035.

4.2.3 DEVELOPMENT OF REAL ESTATE MARKETS

Office market

The outlook for the German office market remains positive for 2020. At the beginning of the year, all forecasts were based on a continued economic growth which in turn fuels the employment in the office sector on a sustainable basis. Despite increased construction activities, a shortage of supply can be observed above all in the A cities which is set to continue in 2020. A high space take-up is expected especially from new building projects and further rising rents.

The specific effects of the corona pandemic on the German office property market are currently hardly estimable. The first figures from Asia indicate a significant decline of the investment volume and consequently also of the space take-up. Postponement of transaction can be observed already in Germany. In the most benign scenario, only small effects on the office markets were to be expected in case of a relatively short spread of the pandemic and comprehensive fiscal policy support measures.

Retail market

Despite disruption in the brick-and-mortar business and the flat prime rents, the investors' demand for retail properties is not expected to decline in medium term. The reasons for this are the shortage of supply, the lack of investment alternatives and the stable yield, especially in A cities.

However, the temporary shutdown of a number of retail stores to stop the spread of the coronavirus in Germany currently leads to massive losses of revenue. The risk of loss of rental income has increased significantly. In the case of a worldwide recession of the L type, a substantial decline in demand, space take-up, investment volume and rents as well as an increase in the vacancy rate has to be expected.

Residential real estate market

The projected population growth until 2030, the megatrend of urbanization and the increasing number of households, following the higher life expectancy and the establishment of new ways of living, strongly contribute to the continued high demand for residential space, in particular in the large agglomerations of Germany. Since the construction activities currently are not sufficient to ensure an adequate supply, there will continue to be excess demand in the years to come.

Residential properties may be the winners of the crisis as they continue to benefit from low interest rates and represent a safe haven asset class. The short-term consequences of the corona pandemic largely are delayed conclusions of rental agreements. It is possible that the closure of borders and the associated lack of mobility of construction workers will delay the completion of residential buildings. This would lead to a further increase of the excess demand in the A cities. If there is a sustainable, global L type recession, a negative impact on the German residential markets cannot be ruled out due to falling wages and rising unemployment.

4.3 OUTLOOK FOR THE GATEWAY GROUP

Prior to the outbreak of the corona pandemic with its massive changes in social and economic life, GATEWAY's Management Board expected stronger growth of the German economy in general and the real estate market in particular due to positive economic data.

Even if the fundamental assessment of the described developments in GATEWAY's focus cities regarding population development, excess demand and interest rate development has not changed, the extent and effects of the corona pandemic on the business development in 2020 cannot yet be conclusively assessed by the Management Board.

The current economic and social situation is characterized by considerable uncertainty, which makes a reliable forecast impossible. The duration of the pandemic and the expected effects of a probable economic crisis are too uncertain.

Excluding the impact of recent developments, the Management Board still expected an EBIT adjusted of at least €150–160 million and consolidated profit for the year of €120–130 million as in 2019 for the 2020 financial year.

Due to the current situation, this forecast is no longer valid.

In the absence of available empirical data and assuming that the measures introduced worldwide can slow down the spread of the virus, a similar course as in China can be seen as a realistic scenario. In this scenario, the Management Board expects economic life to normalize largely over the next three months. In this scenario, the negative impact on the GATEWAY Group is considered low and negative effects in the mid to high single-digit percentage range are expected.

However, since a less positive course of the pandemic, with unforeseeable consequences for the real economy and thus also for the GATEWAY Group, could occur, the Management Board estimates the negative impact to be in the low to medium double-digit percentage range, should the crisis last significantly longer than the three months and then probably extend to the end of the year.

Due to the large volume of purchases in 2019, the Group's pipeline is well filled. This means that even if the slump on the capital markets with the associated increase in the cost of raising capital has a lasting effect, GATEWAY will have sufficient projects for the next two years.

In addition to numerous risks, GATEWAY also sees opportunities for the procurement market as a result of an economic crisis. The financial difficulties of other companies may open up opportunities to acquire properties in particularly attractive locations or on particularly good terms.

Even if the Management Board does not currently regard a sustained crisis beyond 2021 as the most probable scenario, there is nevertheless a risk in this regard that should not be underestimated. Compared to the above figures, a decrease in the mid to high double-digit percentage range is not considered unrealistic in this scenario.

Like most companies, GATEWAY is now monitoring current developments very closely, is analyzing the circumstances, risks and opportunities within the framework of the implemented risk management system and makes decisions in accordance with the results.

The Management Board continues to believe that the Group is well positioned and, on the basis of the risks analyzed and assessed, does not currently see any risks that could endanger its continued existence.

5. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELATING TO THE GROUP ACCOUNTING PROCESS

The Group's risk management is managed by a central Finance Department on the basis of guidelines approved by the management. This Finance Department identifies, assesses and manages financial risks in close cooperation with the Group's operating companies. The risk management system provides for a continuous assessment and analysis of all risks relevant for GATEWAY to be able to respond to any potentially harmful risks in a timely and appropriate manner – this also includes the observation and evaluation of defined opportunities. As part of the Group risk management system, GATEWAY has set up an internal control system (ICS) with regard to proper and legally compliant accounting, in which the accounting process is accompanied by defined control measures. GATEWAY's Management Board, in whose area of responsibility the ICS is located, is responsible for the deployment and ongoing evaluation and development of the ICS. The Management Board thus bears overall responsibility for the design and implementation of the ICS, but at the same time has defined persons responsible for the process and control of its implementation in the Group and clear roles have been assigned to all GATEWAY employees involved in the accounting process. The accounting-related ICS was established with the aim of ensuring proper and legally compliant financial reporting in accordance with the regulations applicable to the GATEWAY Group. In organizational terms, this is carried out for all Group divisions and companies included in the consolidated financial statements by the Group parent company, Gateway Real Estate AG. Individual accounts from the consolidated companies are reviewed by various employees of the Group parent company and included in the Group financial reporting. The principle of separation of functions and the dual control principle are taken into account in all steps in this process.

After the financial statements have been prepared, the annual and consolidated financial statements together with the management report are submitted to the newly established Audit Committee of the Supervisory Board. The Audit Committee is also continuously involved in the further development of the accounting-related ICS and the risk management system.

6. RISK REPORTING RELATING TO THE USE OF FINANCIAL INSTRUMENTS

PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The Group's risk management is managed by a central Finance Department on the basis of guidelines approved by the management. This Finance Department identifies, assesses and manages financial risks in close cooperation with the Group's operating companies. The management issues written guidelines for overall risk management and for certain areas such as interest rate risks, default risks and liquidity management.

Financial risk management involves the management and limitation of financial risks arising from operating activities. It involves continuous, rolling liquidity controlling that is particularly focused on the avoidance of significant receivables defaults and assuring the financing needs of ongoing operations.

To limit the receivables default risk, ownership of sold properties is generally transferred to the buyer only after payment of the purchase price. Interest rate risks are not significant due to the predominantly short-term nature of borrowings.

With regard to an assessment of the risks related to the corona pandemic, we refer to the comments under points 3 and 4.

CAPITAL RISK MANAGEMENT

The Group regularly reviews its capital structure in connection with the preparation of its annual and interim financial statements.

INTEREST RATE RISK

Risks arising from interest rate changes fundamentally exist for the Group in connection with taking out loans to finance the purchase of properties. A variable interest rate for the future loan obligations was agreed upon in the majority of the loan contracts. Interest rate hedges to reduce the risk have not yet been concluded.

DEFAULT RISK MANAGEMENT

Default risk is the risk of a loss for the Group if a contracting party does not fulfil its contractual obligations. The Group only enters into business relationships with creditworthy contracting parties and obtains security when appropriate to mitigate the risks of a loss from the non-fulfillment of obligations. The Group uses available financial information and its own commercial records to assess its customers. The Group's risk exposure is continuously monitored. Particular default risks that normally arise in significant receivables from sales of real estate and equity investments and in brokerage commissions owed by institutional investors are treated separately.

Trade receivables are owed by a large number of customers in different German federal states. They are usually individuals or business people who have rented or purchased the Group's real estate.

After an appropriate determination is made, trade receivables are derecognized when they are no longer recoverable. This is the case, for example, where the debtor fails to commit to a repayment plan with the Group.

OTHER FINANCIAL ASSETS

Impairment losses in the category of other current financial assets are insignificant for the Group.

With few exceptions, loan receivables are particularly owed by the project development companies accounted for using the equity method.

The significant influence exercised over these companies enables the Group to monitor any changes in credit risk. Changes in the credit risk of loan receivables from third parties outside the Group are monitored and managed individually.

CASH AND CASH EQUIVALENTS

The cash and cash equivalents are deposited in banks and financial institutions. The Group assumes that its cash and cash equivalents have a low risk of default due to the external ratings of the banks and financial institutions. Impairment losses in the category of cash and cash equivalents are insignificant for the Group.

LIQUIDITY RISK

The responsibility for liquidity risk management lies with the Management Board, which has developed an appropriate concept for meeting short-term, medium-term and long-term financing and liquidity requirements. The Group manages liquidity risks by maintaining appropriate reserves and credit facilities with banks and by continuously monitoring projected and actual cash flows and harmonizing the maturity profiles of financial assets and liabilities.

FINANCING RISK

GATEWAY relies on the granting of bank loans, bonds, or loans from affiliated companies to finance acquisitions of companies and properties as well as its ongoing operations.

Particularly within the scope of real estate financing, it is also necessary to renew or refinance expiring loans, some of which are granted only on a short-term basis and must be regularly renewed. In all cases, there is a risk that a renewal is not possible or not at the same or different terms.

The market risk for the bank loans is relatively low since the existing loans are for the most part at a variable interest rate or short-term.

7. DISCLOSURES AND EXPLANATIONS RELEVANT TO TAKEOVERS

The following disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB) reflect the situation as it existed on the reporting date. The following explanation of these disclosures also complies with the requirements of an explanatory report pursuant to Section 176 (1) sent. 1 of the German Stock Corporation Act (AktG).

COMPOSITION OF THE SUBSCRIBED CAPITAL

The subscribed capital (share capital) of Gateway Real Estate Group AG amounted to €186,764,040.00 on December 31, 2019. It is divided into 186,764,040.00 no-par value bearer shares. The share capital has been fully paid up. The same rights and obligations are attached to all shares of the Company. Each share confers one vote and the same proportion in the profit. The rights and obligations arising from the shares are based on the applicable statutory provisions. As of December 31, 2019, the Company held no treasury shares.

DIRECT AND INDIRECT SHAREHOLDINGS IN THE CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS

As published on December 19, 2019, Mrs. Sandra Ketterer holds 12.28% of the voting rights of the Company.

As published on April 18, 2019, Mr. Norbert Ketterer – also via his shareholding in another company, SN Beteiligungen AG – holds a total of 65.75% of the voting rights of the Company.

It should be noted that the last reported number of voting rights may have changed since then within the respective thresholds without any obligation to notify the Company.

SHARES GRANTING SPECIAL RIGHTS THAT CONFER CONTROLLING POWERS

There are no shares granting special rights that confer controlling powers.

NATURE OF CONTROL OF VOTING RIGHTS WHERE EMPLOYEES HOLD AN INTEREST IN THE CAPITAL AND DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS

There are no employee shareholdings in the Company's capital where the employees do not directly exercise their control rights themselves.

STATUTORY PROVISIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Management Board is governed by Sections 84 and 85 AktG and Section 7 of the Articles of Association. Pursuant to Section 7 (1) of the Articles of Association, the Management Board consists of at least one member. The Articles of Association do not contain any special provisions for the appointment and dismissal of individual or all members of the Management Board. Appointment and dismissal is the responsibility of the Supervisory Board. The latter appoints members of the Management Board for a maximum term of five years. Reappointments or a prolongation of the term of office are permissible, in each case, for a maximum of five years, subject to the provision in Section 84 (1) sent. 3 AktG.

Amendments to the Articles of Association are made in accordance with Sections 119 (1) no. 5, 179, 133 AktG and Sections 12 (2) and 16 (4) of the Articles of Association. The Articles of Association do not stipulate any further requirements for amendments to the Articles of Association. Unless stipulated otherwise by mandatory law, the resolutions of the General Meeting are adopted by simple majority of the votes casts and, if in addition to a majority of votes a majority of the capital is required by statutory law, by a simple majority of the share capital represented for the adoption of the resolution. The Supervisory Board is authorized to make amendments to the Articles of Association which only concern their wording.

POWERS OF THE MANAGEMENT BOARD TO ISSUE SHARES

The powers of the Company's Management Board to issue shares are all based on corresponding authorization resolutions of the General Meeting, the material content of which is described below:

AUTHORIZED CAPITAL

The Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the Company until August 21, 2023, once or several times, by up to a maximum total amount of €67,914,196.00 by the issue of up to 67,914,196 new no-par value bearer shares of the Company against contributions in cash and/or in kind (Authorized Capital 2018/I). The new shares must generally be offered to the shareholders for subscription; they may also be subscribed by one or more credit institution(s) or one or more equivalent institutions with the obligation to offer them to the shareholders for subscription (indirect subscription right). However, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the shareholders' statutory subscription right in the following cases:

(aa) to the extent this is necessary to compensate for fractional amounts;

(bb) if the capital increase is made against cash contributions and the total pro-rata amount of the share capital represented by the new shares for which subscription rights are excluded does not exceed 10% of the share capital existing at the time this authorization becomes effective or is exercised and the issue price is not significantly lower, within the meaning of Sections 203 (1) and (2), 186 (3) sent. 4 AktG, than the stock market price of the shares of the same class and features already listed at the time the issue price is finally determined. This limit of 10% of the share capital is to be diminished by such portion of the share capital attributable to shares which during the term of this authorization are issued or disposed of subject to an exclusion of subscription rights in application, directly, accordingly or mutatis mutandis, of Section 186 (3) sent. 4 AktG; The limit of 10% of the share capital is also to be diminished by the pro-rata amount of the share capital attributable to shares issued to satisfy bonds with conversion or option rights or to fulfil conversion or option obligations arising from convertible and/or option bonds issued during the term of this authorization subject to an exclusion of the shareholders' subscription rights in accordance with Sections 221 (4) sent. 2, 186 (3) sent. 4 AktG;

(cc) in the case of capital increases against contributions in kind, to grant shares for the purpose of acquiring real estate, real estate portfolios, companies, parts of companies or equity interests in companies, as well as to acquire other assets, including receivables.

The Management Board is authorized, with the approval of the Supervisory Board, to determine the content of the respective rights conferred by the shares, the other conditions of the share issue and the further details of the implementation of capital increases from the Authorized Capital 2018/I.

The Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the Company until August 20, 2024, once or several times, by up to a maximum total amount of €25,467,824.00 by the issue of up to 25,467,824 new no-par value bearer shares of the Company against contributions in cash and/or in kind (Authorized Capital 2019/I). The new shares must generally be offered to the shareholders for subscription; they may also be subscribed by one or more credit institution(s) or one or more equivalent institutions with the obligation to offer them to the shareholders for subscription (indirect subscription right). However, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the shareholders' statutory subscription right in the following cases:

aa) to the extent this is necessary to compensate for fractional amounts;

bb) if the capital increase is made against cash contributions and the total pro-rata amount of the share capital represented by the new shares for which subscription rights are excluded does not exceed 10% of the share capital existing at the time this authorization becomes effective or is exercised and the issue price is not significantly lower, within the meaning of Sections 203 (1) and (2), 186 (3) sent. 4 AktG, than the stock market price of the shares of the same class and features already listed at the time the issue price is finally determined. This limit of 10% of the share capital is to be diminished by such portion of the share capital attributable to shares which during the term of this authorization are issued or disposed of subject to an exclusion of subscription rights in application, directly, accordingly or *mutatis mutandis*, of Section 186 (3) sent. 4 AktG; The limit of 10% of the share capital is also to be diminished by the pro-rata amount of the share capital attributable to shares issued to satisfy bonds with conversion or option rights or to fulfil conversion or option obligations arising from convertible and/or option bonds issued during the term of this authorization subject to an exclusion of the shareholders' subscription rights in accordance with Sections 221 (4) sent. 2, 186 (3) sent. 4 AktG;

cc) in the case of capital increases against contributions in kind, to grant shares for the purpose of acquiring real estate, real estate portfolios, companies, parts of companies or equity interests in companies, as well as to acquire other assets, including receivables;

dd) to the extent necessary to grant shares to the holders of option or convertible bonds of the Company or a Group company in the event of an offer directed to all shareholders or in the event of a capital increase with subscription rights to the extent that such holders would be entitled to a subscription right to shares of the Company after exercising the option or conversion right or fulfillment of the corresponding obligation

The Management Board is authorized, with the approval of the Supervisory Board, to determine the content of the respective rights conferred by the shares, the other conditions of the share issue and the further details of the implementation of capital increases from the Authorized Capital 2019/I.

CONDITIONAL CAPITAL
The share capital is conditionally increased by up to €93,382,020.00 by the issue of up to 93,382,020 new no-par value bearer shares with a proportionate amount of the share capital of €1.00 each (Conditional Capital 2019/I). The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds, option bonds and/or participating bonds and/or profit participation rights (or combinations of these instruments) issued by the Company or its direct or indirect German or foreign majority holdings on the basis of the authorization resolved by the General Meeting on August 21, 2019 under Item 8 of the agenda and granting conversion or option rights for the subscription of no-par value bearer shares of the Company or stipulating a conversion obligation. The new no-par value bearer shares from Conditional Capital 2019/I may only be issued at a conversion or option price which complies with the requirements of the authorization resolved by the General Meeting on August 21, 2019 under Item 8 of the agenda. The conditional capital increase is to be implemented only to the extent that option or conversion rights are exercised, that bond holders or creditors obliged to conversion fulfill their conversion obligation and that offers of shares are made due to replacement rights of the Company, and only to the extent treasury shares or new shares from the use of an authorized capital are not used to satisfy such claims. The new no-par value bearer shares are entitled to profit participation starting from the beginning of the financial year in which they come into existence by virtue of the exercising of option or conversion rights or the fulfillment of conversion obligations or the exercising of sell-out rights. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase.

AUTHORIZATION TO ACQUIRE TREASURY SHARES

The Management Board is currently not authorized to acquire the Company's treasury shares on its behalf.

CHANGE-OF-CONTROL CLAUSES AND COMPENSATION AGREEMENTS IN CASE OF A TAKEOVER BID

Individual contracts of corporate financing of the Company provide for a special termination right of the financing provider in the event of a change of control (in some cases defined as the acquisition of a majority interest in terms of voting rights or equity interest, in some cases defined as holding more than 30% of the voting rights in the Company). Other than this, there are no material agreements with third parties or Group companies as of the balance sheet date that take effect, change or end in the event of a takeover bid.

The service agreements of the members of the Management Board do not contain any provisions for the event of a change of control.

8. REMUNERATION REPORT

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In accordance with the recommendations of the German Corporate Governance Code, GATEWAY discloses the remuneration of individual members of the Management Board separately and describes the remuneration system in a generally comprehensible way. The full Supervisory Board determines the total remuneration for each Management Board member. The full Supervisory Board resolves the Management Board remuneration system and reviews it regularly.

The current **Management Board remuneration** exclusively consists of a fixed remuneration which is paid in equal monthly instalments. There are no variable remuneration components.

In addition, both members of the Management Board received the following fringe benefits in the year 2019: A monthly flat-rate allowance of €2 thousand (gross) to cover all costs arising from and in connection with business trips with the member's own car. The Management Board members are reimbursed to a reasonable extent for all expenses required in the interest of the Company. The Management Board members are reimbursed for travel, representation and entertaining costs upon the submission of individual evidence. For both members contributions for a group accident insurance are assumed. Effective as of January 1, 2019, the members of the Management Board receive a monthly allowance in the amount of half of the contributions paid to a reasonable health and nursing care insurance. The allowance is limited to half of the general contribution rate applicable for the statutory health and nursing care insurance. Instead of benefits, both members of the Management Board receive monthly payments that are equal to the maximum amount due to be paid to the statutory pension insurance by an employer in line with the respective statutory income threshold for contribution assessment (employer's contribution).

The remuneration is summarized as follows:

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Remuneration granted	Manfred Hillenbrand, CEO First appointment: 2016				Tobias Meibom, CFO First appointment: 2011			
in € thousand	2018	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)
Fixed remuneration	480	480	480	480	480	480	480	480
Fringe benefits	28	31	31	31	28	33	33	33
Sum	508	511	511	511	508	513	513	513
Pension benefits	7	7	7	7	7	7	7	7
Total remuneration	515	518	518	518	515	520	520	520

In addition, Manfred Hillenbrand received €80 thousand and Tobias Meibom received €920 thousand in connection with the temporary cessation of their activities.

As far as the **remuneration for members of the Supervisory Board** is concerned, the Company's Annual General Meeting on August 21, 2019, adopted the following resolution for the first time: Each member of the Supervisory Board receives a fixed remuneration of €20,000.00 for each fiscal year. The Chairman of the Supervisory Board receives a fixed remuneration of €40,000.00 for each fiscal year and the Deputy Chairman receives a fixed remuneration of €30,000.00.

This rule applies for the first time for the entire fiscal year 2019, and complies with the German Corporate Governance Code which recommends that the status as Chairman or Deputy Chairman of the Supervisory Board as well as Chair or memberships in the committees shall be taken into consideration in the determination of the remuneration for the Supervisory Board.

Accordingly, the **remuneration for members of the Supervisory Board** for the fiscal year 2019 was as follows:

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Member of the Supervisory Board	Time period	Remuneration in 2019 in € thousand
Norbert Ketterer (Chairman of the Supervisory Board)	01.01.2019–31.12.2019	40
Thomas Kunze (Deputy chairman of the Supervisory Board)	01.01.2019–31.12.2019	30
Ferdinand von Rom	01.01.2019–31.12.2019	20
Jan Hendrik Hedding	21.08.2019–31.12.2019	around 7.2 (pro rata)
Marcellino Graf von und zu Hoensbroech	21.08.2019–31.12.2019	around 7.2 (pro rata)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 2019 FINANCIAL YEAR

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019

ASSETS

in € thousand	Notes	31.12.2019	31.12.2018
Non-current assets			
Intangible assets and goodwill	6.1	39,891	39,900
Property, plant and equipment	6.2	2,518	469
Investment properties	6.3	8,270	238,197
Investments accounted for using the equity method	6.4	8,832	35,668
Other non-current financial assets	6.6	15,415	9,570
Deferred tax assets	6.13	3,615	4,826
		78,541	**328,630**
Current assets			
Inventories	6.5	581,602	342,736
Trade receivables	6.6	1,823	1,810
Income tax receivables		2,687	652
Other financial assets	6.6	70,283	11,740
Other non-financial assets	6.6	50,234	3,527
Cash and cash equivalents	6.7	216,045	73,931
Non-current assets held for sale	6.8	38,750	35,590
		961,424	**469,986**
		1,039,965	**798,616**

EQUITY AND LIABILITIES

in € thousand	Notes	31.12.2019	31.12.2018
Equity			
Subscribed capital	6.9	186,764	169,785
Reserves	6.9	–22,804	–73,266
Retained earnings	6.9	156,778	49,313
Non-controlling interests	6.9	5,253	2,593
		325,991	**148,425**
Non-current liabilities			
Other non-current provisions	6.10	629	639
Non-current financial liabilities	6.11	343,389	398,449
Deferred tax liabilities	6.13	15,118	22,831
Other non-current financial liabilities		2,345	0
Other non-current non-financial liabilities		0	5
		361,481	**421,924**
Current liabilities			
Other current provisions	6.10	1,448	896
Current financial liabilities	6.11	272,620	191,663
Income tax liabilities		9,220	4,263
Trade payables	6.12	60,215	10,587
Other financial liabilities	6.12	3,465	3,137
Other non-financial liabilities	6.12	5,525	17,721
		352,493	**228,267**
		1,039,965	**798,616**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FROM JANUARY 1 TO DECEMBER 31, 2019

in € thousand	Notes	2019	2018
Revenue	6.14	94,442	18,568
Changes in inventories of finished goods and work in progress	6.15	221,499	39,858
Other operating income	6.18	97,260	24,010
Gross profit		**413,201**	**82,436**
Raw materials and consumables used	6.16	–247,563	–19,084
Employee benefits expense	6.17	–9,642	–6,333
Fair value changes in investment properties and valuation of properties	6.3	20,548	9,900
Depreciation and amortization expense	6.2	–581	–130
Other operating expenses	6.18	–26,986	–9,906
Operating profit		**148,977**	**56,883**
Profit or loss from investments accounted for using the equity method, after taxes	6.19	9,884	16,296
Finance income	6.19	2,499	726
Finance costs	6.19	–29,555	–32,240
Net finance costs		**–17,172**	**–15,218**
Profit before tax		**131,804**	**41,665**
Income tax expense	6.20	–4,829	–8,417
Profit for the year		**126,975**	**33,248**
Other comprehensive income		0	0
Total comprehensive income for the period		**126,975**	**33,248**
Attributable to equity holders of the parent company	7.1	125,976	33,235
Attributable to non-controlling interests		998	13
Earnings per share (basic)	7.1	0.69	0.22
Earnings per share (diluted)		0.69	0.22

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM JANUARY 1 TO DECEMBER 31, 2019

		Equity attributable to equity holders of the parent company					
in € thousand	Notes	Subscribed capital	Reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of 01.01.2018		**21,175**	**–20,601**	**16,173**	**16,747**	**405**	**17,152**
Profit	7.1	0	0	33,235	33,235	13	33,248
Reverse acquisition	6.9	148,610	–51,205	0	97,405	0	97,405
Issue costs	6.9	0	–1,440	0	–1,440	0	–1,440
Other	6.9	0	–20	–95	–115	2,175	2,060
Balance as of 31.12.2018		**169,785**	**–73,266**	**49,313**	**145,832**	**2,593**	**148,425**
Profit/loss	7.1	0	0	125,976	125,976	998	126,975
Capital increase	6.9	16,979	50,936	0	67,915	0	67,915
Issue costs	6.9	0	–495	0	–495	0	–495
Dividend payment (26.08.2019)	6.9	0	0	–18,676	–18,676	0	–18,676
Changes in the scope of consolidation/disposal of shares	6.9	0	0	0	0	25	25
Other	6.9	0	21	165	186	1,637	1,822
Balance as of 31.12.2019		**186,764**	**–22,804**	**156,778**	**320,738**	**5,253**	**325,991**

CONSOLIDATED SEGMENT REPORT

FROM JANUARY 1 TO DECEMBER 31, 2019

					2019
in € thousand	Standing Assets	Commercial Property Development	Residential Property Development	Consolidation	Group
Revenues with third parties (external revenues)	25,676	58,602	10,164	0	94,442
Intersegment revenues (internal revenues)	0	516	0	–516	0
Revenue	**25,676**	**59,118**	**10,164**	**–516**	**94,442**
Gross profit	**36,008**	**282,759**	**94,986**	**–554**	**413,201**
Segment result (operating profit)	**23,505**	**20,252**	**92,064**	**13,156**	**148,977**
thereof:					
Changes in the fair value of investment properties and valuation of properties	20,548	0	0	0	20,548
Amortization and depreciation	–72	–508	0	0	–581
Profit or loss from investments accounted for using the equity method	–20	9,543	361	0	9,884
EBIT adjusted	**23,485**	**29,795**	**92,425**	**13,156**	**158,861**
Finance income	78,489	2,443	88	–78,521	2,499
Finance costs	–6,337	–22,882	–1,703	1,367	–29,555
Income tax expense	1,096	–3,444	–2,481	0	–4,829
Segment assets	**326,919**	**680,034**	**132,897**	**–99,885**	**1,039,965**
Investments accounted for using the equity method	91	8,741	0	0	8,832
Additions to non-current assets	46	4,151	270	0	4,467
Segment liabilities	**151,802**	**561,322**	**95,736**	**–94,885**	**713,974**

				2018
Standing Assets	**Commercial Property Development**	**Residential Property Development**	**Consolidation**	**Group**
8,450	10,118	0	0	18,568
0	50	0	–50	0
8,450	**10,168**	**0**	**–50**	**18,568**
17,898	**68,055**	**1,536**	**–5,053**	**82,436**
19,841	**41,669**	**347**	**–4,974**	**56,883**
9,900	0	0	0	9,900
–67	–63	0	0	–130
1,719	13,193	1,384	0	16,296
21,560	**54,862**	**1,731**	**–4,974**	**73,179**
112	627	0	–13	726
–2,790	–28,134	–1,329	13	–32,240
–3,485	–4,932	0	0	–8,417
394,324	**345,711**	**69,624**	**–11,043**	**798,616**
1,776	16,666	17,226	0	35,668
7,457	7,370	0	0	14,827
282,958	**306,481**	**66,820**	**–6,070**	**650,189**

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM JANUARY 1 TO DECEMBER 31, 2019

in € thousand	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Total comprehensive income for the period		126,975	33,248
Adjustments for:			
Depreciation of property, plant and equipment	6.2	569	130
Amortization of intangible assets	6.1	9	2
Impairment on trade receivables	3.6	617	68
Changes in fair value of investment properties and valuation of properties	6.3	168	–9,900
Changes in fair value of non-current assets held for sale (properties)		–20,715	0
Profit or loss from investments in companies accounted for using the equity method, after taxes	6.19	–9,884	–16,296
Distributions received from investments accounted for using the equity method		17,709	0
Other non-cash expenses/income		–62,215	0
Net finance costs		27,057	31,514
Profit or loss from the sale of investments accounted for using the equity method		–15	–13,723
Profit or loss from the sale of other financial assets		–3,080	0
Tax expenses		4,830	8,417
Changes in:			
Inventories		–196,783	–90,757
Trade receivables and other receivables		16,324	–349
Other financial assets		–46,710	0
Non-financial assets		–50,194	756
Trade payables and other payables		8,374	–2,700
Non-financial liabilities		–6,433	11,841
Other provisions as well as assets and provisions for employee benefits		542	–133
Cash outflow from operating activities		–192,855	–47,882
Interest paid		–19,193	–14,912
Income taxes received		596	6,474
Income taxes paid		–4,753	–8,172
Cash flows from operating activities		**–216,205**	**–64,491**
Cash flows from investing activities			
Interest received		2,499	726
Cash inflows from the sale of non-current assets held for sale (properties)		15,520	0
Cash inflows from the sale of subsidiaries		110,682	28,013
Cash inflows from the sale of investments accounted for using the equity method		400	13,746
Cash inflows from the sale of other financial assets		4,900	0
Purchase of a subsidiary less cash and cash equivalents acquired		0	4,460
Cash outflows for investments in properties held for sale (IFRS 5)		–6,598	0
Purchase of investment properties		–8	–1,447
Purchase of property, plant and equipment		–492	0
Purchase of intangible assets		0	–6
Purchase of other financial assets		0	–7,364
Purchase of investments accounted for using the equity method		0	–113
Cash flows from investing activities		**126,903**	**38,015**
Cash flows from financing activities			
Cash inflows from sales of non-controlled companies		0	2,058
Cash inflows from capital increase		67,914	0
Transaction costs in connection with the capital increase		–495	0
Cash inflows from new (financial) loans		342,835	163,303
Transaction costs for loans and borrowings		0	–2,216
Cash outflows for raising capital		0	–1,440
Other distributions to third party shareholders		–2,500	0
Dividends paid to shareholders of the parent company		–18,676	0
Repayments of bonds, (financial) loans and leasing liabilities		–149,652	–73,320
Fees for financial liabilities not utilized		0	–898
Cash flows from financing activities		**239,426**	**87,487**
Net increase/decrease in cash and cash equivalents		**150,124**	**61,011**
Change in cash and cash equivalents due to consolidation group		–8,010	–1,584
Cash and cash equivalents as of January 1		73,931	14,504
Cash and cash equivalents as of December 31		**216,045**	**73,931**

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2019

1. REPORTING ENTITY

Gateway Real Estate AG (also referred to hereinafter as "GATEWAY", the "Company" or the "Enterprise") and its subsidiaries specialize in the acquisition and long-term rental of commercial properties as investment properties as well as the development of commercial and residential properties for sale.

GATEWAY, which is registered in the commercial register of the Frankfurt am Main local court under the number HRB 93304, has its registered head office and business address at The Squaire, Zugang 15, Am Flughafen, 60549 Frankfurt am Main.

The GATEWAY shares have been listed on the Prime Standard of the Frankfurt Stock Exchange since admission on April 12, 2019. Therefore, GATEWAY is a publicly-traded company within the meaning of stock corporation and commercial law.

The consolidated financial statements were prepared as of March 26, 2020, by the Management Board and, subject to the Supervisory Board's approval, released for publication on March 27, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparing the present financial statements are described in the following.

2.1 GENERAL INFORMATION

The Company's consolidated financial statements as of December 31, 2019, were prepared in accordance with the International Financial Reporting Standards (IFRS, including the interpretations of the IFRS Interpretations Committee) applicable as of December 31, 2019, as they have been endorsed by the European Union. In addition, the requirements set out in Section 315e (1) of the German Commercial Code (Handelsgesetzbuch, HGB) were also complied with.

The requirements of IFRS were completely fulfilled and lead to the presentation of a true and fair view of the Group's financial position, cash flows and financial performance. The statement of comprehensive income is structured on the basis of the cost of sales method. In accordance with the accrual principle, expenses and income are attributed to the respective periods regardless of when they were paid or received.

The financial statements were prepared on the basis of historical cost, except for investment properties, non-current assets held for sale as well as equity investments and derivatives which are measured at fair value.

The estimates and assumptions applied in the preparation of the financial statements according to IFRS influence the measurement of assets and liabilities and the disclosure of contingent assets and liabilities as of the respective reporting dates, as well as the amount of income and expenses in the reporting period. Although these assumptions and estimates were based on the best knowledge of the Company's management, based on current events and measures, actual results could ultimately differ from these estimates.

Unless otherwise indicated, amounts are always stated in thousands of euros (€ thousand). The presentation in thousands of euros may result in rounding differences, both in the tables presented in the notes to the financial statements and in the comparison of values in the notes to the financial statements with other elements of the financial statements.

The statement of profit or loss for the comparative period 2018 can be compared with figures for the reporting period only to a limited degree due to the presentation of the reverse acquisition between GATEWAY and Development Partner AG as of the acquisition date for accounting purposes (October 5, 2018). Until this date, only the figures of Development Partner AG together with its subsidiaries are presented; GATEWAY was included in the scope of consolidation as of this date.

2.2 FINANCIAL REPORTING STANDARDS

A. STANDARDS AND AMENDMENTS REQUIRED TO BE APPLIED FOR THE FIRST TIME IN FISCAL YEAR 2019

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Standard	Content	Mandatory first-time application for fiscal years beginning on or
EU endorsement given:		
IFRS 16	Leases	01.01.2019
IFRIC 23	Uncertainty over Income Tax Treatments	01.01.2019
Amendments to IFRS 9	Financial Assets with Negative Compensation	01.01.2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	01.01.2019
Improvements to IFRSs 2015–2017 Cycle	Amendments and Clarifications to IFRS 3, IFRS 11, IAS 12 and IAS 23	01.01.2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	01.01.2019

The amendments resulting from the new financial reporting standard IFRS 16 are described in Note 2.3.

The interpretation IFRIC 23 clarifies how to apply the recognition and measurement requirements set out in IAS 12 in case there are uncertainties over income tax treatments. These clarifications have to be applied to current and deferred tax assets and liabilities. Accordingly, uncertain tax treatments may be taken into consideration either separately or together with one or more other uncertain tax treatments, based on which approach better predicts the effects of the uncertainty. In addition, it has to be assumed within the framework of the approach that the taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If it is deemed probable that the taxation authority will not accept an uncertain tax treatment, either the most likely amount or the expected value has to be used for each uncertain tax treatment of a matter to reflect the effect of uncertainty depending on which method is more suitable to predict the effect of the uncertainty. The first-time application of the clarification did not have a significant impact on the consolidated financial statements.

The amendments of the financial reporting standards required to be applied for the first time in the fiscal year 2019 do not have a significant impact on the Company's consolidated financial statements.

B. NEW STANDARDS AND AMENDMENTS NOT YET APPLIED

Subject to the endorsement by the European Union, the following financial reporting requirements issued or amended by the IASB until the date of the consolidated financial statements are required to be applied only after that reporting date and were not applied early on a voluntarily basis by the Company:

—

Standard	Content	Mandatory first-time application for fiscal years beginning on or after
EU endorsement given:		
Amendments to various standards	References to the Conceptual Framework	01.01.2020
Amendments to IAS 1 and IAS 8	Definition of Material	01.01.2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	01.01.2020
EU endorsement still outstanding:		
Amendments to IFRS 3	Definition of Business	01.01.2020
IFRS 17	Insurance Contracts	01.01.2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Delayed for the time being

The Company does not expect that the application of the future financial reporting standards will have material effects on the consolidated financial statements, except for additional disclosures in the notes. It is intended to apply these standards when they are required to be applied for the first time.

2.3 FIRST-TIME APPLICATION OF IFRS 16

In the fiscal year 2019, IFRS 16 Leases, which was issued by the IASB in January 2016, is applied for the first time. IFRS 16 supersedes the previous standards on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases: Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The Group has applied IFRS 16 based on the modified retrospective method pursuant to which the cumulative effect from the first-time application as of January 1, 2019, is recorded in equity. Comparative figures for 2018 were not adjusted, i.e. they were presented as previously in accordance with IAS 17 and the related interpretations. The details regarding the changes in the accounting methods are presented in the following. Moreover, the disclosure requirements set out in IFRS 16 were not applied for the comparative period.

IFRS 16 introduces a uniform financial reporting model under which leases are to be recognized in the lessee's statement of financial position. The previous distinction between operating and finance leases under IAS 17 no longer applies for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a financial liability representing its obligation to make lease payments.

The right-of-use assets are reported in the items of the statement of financial position in which the assets underlying the lease agreement would have been reported if they had been owned by GATEWAY. Therefore, the right-of-use assets are reported mainly in the item "Land and buildings" as of the reporting date. The right-of-use asset generally corresponds to the present value of all outstanding lease payments, including any lease payments made at or before the provision of the asset, initial direct costs as well as any potential costs for dismantling and removing the asset. Any lease incentives have to be deducted from the calculated right-of-use asset. Upon the date of first-time application, there is no knowledge as regards any potential future costs for dismantling and removing the asset, and the direct costs are not taken into account as of the date of first-time application (IFRS 16.C10(d)). The capitalized right-of-use asset is depreciated over the lease term, less any potential impairment losses.

The initial measurement of the lease liability is based on the present value of the lease payments not yet made as of the date of first-time application in relation to leases that were classified as operating leases in accordance with IAS 17. The lease payments are discounted using the incremental borrowing rate applicable as of the date of first-time application, with such incremental borrowing rate taking into account the term of the individual asset classes as well as the risks associated with the business model.

The accounting treatment at the lessor largely corresponds to the former rules set out in IAS 17. As previously, lessors continue to classify leases in finance and operating leases on the basis of the allocation of risks and rewards. The introduction of IFRS 16 did not lead to an adjustment of the original classification.

GATEWAY accounts for leases for the first time as of January 1, 2019 using the modified retrospective method. In this context, prior-year figures are not adjusted in line with the transitional provisions.

GATEWAY applies the following elections and judgments provided by IFRS 16 upon the transition to the new standard:

— Upon the date of first-time application, there was no reassessment whether an arrangement is or contains a lease. Instead, IFRS 16 was applied to arrangements that were previously classified as leases in accordance with IAS 17 and IFRIC 4.

— The lease liability for the lease agreements previously classified as operating leases in accordance with IAS 17 is recognized at the present value of the outstanding lease payments and discounted using the incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate was 1.61%. The related right-of-use asset is generally recognized in an amount equal to the lease liability. An exception applies to contractual relationships that contain prepaid lease payments.

— Leases that terminate no later than December 31, 2019 are accounted for as short-term leases, irrespective of the original lease term.

— Right-of-use assets and lease liabilities were not recognized for lease agreements with a term of up to twelve months (short-term leases) as well as for leases for low-value assets. The lease payments associated with such leases are recognized as an expense.

- A review regarding any potential impairment is not conducted. Instead, by way of simplification, the provisions recorded as of December 31, 2018 are reviewed whether any potential onerous leases exist.

- The initial direct costs are not taken into account in the measurement of the right-of-use asset as of the date of first-time application.

- When determining the term and the lease payments, current knowledge is taken into account to assess whether there are any renewal or termination options.

Upon the transition to IFRS 16, the Group recognized additional right-of-use assets in property, plant and equipment and additional lease liabilities. All the effects from the first-time application of IFRS 16 as of the transition date are summarized as follows:

in € thousand	01.01.2019
Right-of-use assets in property, plant and equipment	2,848
Lease liabilities	2,816

Within the context of the first-time application of IFRS 16, the Group reported lease liabilities under other financial liabilities. Based on the operating lease obligations as of December 31, 2018, the reconciliation to the opening balance of the lease liabilities as of January 1, 2019, is as follows:

in € thousand	01.01.2019
Operating lease obligations as of December 31, 2018 (undiscounted)	3,021
Adjustment for short-term leases	–26
Effect from discounting	–179
Total lease liabilities as of January 1, 2019	**2,816**

Within the context of the first-time application of IFRS 16 as of January 1, 2019, right-of-use assets were capitalized in the amount of the lease liability, in accordance with the applicable option.

Upon the introduction of IFRS 16, any lease payments previously recognized as expenses at the lessee are capitalized as right-of-use assets, leading to a reduction of operating expenses and an increase in depreciation and finance costs. This results in an immaterial effect on EBIT adjusted in the period ended December 31, 2019.

2.4 BASIS OF CONSOLIDATION

A. CONSOLIDATION PRINCIPLES

i. Acquisitions

Purchased subsidiaries are accounted for by the acquisition method in accordance with IFRS 3. The acquisition costs are equal to the fair value of the assets acquired, the equity instruments issued and the liabilities created or assumed at the acquisition date. Assets, liabilities and contingent liabilities identifiable in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of acquisition costs over the Group's share of the net assets measured at fair value is recognized as goodwill. Any goodwill arising is tested for impairment either annually or if there are any indications of potential impairment (see Note 2.8). If the acquisition costs are lower than the fair value of the (proportional) net assets of the acquired subsidiary, the negative difference is recognized directly in the statement of comprehensive income. Transaction costs are expensed as incurred.

ii. Subsidiaries

All subsidiaries of GATEWAY are included in the consolidated financial statements if they are not immaterial for the presentation of the Group's financial position, cash flows and financial performance. Subsidiaries are companies whose financing and operating policies can be controlled by the Group, directly or indirectly. Control is assumed when one company has control over the key activities of the other company, entitlements to the variable repayments from the other company and can influence these repayments by means of its control.

Subsidiaries are included in the consolidated financial statements by way of full consolidation from the date when the possibility of control has passed to the Group. They are deconsolidated from the date when the possibility of control no longer exists.

The accounting policies applied by subsidiaries were modified if necessary to ensure consistent accounting throughout the Group. This applies in particular to the application of principles for a period-related realization of sales and profit where there is a sales contract for properties under development.

iii. Non-controlling interests
Non-controlling interests are initially measured at the acquisition date based on their corresponding share in the identifiable net assets of the acquired company.

The acquisition and sale of further interests in subsidiaries are recognized in equity as equity transactions in the form of payments to outside shareholders if they do not change the status of the subsidiary (so-called "acquisition without status change"). The resulting differences are set off against the as yet unutilized results.

iv. Loss of control
When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary as well as any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in the statement of comprehensive income. Any retained share in the former subsidiary has to be measured at fair value at the time control is lost.

v. Investments accounted for using the equity method
Associates are those companies on which the Group can exercise significant influence, but is not able to control or jointly direct the company's financial and business policies. Significant influence is presumed when GATEWAY is entitled to a share of voting rights of at least 20% or more directly or indirectly.

A joint venture is an arrangement under which the Group exercises joint control and holds rights to the net assets of the arrangement, instead of rights to its assets and obligations for its liabilities.

Shares in associates and joint ventures are carried by applying the equity method and recognized at their cost of purchase upon acquisition. The Group's share of the profits or losses of associates is recognized in the income statement from the date of acquisition. The cumulative changes after acquisition are offset against the net carrying amount. If the Group's share of losses in a company consolidated on the basis of the equity method corresponds to or exceeds the Group's share in this company, including other unsecured receivables, the Group does not recognize any further losses unless it has entered into obligations for that company or has made payments for that company.

The accounting policies of companies that were consolidated on the basis of the equity method were modified when necessary to ensure uniform Group accounting methods. This applies in particular to the application of principles for a period-related realization of sales and profit where there is a sales contract for properties under development. Where a company consolidated using the equity method has sub-interests, inclusion takes place based on a preliminary consolidation to the extent possible based on available information.

vi. Transactions eliminated during consolidation
Intra-group receivables and payables and income and expenses are netted. Intra-group transactions, balances and profits on transactions between Group companies are eliminated. Unrealized profits on transactions between Group companies and companies consolidated on the basis of the equity method are eliminated in the amount of the proportional share of equity held in the associates. Unrealized losses are likewise eliminated, unless the transaction is indicative of an impairment of the transferred asset.

B. SCOPE OF CONSOLIDATION
GATEWAY's scope of consolidation in the reporting period 2019 includes Gateway Real Estate AG as well as 63 (previous year: 69) subsidiaries. A total of 57 (previous year: 67) companies have the registered office in Germany and 6 (previous year: 2) in other countries. The changes resulted primarily from newly established companies, mergers as well as the sale of individual companies.

In addition, 8 (previous year: 16) joint ventures and 5 (previous year: 5) associates were included in the consolidated financial statements using the equity method as of December 31, 2019. The changes mainly result from the sale of the LE companies. Please refer to Note 7.3.c for more details.

The reporting date for the subsidiaries included in the consolidated financial statements is the same as the reporting date of the parent company. In accordance with Section 264b HGB, the commercial partnerships included in the consolidated financial statements are exempt from the obligations for corporations to prepare, to have audited and to publish separate financial statements and a separate management report.

Companies of subordinate importance for the Group's financial position, cash flows and financial performance were not included in the consolidated financial statements for materiality reasons.

A detailed list of the Group's shareholdings pursuant to Section 313 HGB is included in Note 7.7.

C. CHANGES IN THE SCOPE OF CONSOLIDATION

i. Newly established companies

In the reporting period 2019, Projektentwicklung Mediaspree in Berlin GmbH, Duesseldorf, and Projektentwicklung Campus Park München GmbH, Duesseldorf, were newly established; the business object of all of these companies is to develop a property. GATEWAY indirectly holds a share of 94.9% in each of these companies. All of the companies are allocated to the Commercial Property Development segment.

ii. Merger of Projektentwicklung Himmelgeister Straße in Düsseldorf II GmbH

Taking effect of January 1, 2019, Projektentwicklung Himmelgeister Straße in Düsseldorf II GmbH, Duesseldorf (formerly: Single Appartment zweite Beteiligungs GmbH) was merged with Projektentwicklung Himmelgeister Straße in Düsseldorf I GmbH, Duesseldorf (formerly: Single Appartment erste Beteiligungs GmbH). The asset transfer as a whole was executed by way of a merger by absorption without capital increase.

iii. Acquisition of S-companies

By way of a contract dated June 6, 2019, GATEWAY acquired 50% of the shares (in addition to the already existing shares) in each of the following companies for a total purchase price of €41,205 thousand: S1 Rialto Quartier GmbH, S2 Cliffhanger GmbH, S3 Forum Sullivan GmbH, S4 De Gregori Quartier GmbH, S5 Dalla Quartier GmbH, S6 Park Lane GmbH & Co. KG, S7 Curve Quartier GmbH, S8 Chelsea Quartier GmbH & Co. KG, S11 Piazza GmbH & Co. KG as well as S12 Sound & Vision GmbH Co. KG, each with their registered offices in Frankfurt am Main. As a result of the acquisition, the Group acquired the voting majority and thus obtained control over these companies. As of the reporting date, GATEWAY held 90% of the limited partnership interests or shares in the companies. The sellers were SoHo Sullivan Estate GmbH, Frankfurt am Main, as well as a private individual. The object of purchase comprises mainly the company's shares. As of the acquisition date, the company did not have any assets and liabilities, apart from the land purchase agreement concluded by the target companies in 2017, which has not yet been executed in its entirety. The companies are allocated to the Residential Property Development segment and are included in the consolidated financial statements by way of full consolidation.

iv. Acquisition of Revaler Straße 32 PE GmbH

Upon the closing on July 15, 2019, GATEWAY purchased 51% of the shares in Revaler Straße 32 PE GmbH, Berlin, for a purchase price of €14 thousand and thus obtained control over this company as it now holds the voting majority. The seller was VRB Vorratsgesellschaften GmbH, Berlin. The object of purchase comprises mainly the company's shares. As of the acquisition date, the company did not have any assets and liabilities. The company is allocated to the Commercial Property Development segment and is included in the consolidated financial statements by way of full consolidation.

v. Acquisition of Storkower Straße 140 PE GmbH

Upon the closing on September 13, 2019, GATEWAY purchased 51% of the shares in Storkower Straße 140 PE GmbH, Berlin, for a purchase price of €14 thousand and thus obtained control over this company as it now holds the voting majority. The seller was Townscape Holding GmbH, Berlin. The object of purchase comprises mainly the company's shares. As of the acquisition date, the company did not have any assets and liabilities. The company is allocated to the Commercial Property Development segment and is included in the consolidated financial statements by way of full consolidation.

vi. Acquisition of Storkower Straße 142–146 Verwaltung GmbH

Upon the closing on September 26, 2019, GATEWAY purchased 51% of the shares in Storkower Straße 142–146 Verwaltung GmbH, Berlin, for a purchase price of €13 thousand and thus obtained control over this company as it now holds the voting majority. The seller was VRB Vorratsgesellschaften GmbH, Berlin. The object of purchase comprises mainly the company's shares. As of the acquisition date, the company did not have any assets and liabilities. The company is allocated to the Commercial Property Development segment and is included in the consolidated financial statements by way of full consolidation.

By way of an agreement dated September 26, 2019, the Company became the limited partner of Storkower Straße 142–146 PE GmbH & Co. KG, Berlin. This does not involve an equity investment.

vii. Acquisition of Storkower Straße 142–146 PE GmbH & Co. KG

Upon the closing on September 26, 2019, GATEWAY purchased 51% of the limited partnership interests in Storkower Straße 142–146 PE GmbH & Co. KG, Berlin, for a purchase price of €13 thousand and thus obtained control over this company as it now holds the voting majority. The seller was Townscape One Investment GmbH & Co. KG, Berlin. The object of purchase mainly comprises the company's shares. Moreover, the company has properties which are in the project development stage. Please refer to Note 6.5 for more details. The company is allocated to the Standing Assets segment and is included in the consolidated financial statements by way of full consolidation.

viii. Acquisition of Augskor 1 GmbH, Augskor 2 GmbH and Augskor 3 GmbH

By way of an agreement dated September 24, 2019, GATEWAY acquired 100% of the shares in each of Augskor 1 GmbH (S.à r.l.), Luxembourg, Augskor 2 GmbH (S.à r.l.), Luxembourg, and Augskor 3 GmbH (S.à r.l.), Luxembourg, at a total purchase price of €12 thousand each and thus obtained control over these companies as it now holds the voting majority. The seller was Global Finance Luxembourg, Luxembourg. The object of purchase comprises mainly the company's shares. As of the acquisition date, the companies did not have any assets and liabilities. The companies are allocated to the Commercial Property Development segment and are included in the consolidated financial statements by way of full consolidation.

ix. Acquisition of SKE Immo Sulzbach GmbH (S.à r.l.)

By way of an agreement dated December 5, 2019, GATEWAY purchased 100% of the shares in SKE Immo Sulzbach GmbH (S.à r.l.), Luxembourg, for a purchase price of €10 thousand and thus obtained control over this company as it now holds the voting majority. The seller was SKE LUX Holdings S.à r.l., Luxembourg. The object of purchase comprises mainly the company's shares. As of the acquisition date, the company did not have any assets and liabilities. The company is allocated to the Commercial Property Development segment and is included in the consolidated financial statements by way of full consolidation.

x. Disposals

Upon the closing on March 1, 2019, GATEWAY sold its shares in Berlin Marienfelde Südmeile Objekt GmbH, Berlin. The company had been included in the consolidated financial statements using the equity method and was disposed within the context of deconsolidation.

By contract dated December 10, 2019, GATEWAY sold all of its shares in the LE companies, Leipzig. The companies had been included in the consolidated financial statements using the equity method and were disposed as of the reporting date within the context of deconsolidation. Please refer to Note 7.3.c for further information.

By contract dated December 20, 2019, GATEWAY disposed shares in the amount of 79% of the total shares in Projektentwicklung Taunusstr. 52–60 in Frankfurt GmbH, Duesseldorf. Previously, the Group had held 90% of the shares. The company had been fully consolidated and was disposed as of the reporting date within the context of deconsolidation. The interest remaining with GATEWAY in the amount of 11% is held as an equity investment in the statement of financial position in the item "Other non-current financial assets". Please refer to Note 7.3.c for further information.

Upon the closing on December 20, 2019, GATEWAY sold all of its shares in the April companies. Please refer to Note 6.8 for further information.

2.5 FUNCTIONAL CURRENCY

GATEWAY prepares its consolidated financial statements consolidated financial statements in euro (€). Since the euro is the currency of the primary economic environment in which GATEWAY and its subsidiaries operate, the euro is their functional currency.

2.6 INTANGIBLE ASSETS AND GOODWILL

A. GOODWILL

Goodwill is calculated as the excess of acquisition costs of a company over the Group's share of the fair value of the net assets of the acquired company at the acquisition date, and is presented as an intangible asset. Goodwill represents the expected synergy effects of the business combination for the cash-generating unit (CGU) to which the goodwill is attributed.

Goodwill is not amortized but is subjected to an annual impairment test in accordance with IAS 36. An impairment test is also conducted when events or circumstances occur that indicate that an impairment has occurred. Please refer to Note 2.8 "Impairment of non-financial assets" for more details on conducting impairment tests.

B. OTHER INTANGIBLE ASSETS

This category mainly comprises purchased software. It is capitalized at acquisition costs and amortized on a straight-line basis over its useful life. The useful life of purchased software is usually one to three years.

2.7 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis with due regard to the residual value and based on the following main useful lives:

- IT hardware: 3 years
- Trade fair stand: 6 years
- Office equipment: 5 to 20 years

The residual values and remaining economic useful lives are reviewed and when necessary adjusted at every reporting date. Subsequent acquisition or production costs are only capitalized if it is probable that future economic benefits will flow to the Company. All other repairs and maintenance are recognized as expenses in the statement of comprehensive income in the fiscal year in which they incurred. If the carrying amount of an asset is higher than its estimated recoverable amount, the carrying amount is written down to the recoverable amount. Gains and losses on the disposal of property, plant and equipment are calculated by comparing the sale proceeds with the carrying amount plus directly allocable selling expenses, and are recognized within operating profit.

2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets with indefinite useful lives (e.g. goodwill) as well as assets that cannot be put into operation yet are tested for impairment whenever there is an indication of impairment, but at least once a year. Property plant and equipment and intangible assets that are subject to depreciation and amortization are tested for impairment as soon as events or indications suggest that the carrying amount is possibly not recoverable.

To determine the potential need for an impairment, assets are aggregated to form cash-generating units (CGUs) at the lowest level for which cash flows that are largely independent of the cash flows from the Company's other activities can be identified. Goodwill acquired in a business combination is allocated to the CGUs or the groups of CGUs that are expected to derive a benefit from the synergies of the combination.

The recoverable amount of an asset or a CGU is the higher of the fair value of the asset less costs to sell and the discounted net cash flows from the further use of the asset (value in use). The Group generally initially determines the respective recoverable amount as value in use and then compares such value in use with the corresponding carrying amounts (including goodwill). The CGUs generally correspond to the reportable segments.

The value in use is determined by discounting the expected future cash flows from continuing use of the CGUSs on the basis of a risk-adjusted interest rate. The future cash flows are determined based on the medium-term planning approved by the management as applicable as of the date when the impairment test is conducted. This planning is based on the expectations as regards future market shares, the general development of the relevant markets as well as the profitability of the projects. The rounded risk-adjusted interest rates, which were determined specifically for the respective CGU and which are used for discounting the cash flows, are based on the weighted average cost of capital and amount to 3.45% after taxes for the CGU "Standing", 5.00% after taxes for the CGU "Residential" and 5.00% after taxes for the CGU "Commercial". The determination is based on the capital asset pricing model, taking into account current market expectations. To determine risk-adjusted interest rates for impairment test purposes, specific peer group information regarding beta factors, capital structure data as well as the borrowing rate are used. Reporting periods not included in the projections are reflected by using a residual value (terminal value) which takes into account sustainable growth of 0.5%. In addition, various sensitivity analyses are performed. These show that there is no requirement to record impairment losses even in case of unfavorable assumptions as regards key influencing factors with respect to the original planning. If the value in use is lower than the carrying amount, the fair value less costs to sell is additionally ascertained in order to determine the recoverable amount.

An impairment loss is recognized through profit or loss in the amount by which the carrying amount of an asset exceeds its fair value – except for assets recorded at fair value and where the impairment loss would reduce the revaluation surplus.

The goodwill resulting from the reverse acquisition is tested by the Group for impairment once a year as of September 30 and whenever there is an indication of a potential impairment; the impairment test is conducted at the level of the CGU to which the goodwill was allocated. If the carrying amount of a CGU, including its allocated goodwill, exceeds its recoverable amount, the difference has to be deducted from the goodwill allocated to the CGU. If the CGU's impairment exceeds the carrying amount of the allocated goodwill, this impairment has to be deducted on pro-rata basis from the carrying amounts of the other assets allocated to the respective CGU. However, the carrying amount of an asset may not fall below its value in use, its fair value less costs to sell or zero.

Non-financial assets, excluding goodwill, that are subject to impairment are tested for reversals of impairment losses as of each year-end. Any reversals of impairment losses may not exceed amortized cost. No reversals of impairment losses may be recorded for goodwill.

2.9 INVESTMENT PROPERTIES

Upon initial recognition, GATEWAY classifies real estate according to its intended use either as investment properties, inventory properties or properties used in the Group's business operations in the category of property, plant and equipment.

Investment properties are those properties of the Group that are neither used in the Group's business operations nor intended for sale.

Properties that are meant to be held on a long-term basis, but do not meet the criteria for investment properties according to IAS 40 are presented within property, plant and equipment.

Properties developed by the Group itself and intended to be sold after completion are presented as inventory properties.

There are no sales activities related to investment properties. They are meant to be held and leased over the medium to long term or held for appreciation purposes.

Upon initial recognition, investment properties are measured at acquisition or production cost, including incidental expenses. In subsequent periods, they are measured at fair values which reflect the market conditions at the reporting date. Any profit or loss from a change in fair value is recognized through profit or loss. Subsequent costs for expanding and rebuilding the property are added to the carrying amount if they contribute to an increase in the fair value of the property.

As an additional assumption applied in measuring the value of investment properties, the best possible use of a property must be considered. Planned use changes are taken into account in the measurement of properties if such changes are technically feasible, legally permissible and financially practicable.

When properties are reclassified from the intended-for-sale category to the category of investment properties, any difference existing at this time between the fair value and the carrying amount is recognized within the measurement result item of the statement of profit or loss.

Real estate holdings are measured annually at December 31. The fair values of investment properties are measured on the basis of appraisals conducted by independent, external experts applying recognized valuation methods. The independent experts engaged for this purpose possess the requisite professional qualifications and experience to conduct the appraisals. The appraisals are based on information provided by the Company, including (for example) current rents, maintenance and administrative expenses, and the current vacancy rate, as well as assumptions of the expert appraiser, which are based on market data and evaluated on the basis of his professional qualifications. Such assumptions relate to (for example) future market rents, standardized maintenance and administrative expenses, structural vacancy rates and capitalization interest rates.

The information provided to the appraiser and the assumptions made, as well as the results of the real estate appraisal, are analyzed by the Company.

2.10 FINANCIAL ASSETS

In accordance with IAS 32 Financial Instruments: Presentation, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Upon initial recognition, financial assets are assigned to one of the following measurement categories:

— Financial assets measured at amortized cost (AmC);

— Financial assets measured at fair value through other comprehensive income (FVtOCI);

— Financial assets measured at fair value through profit or loss (FVtPL).

The classification depends on the Company's business model for managing financial assets and the contractual cash flows.

The Group measures its financial assets at amortized cost when both the following conditions are met, provided they are not designated as at fair value through profit or loss:

— The objective of the business model under which the financial asset is held is to collect contractual cash flows; and

— The contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets that belong within this valuation category consist of trade receivables, other financial assets, and cash and cash equivalents.

Financial assets measured at fair value through other comprehensive income include:

— Equity instruments that are not held for trading purposes and which the Group has irrevocably elected to assign to this category upon initial recognition.

— Debt instruments generating contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, when the objective of the business model under which the financial assets are held is both to collect the contractual cash flows and to sell the financial assets.

As in the comparative period, there were no such financial assets and debt instruments in the Group during the reporting period.

Assets that do not meet the criteria of the "amortized cost" category or the "FVtOCI" category are assigned to the "fair value through profit or loss" (FVtPL) category.

In both the reporting period and the comparative period, only the Group's equity investments and its embedded separable derivatives are assigned to the category of "fair value through profit or loss" (FVtPL). The Group does not make use of the option to designate financial instruments as at fair value through profit or loss that would otherwise be measured at amortized cost or at fair value through other comprehensive income.

Financial assets are not reclassified after initial recognition unless the Group changes the business model for managing the financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period following the change of business model. In both the reporting period and the comparative period, the Group did not reclassify any financial assets.

Embedded derivatives in structured contracts that include a host contract that represents a financial asset in accordance with IFRS 9 are not separated. Instead, the structured contract in its entirety is classified according to IFRS 9.

Embedded derivatives in structured contracts that include a host contract that represents either a financial liability or an asset that does not fall within the scope of IFRS 9 must be separated from the host contract under certain circumstances. This applies when:

— the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

— a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined contract is not measured at fair value with changes in value recognized in the profit or loss for the period.

Upon initial recognition, the Group measures a financial asset at fair value. In the case of a financial asset subsequently not measured at fair value through other comprehensive income, transaction costs that are directly allocable to the acquisition of the asset are added to the fair value. Transaction costs allocable to financial assets measured at fair value through profit or loss are recognized as expenses in the income statement. Trade receivables without a significant financing component are measured at the transaction price upon initial recognition.

Trade receivables and issued bonds are recognized from the time at which they are issued. All other financial assets and liabilities are recognized for the first time on the trade date if the Company is a party to the contract according to the contractual provisions of the instrument.

Financial assets carried at amortized cost are subsequently measured using the effective interest method. The amortized cost is reduced by impairment expenses. Interest income, exchange rate gains and losses, and impairments are recognized in profit or loss. Interest income is presented within net finance costs. Any profit or loss arising on derecognition is recognized in operating profit. Equity investments initially measured at FVtPL are measured at fair value in subsequent periods. Dividends are recognized as income in profit or loss.

The Group derecognizes a financial asset when the contractual rights to cash flows from the financial asset expire or it transfers the rights to receive cash flows in a transaction in which substantially all the risks and rewards incident to ownership of the financial asset are transferred. A financial asset is also derecognized when the Group neither transfers nor retains substantially all the risks and rewards incident to ownership and does not retain control over the transferred asset.

Financial assets and liabilities are netted and presented as a net amount in the statement of financial position when the Group has a current, enforceable legal right to offset the recognized amounts and intends to either settle them on a net basis or to realize the asset and settle the corresponding liability simultaneously.

No financial assets and financial liabilities were netted on this basis in the reporting period and the comparative period. In addition, there are no master netting arrangements or similar netting agreements within the Group.

2.11 IMPAIRMENT OF NON-DERIVATIVE FINANCIAL ASSETS

The Group assesses the recoverability of its financial assets measured at amortized cost as well as its contract assets on the basis of the expected credit loss model. The impairment method generally depends on whether a significant increase in the credit risk has occurred.

The loss allowances are measured by the Group in the amount of the lifetime expected credit losses, except for loss allowances for bank balances and other financial assets where the credit risk has not increased significantly since initial recognition or which are subject to low credit risk. The credit risk is considered low when the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and there are no indications that changes in economic and business conditions in the longer term and on a sustainable basis may reduce this ability. Accordingly, the loss allowances are measured in the amount of the 12-month credit loss.

The Group applies the simplified approach within the meaning of IFRS 9 for trade receivables. Accordingly, lifetime expected credit losses have to be recorded starting with the initial recognition of the receivables.

In determining whether the default risk of an asset has increased significantly in the time since initial recognition, and in estimating expected credit losses, the Group considers appropriate and reliable information that is relevant and available without an unreasonable expenditure of time and costs. This includes both quantitative and qualitative information and analyses that are based on the Group's past experience and well-founded estimates, including forward-looking information.

In principle, the Group assumes that the default risk of a financial asset has increased significantly if it is past due for more than 30 days. This does not apply to receivables from project development companies that are included in the consolidated financial statements using the equity method. These receivables usually relate to agency fees between Development Partner AG and the respective project company and are settled upon the completion of the construction project (normally after disposal). Instead, the recoverability of the respective receivable is assessed individually on the basis of the project's stage of completion and the prospective development of the respective project.

The Group considers a financial asset as defaulted when it is unlikely that the debtor can fully meet its loan obligations towards the Group without the debtor having to rely on measures such as the realization of collateral (if any), or when the financial asset is more than 90 days past due. Neither does this apply to receivables from project development companies that are included in the consolidated financial statements using the equity method; please refer to the explanations above.

The Group estimates as of each reporting date whether the financial asset measured at amortized cost is credit-impaired. This is the case when one or more events with adverse effects on the expected future cash flows of the financial asset have occurred. Indicators that a financial asset is credit-impaired comprise, for example, the following observable data:

- breach of contract – i.e. more than 90 days past due or in default;
- severe financial difficulties of the debtor, or
- (impending) insolvency of the debtor.

Impairments of financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group cannot reasonably expect that the financial asset can be recovered in full or in part. This is usually the case when the debtor fails to commit to a repayment plan with the Group. The Group does not expect any significant recoveries of the written-off amount. However, written-off financial assets may be subject to enforcement measures to collect past-due receivables in order to act in accordance with the Group Guideline.

2.12 INVENTORIES

The Group's inventories mostly consist of the properties developed by the Group itself and are meant to be sold after completion. The development of commercial and residential properties is essentially a focus of GATEWAY's business activities. In the Commercial Properties segment, the Group develops office buildings in Germany's top 7 cities (i.e. Berlin, Cologne, Duesseldorf, Frankfurt, Hamburg, Munich and Stuttgart) and in selected metropolitan regions. In the Residential Properties Development segment, the Group's development activities are focused on selected metropolitan regions in Germany. In development projects, the development process usually begins with the purchase of the property and a subsequent lease termination phase before the construction phase begins.

In accordance with IAS 2, inventory properties are measured at the lower of amortized acquisition or production costs and the net realizable value in the statement of financial position. The production costs of property developments include the costs allocable to the development process and borrowing costs if they are incurred during the period of construction. All costs are capitalized in the item "Changes in inventories of finished goods and work in progress".

The acquisition costs for properties intended for sale include the purchase price of the properties and the directly allocable incidental expenses.

Net realizable value is the estimated selling price realizable in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. At the reporting date, the net realizable values of all inventory properties were higher than the amortized acquisition or production costs, so that no impairments needed to be recognized in the net realizable value.

The majority of current inventory properties will not be realized within the next 12 months, given the fact that property developments usually take several years to complete. However, the exact amount cannot be stated because it is uncertain whether some inventory properties will be sold already in 2020 or later.

As a general rule, the sale of inventory properties is presented on a gross basis in the statement of comprehensive income. The disposal of the inventory property is recognized with changes in inventory and the corresponding sale proceeds represent revenues.

If the use intention for a property changes, the property is reclassified. As in the comparative period, no reclassifications were made in the reporting period.

2.13 CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents are measured at amortized cost and comprise cash, sight deposits with banks and other short-term, highly liquid financial investments with an original term of no more than three months.

2.14 OTHER PROVISIONS

Other provisions are recognized when the Company incurs a present obligation, legal or constructive, as a result of a past event and it is probable that the settlement of the obligation will require an outflow of economic resources, and the amount of the obligation can be estimated reliably.

Expected future outflows are discounted to present value by application of a current maturity-matched interest rate before taxes that reflects the current market expectations for the interest effect and for the risks specific to the liability, if the effect is material.

If the Company expects reimbursement of an amount set aside in a provision (for example: under an insurance policy), it treats the reimbursement claim as a separate asset as long as it is virtually certain that reimbursement will be received if the Company settles the obligation.

The Company recognizes a provision for onerous contracts if the expected benefit from the contractual claim is less than the unavoidable costs of settling the contractual obligation.

2.15 FINANCIAL LIABILITIES

The Group's financial liabilities are generally measured at amortized cost. They only include liabilities from taking out loans and bonds, trade payables, and other financial liabilities. Upon initial recognition, these financial liabilities are measured at fair value, taking into account transaction costs. In subsequent periods, they are measured at amortized cost; any difference between the amount received (taking into account transaction costs) and the amount to be repaid is recognized in the statement of comprehensive income over the term of the liability by application of the effective interest method.

Only the limited partner's capital of non-controlling interests is to be measured at fair value through profit or loss. Consequently, valuation adjustments of the limited partner's share of non-controlling interests or the financial liability recognized in that respect are to be recognized in profit or loss.

Fees for the creation of credit facilities are recognized as transaction costs to the extent that it is probable that part or all of the credit facility will be utilized. In this case, an accrual is recognized in respect of the fee until the credit facility is utilized. In the absence of indications that the utilization of part or all of the credit facility is probable, the fee is capitalized as an advance payment for financial services and amortized over the term of the facility.

When financial liabilities are acquired, they are checked for embedded derivatives that need to be separated. In the context of GATEWAY, these are particularly termination options embedded in bonds or loan agreements. When a separable embedded derivative is found to exist, the embedded termination rights are separated from the basic debt component and recognized in equity and a derivative asset or derivative liability is recognized at the same time. The derivative financial instruments separated from the host contract have to be allocated to the FVtPL category and have to be measured subsequently at fair value through profit or loss. Embedded derivatives are measured using option pricing models that are accepted as financial calculation methods.

Financial liabilities are derecognized as soon as the contractual obligation is settled, cancelled, or expired. Moreover, the Group derecognizes a financial liability when such liability's contractual terms are modified and the cash flows of the modified liability are significantly different. In this case, a new financial liability is recognized at fair value based on the modified terms. The difference between the carrying amount of the derecognized financial liability and the consideration paid, including transferred non-cash assets or liabilities, is recognized in the statement of profit or loss as other income or finance costs.

Financial liabilities are classified as current if the Group does not have an unconditional right to defer settlement of the liability to a date at least 12 months after the reporting date.

2.16 BORROWING COSTS

As a general rule, borrowing costs that can be attributed directly to the acquisition, construction, or production of a qualifying asset are part of the acquisition or production costs of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A period of time longer than 12 months is deemed to be a substantial period of time. If it is probable that the qualifying asset will generate future economic benefits and the costs can be reliably measured, borrowing costs are capitalized as part of acquisition and production costs. Investment income from the temporary interim investment of borrowed funds that were specifically borrowed for the acquisition or production of a qualifying asset is deducted from the potentially capitalizable borrowing costs for this qualifying asset. In the case of property inventories under development, interest incurred during construction is capitalized on the basis of the actual interest incurred. The capitalization is recorded as a change in inventories and thus has a positive effect on EBITDA.

Borrowing costs of €20,172 thousand (previous year: €23,721 thousand) were capitalized within changes in inventory in the reporting period. The calculation of the capitalizable borrowing costs was based on an average financing costs rate of 11.07% (previous year: 9.42%).

2.17 DEFERRED AND CURRENT INCOME TAXES

Current and deferred income taxes are recognized and measured in accordance with IAS 12.

CURRENT TAXES

Current income tax assets and liabilities are measured at the expected amount of a refund from or a payment to the tax authorities. The amount is calculated on the basis of the tax rates and laws applicable at the reporting date. Current income tax assets and liabilities are netted under the conditions set out in IAS 12.71.

DEFERRED TAXES

Deferred tax receivables and liabilities are recognized to account for the future tax effects resulting from temporary differences between the IFRS carrying amounts of assets and liabilities and the corresponding tax bases, or resulting from yet unused tax loss carry-forwards and tax credits. Deferred tax assets and liabilities are recognized in profit or loss. To the extent that they relate to transactions that are recognized directly in equity, the corresponding deferred taxes are also recognized directly in equity.

They are measured at the tax rates that are expected to apply in the reporting period in which the corresponding asset will be recovered or the corresponding liability settled. The effect of tax rate changes on deferred taxes is recognized in net income tax in the period in which the change was enacted by the legislator.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the tax loss carryforwards, tax credits, or tax-deductible temporary differences can be utilized (IAS 12.24 and 12.34). Deferred tax assets and liabilities are offset when there is an enforceable right to offset current tax assets and liabilities and if the deferred tax assets and liabilities are income taxes assessed by the same tax authority on the same taxpayer.

2.18 REVENUE RECOGNITION

IFRS 15 (Revenue from Contracts with Customers) establishes a comprehensive framework for determining whether, in what amount, and at what time revenues are to be recognized.

In accordance with IFRS 15, revenue is measured on the basis of the consideration specified in a contract with a customer. The amount of revenue to be recognized and at what time or over what time period is determined on the basis of a five-step model. The basic principle of the five-step model is to recognize revenues in a form that reflects the transfer of goods or services to a customer. The amount of revenue to be recognized corresponds to the consideration to which the Group is contractually entitled in exchange for these goods or services.

IFRS 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations. Contracts may be concluded in writing, orally, or implicitly on the basis of a company's customary business practices. Contracts must be combined under certain circumstances. In the second step, the Group identifies the individual performance obligations. Generally speaking, a commitment is always deemed to be a performance obligation when the good or service is distinct. In the third step, the transaction price is determined, which represents the consideration for the transfer of goods or services. The transaction price of the contracts analyzed may include variable components. This refers to, on the one hand, the contractually agreed purchase price reductions of the construction project of Projektentwicklung Rudolfplatz in Köln GmbH, Duesseldorf, as well as of Projektentwicklung Himmelgeister Straße in Düsseldorf I GmbH, Duesseldorf, this purchase price reduction is contractually agreed and, to that extent, limited. On the other hand, incidental cost statements are of a variable nature and were determined on the basis of the expected value method. The expected value is continuously reviewed and corrected. The time period between the transfer of the good or service to the customer and the payment by the customer is usually not more than one year. Therefore, the promised consideration is not adjusted to match the time value of money. In step four, the consideration is allocated to the identified performance obligations on the basis of stand-alone selling prices. A suitable evidence of the stand-alone selling price is the price at which the Group has actually sold the good or service individually to comparable customers under similar circumstances. If the stand-alone selling price is not reliably observable and therefore cannot be determined, the Group applies the expected cost plus a margin approach in accordance with IFRS 15.79(b) to determine the stand-alone selling price.

Revenues are recognized at a point in time or over time according to when the existing performance obligations are satisfied. The Group transfers control over a good or service over time provided the customer receives the benefit of the Group's performance while it is carried out. If the performance obligation is not satisfied over time, then the Group satisfies its performance obligation on a particular date. A performance obligation is satisfied by transferring control over the good or service. In this context, control is understood to mean the ability to direct the use of the good or service and obtain substantially all the benefits from it.

Revenues from sales of project or investment properties are recognized as revenues at the date when control is transferred to the buyer. This normally occurs upon the transfer of possession, benefits, obligations and risks of the properties. Income from sales of inventory properties (project developments or properties intended for immediate resale) is presented as revenues. By contrast, gains or losses (net balance of sale proceeds minus the carrying amount derecognized) from sales of investment properties are presented as other operating income or expenses. Recognized revenues are equal to the contractually agreed transaction price. The consideration is usually payable after the transfer of the investment property.

If a binding purchase agreement is already concluded prior to the completion of the development phase of a property, revenue is recognized depending on when the performance obligations are satisfied. In connection with the plot of land to be transferred, revenue is recognized at a point in time, i.e. when control is transferred to the acquirer, if a separate performance obligation exists. A precondition for this accounting treatment is that the buyer no longer has a substantive right of rescission after the conclusion of the purchase agreement. In connection with project development/the construction project, revenue is recognized over time based on the determined percentage of completion. This is ascertained based on the basis of the ratio of construction costs incurred to the estimated total costs (cost-to-cost method). The close controlling of the construction projects established within the Group facilitates a best possible accuracy in the estimation and ratio of the actual costs incurred as well as of the estimated total project costs. The transaction price underlying the contractual relationship – after taking into account variable components, if applicable – is allocated to the identified performance obligations based on the ratio of stand-alone selling prices to the estimated total costs.

As of December 31, 2019, this concerns Projektentwicklung Rudolfplatz in Köln GmbH as well as Projektentwicklung Himmelgeister Straße in Düsseldorf I GmbH, both of which are included in the consolidated financial statements by way of full consolidation, as well as to Venloer Straße in Köln S.à r.l., which is included in the consolidated financial statements on the basis of the equity method.

Revenues from rental contracts are recognized on an accrual basis in accordance with the provisions of the underlying contracts. The transaction price is defined in the underlying rental contracts and does not include any variable consideration or financing components. Rents are to be paid on a monthly basis. Rental income is presented within revenues. However, the contractual component of net basic rent is not subject to the scope of IFRS 15 as a lease.

GATEWAY also provides services in the form of management services agreements. The service essentially comprises the commercial execution and commercial management of construction projects, particularly including the planning, development and rental of project properties. The management services agreements specify various milestones by which the degree of completion is measured. Upon reaching a contractually agreed milestone, the Group transfers control over the construction section and acquires an unconditional claim to payment of consideration. The transaction price does not include any variable price components and the period of time between the provision of the service and payment of consideration is less than one year. Revenues from service agreements are recognized over time because the customer obtains the benefits of the service while it is being provided. This assessment is based on the fact that another company would essentially not need to provide this previous service again if this other company were to satisfy the remaining performance obligations to the customer. The percentage of completion is measured using the output method and is based on milestones and the corresponding fees, so that it presents a true and fair view of the transfer of control.

In accordance with IFRS 15, revenues from the billing of operating and incidental costs are presented on a gross basis because GATEWAY does not bear primary responsibility for the original performance obligation and acts as a principal. The bills are issued on a monthly basis similarly to performance and therefore the revenues are recognized in the period in which they accrue.

The Company recognizes interest income pro rata temporis with due regard to the remaining principal and the effective interest rate over the remaining term to maturity.

The guarantees and warranties contained in the contractual relationships do not constitute a separate performance obligation since they simply assure the customer that the supplied good or service corresponds to the contractually agreed specifications (assurance-type warranty). There are no return, reimbursement or other obligations.

In accordance with IFRS 15, GATEWAY is required to recognize a contractual asset if it has provided project development services that have not yet been invoiced to the customer. The Group is required to recognize a contractual liability if the customer fulfills its contractual obligation before the Group transfers control over the good or service.

To the extent that the Group has provided and invoiced the service, GATEWAY's unconditional right to the consideration payable is reported as a receivable.

2.19 EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

Obligations under short-term employee benefits are recognized as expenses as soon as the corresponding employee service is rendered. A liability is recognized for an amount that is expected to be paid when the Group currently has a legal or constructive obligation to pay this amount in respect of service rendered by the employee and when the obligation can be estimated reliably. Liabilities for wages and salaries, including non-monetary benefits for annual vacation and accumulated sick days that are expected to be paid in full within 12 months of the end of the fiscal year in which the employee provided the services, are recognized at the end of the reporting period and measured at the amounts that are expected to be necessary to settle the obligation.

TERMINATION BENEFITS

Termination benefits are recognized as expenses at the earlier of the following two dates: when the Group can no longer withdraw the offer of such benefits, or when the Group recognizes expenses for a restructuring. If it cannot be expected that the benefits will be completely paid within 12 months of the reporting period, they are discounted to present value.

2.20 LEASES

GATEWAY has applied IFRS 16 based on the modified retrospective approach and therefore has not adjusted information for the comparative period; instead, this comparative information continues to be presented in accordance with IAS 17 and IFRIC 4. The details regarding the accounting methods under IAS 17 and IFRIC 4 are presented separately (see subsection B of this Note).

A. METHOD APPLIED SINCE JANUARY 1, 2019

At contract inception, GATEWAY assesses whether the contract is or contains a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control an identified asset, GATEWAY uses the definition of a lease in accordance with IFRS 16.

This method is applied to contracts entered into on or after January 1, 2019.

a) As lessee
On the commencement date or in case of a modification of a contract that contains a lease, GATEWAY allocates the contractually agreed consideration based on the relative stand-alone selling prices.

As lessee, GATEWAY recognizes an asset for the granted right of use as well as a lease liability on the commencement date. The right-of-use asset is measured upon initial recognition at cost which corresponds to the initial measurement of the lease liability, adjusted by payments made at or before the commencement date, plus any initial direct costs as well as the estimated costs to be incurred in dismantling and removing the underlying asset or to restore the site on which it is located, less any lease incentives received.

Subsequently, the right-of-use asset is depreciated on a straight-line basis from the commencement date until the end of the lease term. There are exemptions for rental contracts if the ownership in the underlying asset is transferred to the Group at the end of the lease term or if it is probable that a purchase option is exercised. In this case, the right-of-use asset is depreciated over the useful life of the underlying asset, with the useful life being determined on the basis of the provisions for property, plant and equipment. In addition, the right-of-use asset is constantly reduced, if necessary, by any potential impairment losses and adjusted by certain remeasurements of the lease liability.

Upon initial recognition, the lease liability is recognized using the present value of the lease payments not yet made as of the commencement date, discounted by the interest rate implicit in the lease or, when such rate cannot be readily determined, by the Group's incremental borrowing rate. GATEWAY generally uses its incremental borrowing rate as the discount rate. This incremental borrowing rate is derived as a risk-adjusted interest rate that is specific for the respective maturity and currency. The difference as regards the various payment schedules of the reference interest rates (final maturity) and the lease agreements (annuity) is taken into account by way of a duration adjustment.

The lease liability is measured based on the amortized carrying amount using the effective interest method. It is remeasured when there is a change in future lease payments resulting from a change in an index or a rate, when GATEWAY adjusts its estimate of the expected payments within the context of a residual value guarantee, when the Group changes its assessment of the exercise of any purchase, extension or termination options, or when there is a change in an in-substance fixed payment.

In case of such a remeasurement of the lease liability, a corresponding adjustment of the carrying amount of the right-of-use asset is made or is recognized through profit or loss when the carrying amount of the right-of-use asset is reduced to zero.

GATEWAY reports the right-of-use assets that do not meet the definition of an investment property in the statement of financial position under property, plant and equipment, and the lease liabilities are reported under other non-current financial liabilities.

In addition, GATEWAY decided not to recognize right-of-use assets and lease liabilities for leases for low-value assets as well as for short-term leases. The Group recognizes the lease payments in connection with these leases as an expense on a straight-line basis over the lease term.

b) As lessor
If GATEWAY acts as the lessor, it classifies each lease upon contract inception either as a finance lease or as an operating lease. For the purposes of classifying each lease, GATEWAY has made an overall assessment whether the lease transfers substantially all of the risks and rewards incidental to ownership of an underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. In making this assessment, the Group takes into account certain indicators such as whether the lease comprises the major part of the economic useful life of the asset.

GATEWAY acts as the lessor within the context of properties held as inventory properties and investment properties. In case of the inventory properties, this refers to the lease termination phase. The lease agreements represent operating leases and the underlying lease agreements are recognized by the Group over the lease term as income in revenue.

In general, the accounting methods pursuant to IFRS 16 applied by GATEWAY as lessor do not differ from those applied in the comparative period.

B. METHOD APPLIED BEFORE JANUARY 1, 2019:

a) As lessee

In the comparative period, leases under which the Group as lessee bore substantially all the risks and rewards incidental to ownership of the leased object are classified as finance leases. Assets under finance leases were capitalized at the inception of the lease at the lower of their fair value or the present value of minimum lease payments. At the same time, a lease liability of the same amount was recognized within non-current financial liabilities. The part of the lease liability that was due within 12 months of the reporting date was presented within current financial liabilities. In subsequent periods, each lease payment was divided into an interest portion and a liability reduction portion on the basis of a constant rate of interest on the remaining liability. The interest portion was recognized as interest expenses in the statement of comprehensive income.

When the Company was the lessee, it treated leases that were not classified as finance leases as operating leases. Operating leases are concluded for motor vehicles, some office and business equipment and office space. These leases do not include a purchase option. Renewal options for leased office space are agreed at market terms and conditions. The related assets were not recognized in the statement of financial position. Payments made under operating leases were recognized through profit or loss on a straight-line basis over the lease term.

b) As lessor

The Group was the lessor within the context of properties held as inventory properties and investment properties. In the case of inventory properties, this mainly referred to the lease termination phase. The leases were operating leases.

2.21 RESIDUAL CLAIMS AND DIVIDEND PAYMENTS

The Group holds interests in limited partnerships, in which non-controlling interests hold equity investments. For these company forms, the non-controlling interest must be recognized as a liability based on the existing termination rights.

Non-controlling interests are measured at fair value through profit or loss. Consequently, valuation adjustments of the share of non-controlling interests or the financial liability recognized in that respect are to be recognized in profit or loss.

2.22 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale or held for distribution when it is highly probable that they will be recovered mainly through sale or distribution and not through continued use.

In general, these assets or the disposal group is measured at the lower of their carrying amount or fair value less costs to sell. Any impairment of a disposal group is initially attributed to goodwill and then to the remaining assets and liabilities on a pro-rata basis – with the exception that no loss is attributed to inventories, financial assets, deferred tax assets, assets related to employee benefits, or investment properties that are still measured in accordance with the Group's other financial reporting methods. Impairment losses recognized upon the initial classification as held for sale or held for distribution and subsequent gains and losses upon revaluation are recognized in profit or loss.

Once classified as held for sale or held for distribution, intangible assets and property, plant and equipment are no longer subjected to amortization and depreciation, and every investee accounted for by the equity method is no longer accounted for by the equity method.

The special measurement rules pursuant to IFRS 5 for the date of reclassification and subsequent measurement do not apply to properties that had previously been presented within the item of "Investment properties". In these cases, the measurement rules of IAS 40 continue to apply. To this extent, only the rules applicable to reclassification to the item of "Investment properties held for sale" apply. As a general rule, such properties are reclassified when there is a sale contract for the property or the corresponding company at the reporting date or the sale of the property within the next 12 months is highly probable (economically reasonable and objectively practicable). Please refer to Note 2.9 for more information on measurement rules.

2.23 CASH FLOW STATEMENT

The cash flow statement shows the origin and use of cash flows. A distinction is made between operating, investment and financing activities. The cash and cash equivalents recognized as of the reporting date consists of cash in hand and at bank.

The **cash flows from operating activities** are derived indirectly starting from total comprehensive income for the period.

The disposal from the scope of consolidation of Projektentwicklung Taunusstr. 52–60 in Frankfurt GmbH, Duesseldorf, is already included in the total comprehensive income for the period as a transaction affecting cash and cash equivalents. Please refer to Note 7.3.c for more details.

The other non-cash expenses and income recorded in the reconciliation of total comprehensive income for the period to the cash flow from operating activities largely refer to the sale of shares in LE companies against the assignment of loan receivables by the acquirer. Please refer to Note 7.3.c for more details.

The other adjustments reported in other financial assets mainly refer to purchase prices from forward sales of construction projects which were paid to notary escrow accounts and not distributed as of the reporting date.

The **cash flows from investing and financing activities** are calculated on the basis of actual payments.

Changes in liabilities are reconciled with the cash flow from financing activities as follows:

—

LIABILITIES

in € thousand	2019	2018
Balance as of January 1	**590,112**	**179,124**
Changes in cash flows from financing activities		
Cash inflows from raising of financial liabilities	342,835	163,302
Transaction costs	0	–2,216
Repayments of financial liabilities	–149,652	–73,320
Total change in cash flows from financing activities	**193,183**	**87,766**
Changes from the acquisition or loss of subsidiaries, other businesses or net assets that do not represent a business	**–115,205**	**338,561**
Increase in purchase price liabilities for the acquisition of investments accounted for by the equity method	**0**	**15,729**
Payment of purchase price liabilities for the acquisition of subsidiaries or other businesses	**0**	**–48,089**
Loan clearings	**–64,000**	**0**
Separation of embedded derivatives	**2,002**	**2,627**
Changes in fair value	1,924	0
Other changes		
Finance costs	27,631	29,306
Interest paid	–19,193	–14,912
Miscellaneous changes	–445	0
Total other changes	**7,993**	**14,394**
Balance as of December 31	**616,009**	**590,112**

The cash flows from financing activities included payments for extinguishing lease liabilities in the amount of €258 thousand (previous year: €0 thousand). The payments made for the interest portion of the lease liabilities are included in the reconciliation of the cash flows from operating activities.

3. ADDITIONAL DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

3.1 PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The Group's risk management is managed by a central Finance Department on the basis of guidelines approved by the management. This Finance Department identifies, assesses and manages financial risks in close cooperation with the Group's operating companies. The management issues written guidelines for overall risk management and for certain areas such as interest rate risks, default risks and liquidity management.

Financial risk management involves the management and limitation of financial risks arising from operating activities. It involves continuous, rolling liquidity controlling that is particularly focused on the avoidance of significant receivables defaults and assuring the financing needs of ongoing operations.

To limit the receivables default risk, ownership of sold properties is generally transferred to the buyer only after payment of the purchase price. Interest rate risks are not significant due to the predominantly short-term nature of borrowings. Quantitative information related to receivables default risk is provided in the later sub-section "Default risk management".

Quantitative information related to financing and liquidity risk is provided in the later sub-sections "Liquidity risk" and "Financing risk".

3.2 CAPITAL RISK MANAGEMENT

The Group regularly reviews its capital structure in connection with the preparation of its annual and interim financial statements. The equity ratio at the end of the year is presented in the table below:

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EQUITY RATIO

in € thousand	2019	2018
Equity	325,991	148,425
Total assets	1,039,965	798,616
Equity ratio (in %)	**31.3**	**18.6**

3.3 CLASSES OF FINANCIAL INSTRUMENTS IN ACCORDANCE WITH IFRS 7

In the following tables, the carrying amounts of the financial instruments are reconciled to the IFRS 9 measurement categories and the fair values of the financial instruments are disclosed.

FINANCIAL ASSETS

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
31.12.2019	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC		
Financial assets measured at fair value						
Equity investments	2,996	0	0	0	2,996	3
Embedded derivatives	2,002	0	0	0	2,002	3
Total	**4,998**	**0**	**0**	**0**	**4,998**	
Financial assets not measured at fair value						
Trade receivables	0	0	1,823	0	1,823	
Other receivables	0	0	57,446	0	57,446	
Contract assets	0	0	10,830	0	10,830	
Loans	0	0	12,094	0	12,094	
Security deposits for leased office space	0	0	330	0	330	
Cash and cash equivalents	0	0	216,045	0	216,045	
Total	**0**	**0**	**298,568**	**0**	**298,568**	
Total financial assets	**4,998**	**0**	**298,568**	**0**	**303,566**	

FINANCIAL LIABILITIES

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
31.12.2019	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC		
Financial liabilities measured at fair value						
Limited partners' share, non-controlling interests	123	0	0	0	123	3
Total	**123**	**0**	**0**	**0**	**123**	
Financial liabilities not measured at fair value						
Liabilities to banks	0	0	0	330,235	344,740	2
Liabilities to related companies	0	0	0	69,704	64,149	2
Liabilities under corporate bonds to related parties	0	0	0	63,737	63,737	2
Liabilities to third parties from exchange-listed corporate bonds	0	0	0	73,148	75,286	1
Loan liabilities to third parties	0	0	0	79,062	84,088	2
Trade payables	0	0	0	60,215	60,215	
Other financial liabilities	0	0	0	3,276	3,276	
Lease liabilities	0	0	0	2,534	n/a	
Total	**0**	**0**	**0**	**681,911**	**695,491**	
Total financial liabilities	**123**	**0**	**0**	**681,911**[1]	**695,614**	

[1] With the exception of lease liabilities that are separate from the classification in accordance with IFRS 9, the total of the category financial liabilities amounts to – AmC €679,377 thousand

FINANCIAL ASSETS

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
31.12.2018	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC		
Financial assets measured at fair value						
Equity investments	433[1]	0	0	0	433	
Embedded derivatives	4,071	0	0	0	4,071	
Total	**4,504**	**0**	**0**	**0**	**4,504**	
Financial assets not measured at fair value						
Trade receivables	0	0	1,810	0	1,810	
Loans	0	0	7,550	0	7,550	
Security deposits for leased office space	0	0	82	0	82	
Miscellaneous other financial assets	0	0	9,174	0	9,174	
Cash and cash equivalents	0	0	73,931	0	73,931	
Total	**0**	**0**	**92,547**	**0**	**92,547**	
Total financial assets	**4,504**	**0**	**92,547**	**0**	**97,051**	

[1] Presentation was adjusted due to a change in the prevailing opinion (reported in FVtOCI in the previous year).

FINANCIAL LIABILITIES

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
31.12.2018	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC		
Financial liabilities measured at fair value						
Limited partners' share, non-controlling interests	151	0	0	0	151	
Total	**151**	**0**	**0**	**0**	**151**	
Financial liabilities not measured at fair value						
Liabilities to banks	0	0	0	294,137	294,505	
Liabilities to related companies	0	0	0	135,624	135,624	
Liabilities under corporate bonds to related parties	0	0	0	110,101	110,101	
Liabilities to third parties from corporate bonds	0	0	0	33,810	33,810	
Loan liabilities to third parties	0	0	0	16,288	16,288	
Trade payables	0	0	0	10,587	10,587	
Other financial liabilities	0	0	0	3,137	3,137	
Lease liabilities	0	0	0	0	n/a	
Total	**0**	**0**	**0**	**603,684**	**604,052**	
Total financial liabilities	**151**	**0**	**0**	**603,684**	**604,203**	

Financial instruments measured at fair value are assigned to (measurement) levels depending on the importance of the factors and information considered for measuring them.

The assignment of a financial instrument to a level depends on the importance of the input factors considered for its overall measurement; the lowest level for which the measurement as a whole is significant or determining is chosen. The measurement levels are sub-divided to the following hierarchy levels according to their input factors:

Level 1: Quoted prices in active markets for identical assets or liabilities (unadjusted)

Level 2: Inputs other than the quoted prices applied in Level 1, which are, however, observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Factors considered for measuring the asset or liability that are not based on observable market data (unobservable inputs)

The derivative financial instruments recognized in the consolidated statement of financial position are embedded derivatives that are separated from the bonds and are measured on the basis of the Level 3 information and inputs described above.

Interest rates and default intensities are simulated in order to assess the advantages of exercising the termination options. The inputs of the valuation model are interest and credit spread volatilities as well as the yield curve and the CDS rates as of the respective valuation date. Since credit spreads are not directly observable in the market, the embedded termination options have to be allocated to Level 3 of the fair vale hierarchy.

Financial liabilities are measured on the basis of the discounted cash flow method (Level 2). For this purpose, the future cash flows are discounted using risk-adjusted interest rates with matching maturities.

For the limited partners' capital of non-controlling interests as well as for unlisted equity investments in the Group, the measurement method is chosen which is deemed appropriate and practical in the respective case. This includes information gathered from recent financing rounds or multiplier methods. The acquisition costs are considered the best estimate of fair value only when there is no sufficient information for fair value measurement. Moreover, the Group is not aware of any evidence indicating that the fair value is lower than (amortized) cost.

The Group recognizes transfers between various levels of the fair value hierarchy as of the end of the reporting period in which the change has occurred. There were no transfers between the levels in the reporting period and the comparative period.

The reconciliation of the opening balances to the closing balances of Level 3 fair values is presented in the table below.

in € thousand	Derivative financial instruments	Equity investments FVtPL
Balance as of 01.01.2018	**4,361**	**378**
Gains (losses) recognized in finance income/finance costs	–2,917	0
Additions	2,627	55
Balance as of 31.12.2018	**4,071**	**433**
Gains (losses) recognized in finance income/finance costs	–2,069	0
Additions	0	2,563
Balance as of 31.12.2019	**2,002**	**2,996**

Any change considered possible in one of the principal, unobservable input factors, while retaining the other input factors, would have the following effects on the fair values of derivative financial instruments:

in € thousand	Profit or loss	
	Increase	**Decrease**
31. Dezember 2019		
Anticipated fair market refinancing rate (1% change)	–457	529
31. Dezember 2018		
Anticipated fair market refinancing rate (1% change)	–853	1.095

3.4 NET GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS

The net gains or losses from financial instruments broken down by measurement category in accordance with IFRS 9 is as follows:

—

NETTOERGEBNIS

					2019
in € thousand	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC	Total
Finance income	908	0	1,591	0	**2,499**
Finance costs	–2,977	0	0	–26,578	**–29,555**
Impairment (in other operating expenses)	0	0	–732	0	**–732**
Net gain or loss	**–2,069**	**0**	**859**	**–26,578**	**–27,788**

—

					2018
in € thousand	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC	Total
Finance income	0	0	726	0	**726**
Finance costs	–2,917	0	0	–29,323	**–32,240**
Impairment (in other operating expenses)	0	0	–68	0	**–68**
Net gain or loss	**–2,917**	**0**	**658**	**–32,323**	**–31,582**

3.5 INTEREST RATE RISK

Risks arising from interest rate changes fundamentally exist for the Group in connection with taking out loans to finance the purchase of properties.

A variable interest rate for the future loan obligations was agreed upon in the majority of the loan contracts. Interest hedges have not yet been concluded to date to reduce the risk of interest rate changes.

Based on a risk exposure of €221,649 thousand (previous year: €90,553 thousand) and given a hypothetical increase or decrease in the market interest rate level by 50 basis points, the following effects on earnings before taxes (EBT) would have resulted, which influence the net finance costs presented in profit or loss:

—

RESULT

in € thousand	Basis points	2019	2018
Shift in market interest level	+50 –50	–377 0	–122 30

3.6 DEFAULT RISK MANAGEMENT

Default risk is the risk of a loss for the Group if a contracting party does not fulfil its contractual obligations. The Group only enters into business relationships with creditworthy contracting parties and obtains security when appropriate to mitigate the risks of a loss from the non-fulfillment of obligations. The Group uses available financial information and its own commercial records to assess its customers. The Group's risk exposure is continuously monitored. Particular default risks that normally arise in significant receivables from sales of real estate and equity investments and in brokerage commissions owed by institutional investors are treated separately.

There were no significant default risks at the reporting date. The carrying amount of financial assets recognized in the consolidated financial statements represents the maximum default risk.

TRADE RECEIVABLES

Trade receivables are owed by a large number of customers in different German states. They are usually individuals or business people who have rented or purchased the Group's real estate.

The following table shows the credit risk classification of trade receivables as well as their loss allowance:

—

TRADE RECEIVABLES

in € thousand	31.12.2019	31.12.2018
Receivables not past due	93	412
Receivables past due by up to 30 days	0	213
Receivables past due by up to 90 days	1,190	167
Receivables past due by up to 180 days	16	5
Receivables past due by up to 360 days	36	345
Receivables past due by more than 360 days	871	693
Total	**2,206**	**1,835**
Gross carrying amount of impaired receivables	–383	–25
Net carrying amount	**1,823**	**1,810**

Receivables not past due at the reporting date are mainly owed by customers with good creditworthiness or concerning which the Group does not expect any notable defaults. In the past, there were also no impairments or defaults due to creditworthiness. The majority of past due receivables result from receivables from management services contracts due from undertakings accounted for using the equity method. For this reason, there is a very small default risk. On the other hand, these exist on the basis of ongoing legal proceedings. On the basis of current information, it is to be assumed that these receivable can be collected. In the current fiscal year, impairment losses for losses on trade receivables due to lease terminations were recognized in the amount of €2 thousand in the reporting period (previous year: €68 thousand). These impairments do not establish creditworthiness, but result from contracts with tenants.

The closing balance of impairments of trade receivables at December 31, 2019 is reconciled with the opening balance of impairments in the table below:

—

IMPAIRMENTS

in € thousand	Trade receivables 2019	Trade receivables 2018
01.01.	**25**	**23**
Increase in the impairment for credit losses recognized in profit or loss in the fiscal year	732	25
Amounts written off as uncollectable in the fiscal year	0	0
Amounts derecognized in the context of deconsolidation	–374	0
Amounts not utilized and reversed	0	–23
31.12.	**383**	**25**

After an appropriate determination is made, trade receivables are derecognized when they are no longer recoverable. This is usually the case when the debtor fails to commit to a repayment plan with the Group.

All impairments of receivables are generally included in the statement of profit or loss under other operating expenses.

OTHER FINANCIAL ASSETS

Impairment losses in the category of other current financial assets are insignificant for the Group.

With a few exceptions, loan receivables are particularly owed by the project development companies accounted for using the equity method.

The significant influence exercised over these companies enables the Group to monitor any changes in credit risk. The change in the credit risk arising from loan receivables to third parties is monitored and managed individually.

CASH AND CASH EQUIVALENTS

The cash and cash equivalents are deposited in banks and financial institutions.

The estimated loss allowance for cash and cash equivalents was calculated on the basis of expected losses within 12 months and reflects the short terms to maturity. The Group assumes that its cash and cash equivalents have a low risk of default due to the external ratings of the banks and financial institutions.

Impairment losses in the category of cash and cash equivalents are insignificant for the Group.

3.7 LIQUIDITY RISK

The responsibility for liquidity risk management lies with the Management Board, which has developed an appropriate concept for meeting short-term, medium-term and long-term financing and liquidity requirements. The Group manages liquidity risks by maintaining appropriate reserves and credit facilities with banks and by continuously monitoring projected and actual cash flows and harmonizing the maturity profiles of financial assets and liabilities.

The following table shows the contractual terms to maturity of the Group's liabilities that fall within the scope of IFRS 7. The table is based on undiscounted cash flows, according to the earliest date at which the Group may be required to settle the liabilities. The table includes both interest and principal payments. The contractual cash flows of financial liabilities include the effects of embedded derivatives separated for accounting purposes.

—

CONTRACTUAL CASH FLOWS

					2019
in € thousand	Within 12 months	From 12 to 24 months	From 24 to 60 months	After more than 60 months	Total
Financial liabilities	–272,620	–307,570	–35,680	–139	**–616,009**
Trade payables	–60,215	0	0	0	**–60,215**
Other financial liabilities	–3,013	–263	0	0	**–3,276**
Lease liabilities	–452	–447	–1,583	–52	**–2,534**
Total	**–336,300**	**–308,280**	**–37,263**	**–191**	**–682,034**

—

					2018
in € thousand	Within 12 months	From 12 to 24 months	From 24 to 60 months	After more than 60 months	Total
Financial liabilities	–206,102	–80,449	–287,827	–90,766	**–665,144**
Trade payables	–10,587	0	0	0	**–10,587**
Other financial liabilities	–3,137	0	0	0	**–3,137**
Total	**–219,826**	**–80,449**	**–287,827**	**–90,766**	**–678,868**

The Group expects that it will be able to pay its liabilities from its own operating cash flow, available financial assets and the funds made available by affiliated companies.

The interest payments for variable-interest loans presented in the table reflect the market conditions for forward interest rates at the end of the fiscal year. These could change when market interest rates change. It is not expected that a cash flow included in the maturity analysis could occur considerably earlier or that a significant different amount could result.

3.8 FINANCING RISK

GATEWAY relies on the granting of bank loans, bonds, or loans from affiliated companies to finance acquisitions of companies and properties as well as its ongoing operations.

Particularly within the scope of real estate financing, it is also necessary to renew or refinance expiring loans, some of which are granted only on a short-term basis and must be regularly renewed. In all cases, there is a risk that a renewal is not possible or not at the same or different terms.

The market risk for the bank loans is relatively low since the existing loans are for the most part at a fixed interest rate or short-term. Unutilized credit facilities in the amount of €191,223 thousand were available at the reporting date (previous year: €183,243 thousand).

The goal of the financial management system is to ensure that GATEWAY generates the necessary financial resources to finance operational growth and the investments required for this purpose from its own business activities. Until this goal is achieved and implemented, affiliated companies support GATEWAY by providing sufficient financial resources.

3.9 ASSETS TRANSFERRED AS SECURITY

The carrying amounts of assets transferred as security for current and non-current borrowings are presented in the table below:

—

ASSETS

in € thousand	2019	2018
Current		
Investment properties held for sale	38,750	14,654
Inventories	590,349	289,830
Cash and cash equivalents	8,162	0
Total amount of current assets transferred as security	**637,261**	**304,484**
Non-current		
Land and buildings	0	0
Investment properties	8,270	136,339
Total amount of non-current assets transferred as security	**8,270**	**136,339**
Total amount of assets transferred as security	**645,531**	**440,823**

4. ESTIMATES, DISCRETIONARY JUDGMENTS AND ASSUMPTIONS APPLIED FOR ACCOUNTING PURPOSES

For accounting purposes, the Company makes estimates and assumptions regarding expected future developments. All assumptions and estimates are made on the basis of the circumstances and assessments at the reporting date and influence the presentation of the Group's financial position, cash flows and financial performance, as well as the understanding of the underlying risks of financial reporting. The estimates derived from these factors may differ from actual later events. Significant estimates and assumptions are applied for accounting purposes particularly in the following areas:

— With respect to the properties held by the Group, the Management Board must decide at every reporting date whether they should be held on a long-term basis to earn rentals or for capital appreciation or both or for sale. Depending on this decision, the properties are accounted for as land with unfinished and finished buildings intended for sale (inventories) or as non-current assets intended for sale, in accordance with the principles for investment properties, and measured at (amortized) cost or fair value, depending on the classification. We refer to Notes 6.3, 6.5 and 6.8.

— The market values of investment properties are based on the results of independent experts engaged for this purpose. The appraisals are conducted in accordance with the discounted cash flow method based on expected future revenue surpluses (procedure of Measurement Level 3). Accordingly, factors such as future rental income and the valuation interest rate to be applied, which have a direct effect on the fair values of the investment properties, are estimated by GATEWAY in collaboration with the appraiser. The fair values of investment properties as of the reporting date totaled €8,270 thousand (previous year: €238,197 thousand). We refer to Note 6.3.

— Estimates must be made for the recognition of current and deferred taxes. There are uncertainties related to the interpretation of tax regulations, including for example with respect to the treatment of tax loss carryforwards when ownership changes during a fiscal year. Therefore, differences between the actual results and our assumptions or future changes in our estimates can lead to changes of the taxable profit in future periods. In addition, the utilization of deferred tax assets requires future tax results, unless deferred tax liabilities of at least the same amount are also attributable to a tax unit. We refer to Note 6.13.

— Various assumptions need to be made with respect to other provisions, including for example with respect to occurrence probabilities and the utilization amounts of provisions for litigation risks. All information available at the time of preparing the financial statements was considered for this purpose. As of the reporting date, other provisions amounted to €1,448 thousand (previous year: €896 thousand). The measurement of the provisions takes into account knowledge of the current state of the litigation as well as the assessment of the Management Board. We refer to Note 6.10.

— There is scope for discretion in determining the time and amount of revenue recognition in accordance with the principles of IFRS 15. If a binding sales contract already exists for a property under development, revenue recognition based on a time period in accordance with the estimated stage of completion can also be considered in addition to revenue recognition based on a specific point in time. This applies accordingly to revenue recognition for undertakings included in the financial statements using the equity method. We refer to Notes 6.4 and 6.14.

— The fair value of derivative financial instruments is estimated on the basis of an option price model recognized for this type of transaction, in the form of a binomial model. We refer to Note 2.10.

5. SEGMENT REPORT

The segment report is prepared in accordance with IFRS 8 based on the management approach. This means that the segment report is linked to the reporting to the chief operating decision makers and reflects the information regularly presented to the chief operating decision makers with respect to decisions on the allocation of resources to the segments and the assessment of profitability. Profitability is assessed and managed on the basis of EBIT adjusted. The EBIT adjusted is defined by the Group as the operating profit plus the result from investments accounted for using the equity method.

There is no reporting of results on the basis of geographical regions because all of the Group's activities are conducted in Germany. The individual segments are described in the following:

— **Standing Assets:** This segment covers a profitable and diverse portfolio of existing properties. This portfolio comprises properties acquired by Development Partner AG, Duesseldorf, prior to its acquisition in October 2018. The segment revenues consist primarily of rental income from the investment properties.

— **Commercial Properties Development:** The development activities for commercial properties are combined in the Commercial Properties segment. The objective of this segment is to develop attractive and high-quality office buildings with modern architecture and flexible usage formats. Geographically, these activities are concentrated on the top 7 cities in Germany (i.e. Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart) and selected metropolitan areas such as Nuremberg.

— **Residential Properties Development:** In the Residential Development segment, the Group concentrates on development activities in selected metropolitan regions in Germany, normally cities with a population of at least 100,000, such as Dresden, Berlin, Erfurt, Frankfurt am Main, Leipzig and Munich. The focus here is on the new construction of medium-sized apartment buildings for modern living as well as mixed-use properties and real estate. Joint ventures with local project developers and general contractors were regularly established in this segment. In future, however, the Group wants to develop the majority of its assets on its own.

The segment information is determined on the basis of the accounting policies used in the consolidated financial statements. Segment assets, revenues and expenses resulting from intersegmental transactions are eliminated in the column "consolidation." The major effects shown in this column result from the elimination of intra-group balances as well as of expenses and income. The elimination of intra-group balances regarding segment assets mainly results in the consolidation of receivables (€87,165 thousand) of the Standing Assets segment from the Commercial Property Development and the Residential Property Development segments. The consolidation of the liabilities (€87,165 thousand) matching the receivables is the main effect as regards segment liabilities. The elimination of expenses and income results in the consolidation of income from a distribution (€64,000 thousand) of the Residential Property Development segment to the Standing Assets segment reported in interest income.

Revenue from third parties (external revenue) is almost exclusively generated in Germany. 62% of this revenue are attributable to the Commercial Property Development segment, 27% to the Standing Asset segment and 11% to the Residential Property Development segment. Revenue from third parties in the Commercial Property Development segment largely include revenue from a customer in the amount of approximately €48 million in connection with the forward sale of a construction project. Revenue from third parties in the Standing Assets segment mainly refer to rental revenue from investment properties held as financial investments and held for sale. The major portion of the revenue from third parties in the Residential Property Development segment is attributable to revenue from a customer in the amount of approximately €10 million in connection with the forward sale of a construction project.

The change in the value of investment properties results exclusively from the Standing Assets segment because only inventory properties are held in the other two segments.

The profit and loss shares in undertakings accounted for using the equity method are classified in the relevant segment in accordance with their business activity. Interest income and interest expenses are allocated according to the associated liabilities or assets. The operating profit as reported in the statement of comprehensive income is specified as the segment result.

Segment assets include all the Group's assets, and segment liabilities include all the Group's provisions and liabilities. Investments accounted for using the equity method are reported separately here. Segment investments (additions to long-term assets) shows all investments in non-current assets.

The segment report tables are presented in an appendix to the notes.

6. ADDITIONAL NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 INTANGIBLE ASSETS AND GOODWILL

Please refer to Notes 2.6 and 2.8 for information on the accounting methods.

Intangible assets and goodwill showed the following development in the last two fiscal years:

—

COST

in € thousand	Goodwill	Other intangible assets	Total
Balance as of 01.01.2018	**0**	**9**	**9**
Additions	39,881	21	39,902
Disposals	0	0	0
Balance as of 31.12.2018	**39,881**	**30**	**39,911**
Additions	0	3	3
Disposals	0	0	0
Balance as of 31.12.2019	**39,881**	**33**	**39,914**

—

AMORTIZATION

in € thousand	Goodwill	Other intangible assets	Total
Balance as of 01.01.2018	**0**	**9**	**9**
Additions	0	2	2
Disposals	0	0	0
Balance as of 31.12.2018	**0**	**11**	**11**
Additions	0	12	12
Disposals	0	0	0
Balance as of 31.12.2019	**0**	**23**	**23**

—

CARRYING AMOUNTS

in € thousand	Goodwill	Other intangible assets	Total
Balance as of 01.01.2018	**0**	**0**	**0**
Balance as of 31.12.2018	**39,881**	**19**	**39,900**
Balance as of 31.12.2019	**39,881**	**10**	**39,891**

By way of an agreement dated July 9, 2018 and taking effect as of October 5, 2018, SN Beteiligungen Holding AG, Zug, Switzerland, contributed the shares held in Development Partner AG into GATEWAY and, as consideration, received 148,610,491 shares in the Company. This reverse acquisition resulted in the goodwill reported in the item "Intangible assets and goodwill".

In the reporting period, the allocation of goodwill to the cash-generating units was completed. The goodwill arising from the reverse acquisition in the amount of €39,881 thousand (previous year: €39,881 thousand) was allocated to CGUs as follows with the following amounts as of the reporting date:

— €6,124 thousand to the CGU "Standing";
— €9,789 thousand to the CGU "Residential";
— €23,968 thousand to the CGU "Commercial";

Goodwill was subjected to an annual impairment test as of September 30 in accordance with the provisions set out in IAS 36. The impairment test was conducted on the basis of the value in use of the CGUs and shows that there was no need to record an impairment loss. Moreover, there was no evidence identified as of the reporting date that indicates the existence of an impairment.

6.2 PROPERTY, PLANT AND EQUIPMENT

Please refer to Notes 2.7 and 2.8 for information on the accounting methods.

The development of property, plant and equipment is presented in the table below:

—

COST

in € thousand	Operating facilities	Plant and machinery	Buildings on owned land	Operating and office equipment	Total
Balance as of 01.01.2018	**0**	**0**	**0**	**568**	**568**
Additions	53	0	0	288	341
Disposals	0	0	0	21	21
Balance as of 31.12.2018	**53**	**0**	**0**	**835**	**888**
Recognition of right-of-use asset from initial application of IFRS 16	0	63	2,693	92	2,848
Adjusted balance as of 01.01.2019	**53**	**63**	**2,693**	**927**	**3,736**
Additions	0	159	0	75	234
Disposals	25	0	442	0	467
Balance as of 31.12.2019	**28**	**222**	**2,251**	**1,002**	**3,503**

—

DEPRECIATION AND IMPAIRMENTS

in € thousand	Operating facilities	Plant and machinery	Buildings on owned land	Operating and office equipment	Total
Balance as of 01.01.2018	**0**	**0**	**0**	**306**	**306**
Additions	4	0	0	126	130
Disposals	0	0	0	17	17
Balance as of 31.12.2018	**4**	**0**	**0**	**415**	**419**
Additions	12	53	331	173	569
Disposals	3	0	0	0	3
Balance as of 31.12.2019	**13**	**53**	**331**	**588**	**985**

—

CARRYING AMOUNTS

in € thousand	Operating facilities	Plant and machinery	Buildings on owned land	Operating and office equipment	Total
Balance as of 01.01.2018	**0**	**0**	**0**	**262**	**262**
Balance as of 31.12.2018	**49**	**0**	**0**	**420**	**469**
Balance as of 31.12.2019	**15**	**169**	**1,920**	**414**	**2,518**

The additions to property, plant and equipment in 2018 are fully attributable to the reverse acquisition.

Additions to property, plant and equipment in the reporting period 2019 largely result from the recognition of the right-of-use asset from initial application of IFRS 16 as well as car rental agreements newly concluded during the reporting period.

The disposals during the reporting period exclusively refers to right-of-use assets following changes in the current rental agreements and the associated rent reduction.

As of December 31, 2019, property, plant and equipment includes right-of-use assets of €2,148 thousand in connection with leased objects that do not meet the definition of investment properties. A detailed list of the right-of-use assets is included in Note 6.21.

6.3 INVESTMENT PROPERTIES

Please refer to Note 2.9 for information on the accounting methods.

The item "Investment properties" originally results from GATEWAY's takeover as part of the reverse acquisition, so that the previous-year development of this item after GATEWAY's takeover as of October 1, 2018 is reported. Development Partner AG previously did not recognize any investment properties.

All information presented here pertains to the Standing Assets segment. As in the comparative period, there were no intersegment transactions during the reporting period.

In the reporting period, measurement losses of €168 thousand (previous year: measurement gains of €10,184 thousand) were recognized in the statement of comprehensive income in the item "Fair value changes in investment properties and valuation of properties". Of that amount, €–168 thousand (previous year: €10,184 thousand) concern properties whose fair value was determined based on Level 3.

The development of investment properties is presented in the following table:

—

in € thousand

Balance as of 01.10.2018	**216,420**
Additions from acquisitions	123,420
Reclassification	–30,820
Subsequent costs	6,293
Disposals	–87,300
Changes in market value	10,184
Balance as of 31.12.2018	**238,197**
Additions from acquisitions	8
Reclassification	–229,767
Subsequent costs	0
Disposals	0
Changes in market value	–168
Balance as of 31.12.2019	**8,270**
Thereof fair value Level 3	8,270
Thereof fair value Level 2	0

Of the investment properties, properties with a total carrying amount of €8,270 thousand (previous year: €213,140 thousand) were secured by mortgages as of the reporting date.

The reclassifications exclusively refer to those to the item "Non-current assets held for sale" and refer to properties of the companies listed below since for these properties the sale within 12 months is deemed highly probable and sales contracts exist.

Companies:
- CE Bad Honnef S.à r.l., Luxembourg (formerly Gateway Sechste GmbH, Frankfurt am Main[1])
- CE Wilhelmshaven S.à r.l., Luxembourg (formerly Gateway Zwölfte GmbH, Frankfurt am Main[1])
- CE Abendsburg S.à r.l., Luxembourg (formerly Gateway Vierzehnte GmbH, Frankfurt am Main[1])
- GTY 1te Siegen GmbH & Co. KG, Eschborn
- GTY 1te Düsseldorf GmbH & Co. KG, Eschborn
- CE April 1 S.à r.l., Luxembourg (formerly Gateway Erste GmbH, Frankfurt am Main[1])
- GTY 1te Bünde GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Dresden GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Duisburg GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Hagen GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Hildesheim GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Kassel GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Lübeck GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Lüdenscheid GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Lünen GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Minden GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Oberhausen GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Pfronten GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)

[1] The companies were transformed into an S.à r.l. under the laws of the Grand Duchy of Luxembourg by means of a cross-border change in legal form, while retaining legal identity.

- GTY 1te Rosenheim GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Stralsund GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 1te Wuppertal GmbH & Co. KG, Eschborn (accrued to Gateway Erste GmbH, Frankfurt am Main, as of August 19, 2019)
- CE April 2 S.à r.l., Luxembourg (formerly Gateway Fünfzehnte GmbH, Frankfurt am Main[1])
- GTY 15te Hamm GmbH & Co. KG, Eschborn (accrued to Gateway Fünfzehnte GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 15te Kassel GmbH & Co. KG, Eschborn (accrued to Gateway Fünfzehnte GmbH, Frankfurt am Main, as of August 19, 2019)
- GTY 15te Dresden GmbH & Co. KG, Eschborn (accrued to Gateway Fünfzehnte GmbH, Frankfurt am Main, as of August 19, 2019)

All of the properties listed above had been fully disposed of as of December 31, 2019. We refer to Note 6.8.

In order to better estimate the effects from the reclassification and the disposal of held-for-sale assets on income and expenses arising from operating activities arising, significant amounts recognized in the statement of profit or loss for the properties that continue to be reported as investment properties are presented as follows:

—

in € thousand	2019	Q4 2018
Rental revenues	738	4,673
Revenues from operating costs	35	1,309
Revenues from cost charges to others and building cost subsidies	9	1,193
Administration costs (operating costs, maintenance, administration, etc.)	–382	–2,756
	400	**4,419**
Thereof fair value Level 3	400	4,419
Thereof fair value Level 2	0	0

The operating expenses were incurred primarily for leased properties. The expenses allocable to vacant properties are of subordinate importance.

In accordance with International Valuation Standards, the fair values of investment properties are determined on the basis of the discounted cash flow procedure. Expected future rental surpluses from a property are discounted to present value at the valuation date by applying a market-appropriate, property-specific discount rate. Whereas net rents are usually applied in determining the rental revenues, operating expenses are incurred particularly from the management costs, which the owner is obligated to pay.

The table below shows the fair values of investment properties as well as the principal assumptions applied for purposes of the above-mentioned valuation technique:

—

	2019
	Office
Rented space in sqm	8,005
Vacant space in sqm	2,970
Initial vacancy rate in % (based on total space)	37.1
Achievable net basic rent (market rent) p.a. in € thousand	920
Achievable net basic rent (market rent) per sqm in €	*9.58*
Actually achieved net basic rent (contract rent) p.a. in € thousand	567
Actually achieved net basic rent (contract rent) per sqm in €	*9.39*
Market value in € thousand	8,270
Market value per sqm in €	*1,033*
Multiplier on market rent (market value: achievable net basic rent)	9.0
Multiplier on contract rent (market value: contractual net basic rent)	14.6
Valuation parameters:	
Average maintenance costs p.a. in €/sqm	7.5
Administrative expenses (in % of achievable rent)	1.0
Operating costs not chargeable (in % of achievable rent)	2.0
Vacancy costs p.a. in €/sqm	30.00
Discount rate in %	7.25
Multiplier in case of resale after 10 years	14.3
Incidental acquisition costs upon resale in %	7.0

—

						2018
	Total	**Office**	**Mixed**	**Retail**	**Hotel**	**Retirement home**
Rented space in sqm	139,743	49,486	35,106	49,273	2,740	3,138
Vacant space in sqm	25,970	13,568	310	12,092	0	0
Initial vacancy rate in % (based on total space)	18.6	27.4	0.9	24.5	0.0	0.0
Achievable net basic rent (market rent) p.a. in € thousand	15,561	5,091	3,236	6,456	313	465
Achievable net basic rent (market rent) per sqm in €	*9.28*	*8.57*	*7.68*	*10.92*	*9.52*	*12.35*
Actually achieved net basic rent (contract rent) p.a. in € thousand	14,693	4,492	3,703	5,653	313	532
Actually achieved net basic rent (contract rent) per sqm in €	*10.76*	*10.42*	*8.87*	*12.67*	*9.52*	*14.13*
Market value in € thousand	238,197	71,307	54,200	98,490	5,690	8,510
Market value per sqm in €	1,705	1,441	1,544	1,999	2,077	2,712
Multiplier on market rent (market value: achievable net basic rent)	15.3	14.0	16.7	15.3	18.2	18.3
Multiplier on contract rent (market value: contractual net basic rent)	16.2	15.9	14.6	17.4	18.2	16.0
Valuation parameters:						
Average maintenance costs p.a. in €/sqm	6.50–8.50	7.57	7.50	7.38	7.5	7.52
Administrative expenses (in % of achievable rent)	1.00–3.00	2.87	2.00	2.38	1.5	1.00
Operating costs not chargeable (in % of achievable rent)	1.00–3.00	1.07	1.00	2.25	1.00	1.00
Vacancy costs p.a. in €/sqm	24.00–30.00	30.00	30.00	28.50	30.00	30.00
Discount rate in %	3.00–3.75	3.00–7.35	3.50–4.25	4.25–5.00	3.75	4.50
Multiplier in case of resale after 10 years	14.30–25.00	18.97	19.10	18.05	18.20	16.70
Incidental acquisition costs upon resale in %	4.50–7.50	6.93	5.75	6.38	6.00	4.50

The determination of the fair value was generally based on Level 3 input factors (see also Note 3.3), i.e., factors not based on observable market data (unobservable input factors). For properties that are held for sale and for which a binding purchase agreement is already on hand as of the reporting date, the agreed sale prices are applied. In such cases, the fair value is calculated on the basis of Level 2 input factors that can be observed for the asset directly (i.e. as the price).

The discounted cash flow procedure is a multi-period model. Future increases in revenue and costs are explicitly represented in the ten-year detailed planning period. Deviations between the rental revenues actually earned (contract rent) and the estimated sustainably achievable rental revenues (market rent) as well as the change in the vacancy rate were determined by taking the rental location and the special features of the individual property into account. Costs for new rentals (tenant build-outs, rental commissions, and costs for rent-free periods) were taken into account using historical data. In addition, all costs to be paid by the owner were deducted (maintenance and management costs, vacancy costs, etc.).

The net income for the detailed planning period determined in this way (the assumed rental period) was measured at the valuation date, which is identical with the reporting date. Following the detailed planning period, a resale value was determined based on a multiplier related to the sustainably achievable annual net income. Estimated costs of sale were deducted from the calculated gross resale value, and the resulting net realizable value was discounted to the valuation date. The present value of the net income of the detailed planning period plus the present value of the net realizable value equals the market value of the individual property. The assumptions applied in determining the value of properties are made by the independent appraiser on the basis of his professional experience and are subject to uncertainty.

The following overview shows the distribution of the fair values by property class:

—

FAIR VALUES

in € million	2019	2018
Office	8.3	71.3
Mixed	0.0	54.2
Retail	0.0	98.5
Hotel	0.0	5.7
Retirement home	0.0	8.5
Total	**8.3**	**238.2**

As part of the sensitivity analysis, key non-observable input factors were varied. This was done for the discount rate and the market rent. This had the following impact on the fair values for the determined property classes.

—

SENSITIVITY ANALYSIS

				31.12.2019
	Discount rate		Market rent	
in € million	–0.25%	0.25%	5.00%	–5.00%
Office	0.2	–0.2	0.5	–0.5
Mixed	0	0	0.0	0.0
Retail	0	0	0.0	0.0
Hotel	0	0	0.0	0.0
Retirement home	0	0	0.0	0.0
Total	**0.2**	**–0.2**	**0.5**	**–0.5**

—

				31.12.2018
	Discount rate		Market rent	
in € million	–0.25%	0.25%	5.00%	–5.00%
Office	1.6	–1.4	3.9	–3.8
Mixed	1.2	–1.0	2.8	–2.6
Retail	2.0	–2.1	4.6	–4.7
Hotel	0.1	–0.1	0.0	0.0
Retirement home	0.2	–0.2	0.3	–0.3
Total	**5.1**	**–4.8**	**11.6**	**–11.4**

6.4 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Please refer to Note 2.10 for information on the accounting methods.

The composition of the investments accounted for using the equity method is presented in the following table:

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FINANCIAL INVESTMENT

in € thousand	Note	31.12.2019	31.12.2018
Interests in associates	A	4,721	12,787
Interests in joint ventures	B	4,111	22,881
Balance as of 31.12.		**8,832**	**35,668**

A. ASSOCIATES

The business object of Projektentwicklung Venloer Straße in Köln S.à r.l., Berlin, is to develop an office building with a gross floor space of approx. 15,200 sqm in Cologne. The company has been classified as an associate due to the 20% co-determination rights associated with the investment. Moreover, Development Partner AG, Duesseldorf, has entered into a management services agreement with the company related to the execution of project development. The construction project is financed in part by means of subordinated shareholder loans. In addition, Development Partner AG, Duesseldorf, has also provided a cost overrun and interest servicing guarantee to the external lenders. The property was sold by contract dated December 20, 2018. The transfer of benefits and obligations was executed on July 1, 2019. In accordance with the principles of IFRS 15 for revenue recognition over a period of time, proportional revenues and profits were recognized on the basis of a stage of completion estimated with reference to construction costs. The articles of association include a scaled profit distribution agreement between the shareholders, including an increase in the profit share of Development Partner AG, Duesseldorf, from 20% to up to 50%, depending on the achievement of defined return targets of the co-shareholder. This leads to a profit share after taxes of €1.6 million (previous year: €13.4 million) attributable to Development Partner AG, Duesseldorf. In 2019, Development Partner AG, Duesseldorf, received an interim dividend of €9.6 million. The carrying amount of the investment which is subsequently remeasured using the equity method corresponds to the pro-rata entitlement in the remaining net assets of the company.

The Group also holds shares in a number of associates that are deemed to be immaterial in themselves. The carrying amounts and the Group's share of the profit of these companies are presented in the table below.

—

in € thousand	31.12.2019	31.12.2018
Carrying amount of financial investments accounted for using the equity method	11	11
Share of profit	0	0

There were no material contingent liabilities or financial obligations to associates accounted for using the equity method as of the reporting date.

B. JOINT VENTURES

Despite the 60% equity interest, Projektentwicklung **Abraham-Lincoln-Straße** in Wiesbaden Beteiligungsgesellschaft mbH & Co. KG, Duesseldorf, is classified as a joint venture because the articles of association basically require a 75% majority vote for the adoption of resolutions in the annual shareholders' meeting. The articles of association include a staggered profit distribution agreement that also entails separate advance interest on capital reserves. The company held a 66.7% interest in Projektentwicklung Abraham-Lincoln-Straße in Wiesbaden GmbH, Duesseldorf, the business object of which is to develop a property with a gross floor space of approx. 14,100 sqm in Wiesbaden. These shares were fully disposed by way of an agreement dated July 31, 2019. For the fiscal year ended December 31, 2019, a result from associates of €8.3 million was recognized for the investment. As a result of the disposal of the project company, Development Partner AG, Duesseldorf, received an interim dividend of €8.1 million. The carrying amount of the investment which is subsequently remeasured using the equity method corresponds to the pro-rata entitlement in the remaining net assets of the company.

Despite an equity interest of 75%, Projektentwicklung am **Barmbeker Bahnhof** in Hamburg Beteiligungsgesellschaft mbH & Co. KG, Duesseldorf, is classified as a joint venture because the articles of association basically require a unanimous vote for adopting resolutions in the annual shareholders' meeting. The articles of association include a staggered profit distribution agreement that also entails separate advance interest on capital reserves. As a holding company, the Company holds a 40% interest in Projektentwicklung am Barmbeker Bahnhof in Hamburg GmbH, Duesseldorf, the business object of which is to develop a property with a gross floor space of approx. 24,300 sqm in Hamburg. This investment was pre-consolidated on the basis of the equity method for purposes of financial information presentation. Development Partner AG, Duesseldorf, has entered into a management services agreement with the Company related to the execution of project development. As of the reporting date, the project company has work in progress of €84.5 million (previous year: €46.2 million), which is mainly financed by loans. Development Partner AG, Duesseldorf, has also provided a cost overrun and interest servicing guarantee to the external lenders in line with their share of ownership.

The business object of Immobiliengesellschaft **Hutfiltern** in Braunschweig GmbH, Duesseldorf, is to develop a property with a gross floor space of approx. 5,900 sqm in Braunschweig. Despite an equity interest of 60%, the company was classified as a joint venture because all shareholder resolutions require a 75% majority or unanimous vote. In addition, the annual shareholders' meeting has issued internal rules of procedure for the management that require far-reaching consent requirements on the part of the annual shareholders' meeting. The articles of association also include a staggered profit distribution agreement that also entails separate interest on capital reserves. Development Partner AG, Duesseldorf, has entered into a management services agreement with the company related to the execution of project development. As of the reporting date, the project company has work in progress of €30.4 million (previous year: €28.2 million), which is mainly financed by loans. Development Partner AG, Duesseldorf, is liable to the lenders for redemption payments in the inventory and administration phase if the payments cannot be made by the company.

The business object of Projektentwicklung **Weender Straße** in Göttingen GmbH & Co. KG, Duesseldorf, refers to the development of a property in Göttingen. The company was classified as a joint venture because the articles of association require a unanimous vote for all resolutions. In addition, the annual shareholders' meeting has issued internal rules of procedure for the management that require far-reaching consent requirements on the part of the annual shareholders' meeting. The articles of association also include a staggered profit distribution agreement that particularly entails advance interest on capital accounts. Development Partner AG, Duesseldorf, has entered into a management services agreement with the company related to the execution of project development. As of the reporting date, the company has work in progress of €7.3 million (previous year: €6.9 million), which is mainly financed by loans. Development Partner AG, Duesseldorf, has also provided a cost overrun and interest servicing guarantee to the external lenders.

Berlin Marienfelde **Südmeile** Objekt GmbH, Berlin, is the owner of the Südmeile shopping center in Berlin with rentable space of approx. 9,838 sqm. By contract dated February 12, 2019, GATEWAY sold all of its shares in the company. Accordingly, the company was disposed within the context of deconsolidation. Please refer to Note 2.4 for more details.

LE Quartier 1 GmbH & Co. KG, Leipzig, was included in the Company's consolidated financial statements as of July 1, 2018. The investment in the company and its subsidiaries was classified as a joint venture because the articles of association basically require a unanimous vote for the adoption of shareholder resolutions. The company has extensive property holdings in the project development phase and a large number of sub-investments with other project development companies. By contract dated December 10, 2019, GATEWAY sold all of its shares in the company. Accordingly, the company was disposed within the context of deconsolidation. Please refer to Note 7.3.c for more details.

The Group also holds shares in a number of joint ventures that are deemed to be immaterial in themselves. The carrying amounts and the Group's share of the profit of these companies are presented in the table below.

—

in € thousand	31.12.2019	31.12.2018
Carrying amount of financial investments accounted for using the equity method	92	177
Share of profit	0	35

The Group did not recognize accumulated losses of €150 thousand (previous year: €1,138 thousand) in relation to its shares in joint ventures because it bears no obligations for these losses.

There were no material contingent liabilities or financial obligations to joint ventures accounted for using the equity method as of the reporting date.

The financial information of significant associates and joint ventures is summarized in the table below. The table also presents a reconciliation of the summarized financial information to the corresponding carrying amounts of the Group's share of equity:

—

					31.12.2019
Name	**PE Venloer Straße in Köln S.à r.l.**	**PE Abraham-Lincoln-Straße in Wiesbaden KG**	**PE Am Barmbeker Bahnhof in Hamburg Beteiligungsgesellschaft KG**	**IG Hutfiltern in Braunschweig GmbH**	**PE Weender Straße in Göttingen KG**
Type of relationship	Associate	Joint ventures	Joint ventures	Joint ventures	Joint ventures
Head office	Luxembourg	Wiesbaden	Hamburg	Braunschweig	Göttingen
Share of equity held by the company	20.00%	60.00%	75.00%	60.00%	20.50%
Accounted for using the equity method	Yes	Yes	Yes	Yes	Yes
Type of activity of the company	Project development	Project development investment company	Project development investment company	Project development	Project development
in € thousand					
Dividends received	0	0	0	0	0
Non-current assets	0	0	9,591	0	0
Current assets	20,397	7,094	148	30,522	7,392
thereof cash and cash equivalents	15,308	6,421	148	121	118
Non-current liabilities	0	6,268	6,470	16,722	7,807
thereof financial liabilities	0	6,268	6,470	16,722	7,807
Current liabilities	10,494	563	3,259	6,198	319
thereof financial liabilities	0	0	3,201	5,753	319
Net assets (100%)	**9,903**	**263**	**10**	**7,603**	**–734**
Group's share of net assets	**1,981**	**158**	**8**	**4,562**	**–150**
Disproportionate funding of capital reserves	0	95	291	–1,151	0
Impairment reversal of loss included as part of the net investment	0	0	0	0	0
Incongruent distribution of results	2,730	0	0	0	0
Unrecognized share in losses	0	0	0	0	150
Other reconciliation effects	0	0	0	57	0
Carrying amount of equity held in the company	**4,710**	**253**	**299**	**3,467**	**0**
Revenues	18,554	24,625	0	144	1
Total comprehensive income	7,347	18,199	602	–820	–59
Depreciation	0	0	0	0	0
Finance income	0	12	1,009	0	0
Finance costs	–829	–35	–244	–977	–363
Income tax expense or income	–6,141	–484	–150	–17	0

—

							31.12.2018
Name	**PE Venloer Straße in Köln S.à r.l.**	**PE Abraham-Lincoln-Straße in Wiesbaden KG**	**PE Am Barm-beker Bahnhof in Hamburg Beteiligungs-gesellschaft KG**	**IG Hutfiltern in Braunschweig GmbH**	**PE Weender Straße in Göttingen KG**	**Berlin Marienfelde Südmeile Objekt GmbH**	**LE Quartier 1 GmbH & Co. KG**
Type of relationship	Associate	Joint ventures	Joint ventures	Joint ventures	Joint ventures	Joint ventures	Joint ventures
Head office	Luxemburg	Wiesbaden	Hamburg	Braunschweig	Göttingen	Berlin	Leipzig
Share of equity held by the company	20.00%	60.00%	75.00%	60.00%	20.50%	50.00%	46.00%
Accounted for using the equity method	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Type of activity of the company	Project development	Project development investment company	Projekt-entwicklungs-Beteiligungsge-sellschaft	Project development	Project development	Standing asset	Project development and holding company
in € thousand							
Dividends received	0	0	0	0	0	0	0
Non-current assets	0	3,493	7,253	0	0	31,000	0
Current assets	92,522	3	1	29,397	9,789	1,164	171,197
thereof cash and cash equivalents	7	3	1	299	427	979	2,629
Non-current liabilities	60,804	4,987	7,155	19,759	9,207	0	94,587
thereof financial liabilities	55,680	4,987	7,155	19,759	9,207	0	94,587
Current liabilities	4,520	26	229	747	819	28,834	67,515
thereof financial liabilities	0	0	0	0	533	27,130	5,397
Net assets (100%)	**27,198**	**–1,517**	**–130**	**8,891**	**–237**	**3,330**	**9,095**
Group's share of net assets	**5,440**	**–910**	**–98**	**5,335**	**–49**	**1,665**	**4,184**
Disproportionate funding of capital reserves	0	0	0	–1,763	0	0	0
Difference	0	0	0	0	0	0	12,977
Impairment reversal of loss included as part of the net investment	634	0	0	0	0	0	0
Incongruent distribution of results	6,686	0	156	264	–179	0	0
Unrecognized share in losses	0	910	0	0	228	0	0
Carrying amount of equity held in the company	**12,760**	**0**	**58**	**3,836**	**0**	**1,665**	**17,161**
Revenues	92,315	0	0	586	8	725	41,475
Total comprehensive income	27,962	326	371	–444	–325	842	6,173
Depreciation	0	0	0	0	0	–376	–23
Finance income	0	0	791	0	0	0	5
Finance costs	–1,708	0	–159	–591	–236	–439	–6,534
Income tax expense or income	–4,655	0	–118	0	0	0	–201

6.5 INVENTORIES

Please refer to Note 2.12 for information on the accounting methods.

The Group's inventories as of the reporting date consisted of the capitalized construction costs (including construction period interest) of inventory properties, which are measured at the lower of amortized cost or net realizable value in accordance with IAS 2. Construction period interest of €20,172 thousand (previous year: €23,721 thousand) was capitalized as construction costs in the reporting period.

The total carrying amount of all inventory properties as of December 31, 2019 was €581,602 thousand (previous year: €342,736 thousand). Due to its focus on developing properties and the related sale of multiple inventory properties, the Group has further expanded its inventories. The inventory properties mainly comprise Projektentwicklung Breite Gasse in Nürnberg GmbH, Duesseldorf (€89,670 thousand), Immobilienbeteiligungsgesellschaft am Kennedydamm mbH, Duesseldorf (€75,454 thousand), Projektentwicklung Mediaspree in Berlin GmbH, Duesseldorf (€72,160 thousand), Revaler Str. 32 PE GmbH, Berlin (€66,512 thousand) and Projektentwicklung Campus Park in München GmbH, Duesseldorf (€62,113 thousand).

The development of inventories is presented in the table below:

—

in € thousand	31.12.2019	31.12.2018
Revaler Str. 32 PE GmbH	66,512	0
PE Storkower 140 GmbH	1,078	0
PE Storkower Str. 142–146 GmbH & Co. KG	33,824	0
Augskor 1 GmbH (S.à.r.l)	783	0
Augskor 2 GmbH (S.à.r.l)	1,912	0
Augskor 3 GmbH (S.à.r.l)	1,435	0
GTY 1te Bochum GmbH & Co. KG	0	4,068
Imm.Bet.ges. am Kennedydamm mbH	75,454	68,678
PE Breite Gasse GmbH	89,670	81,809
PE Rudolfplatz GmbH	0	30,819
PE Brotstraße GmbH	4,259	4,078
PE Uerdinger Str. Office GmbH	16,074	15,283
PE Uerdinger Str. Residential GmbH	4,120	2,427
PE Michaelkirchstr. GmbH	45,443	41,189
PE Michaelkirchstr. Bet.ges. mbH	10,816	4,754
PE Himmelgeister Str. I GmbH	786	2,377
PE Himmelgeister Str. II GmbH[1]	0	1,606
MUC Airport Living GmbH	18,824	12,367
Gew.park Neufahrn GmbH	18,431	17,732
Bet.ges. Berlin-Heinersdorf 18 GmbH	31,888	30,238
Movingstairs GmbH	6,950	6,884
PE Taunusstr. 52–60 GmbH	0	18,428
PE Tech Campus Stuttgart GmbH	14,070	0
PE Mediaspree GmbH	72,160	0
PE Campus Park München GmbH	62,113	0
SKE Immo Sulzbach GmbH (S.à r.l.)	5,000	0
Total	**581,602**	**342,736**

[1] The company was merged with PE Himmelgeister Straße in Düsseldorf I GmbH during the year.

6.6 TRADE RECEIVABLES AND OTHER ASSETS

Please refer to Notes 2.10 and 2.11 for information on the accounting methods.

The trade receivables of €1,823 thousand (previous year: €1,810 thousand) resulted primarily from receivables under management services contracts due from third parties as well as from companies accounted for using the equity method, ongoing litigation (one lawsuit) and current rent receivables. Separate loss allowance accounts are not maintained at the present time.

Other receivables mainly comprised the following items:

—

OTHER ASSETS

in € thousand	31.12.2019	31.12.2018
Other financial assets:		
Other receivables – at amortized cost	57,446	9,174
Loans – at amortized cost	12,094	7,550
Contract assets	10,830	0
Equity investments – measured at FVtPL	2,996	433
Embedded derivatives – measured at FVtPL	2,002	4,071
Security deposits for leased office space – at amortized cost	330	82
	85,698	**21,310**
thereof non-current	15,415	9,570
thereof current	70,283	11,740
Other non-financial assets:		
Other assets	45,294	0
Value added tax credits	2,184	1,247
Tenant subsidies	1,805	0
Operating costs	170	0
Prepaid expenses	781	2,281
	50,234	**3,528**
thereof non-current	0	0
thereof current	50,234	3,528

The other receivables measured at amortized cost mainly refer to purchase prices from forward sales of construction projects which were paid to notary escrow accounts and not distributed as of the reporting date.

Other non-financial assets in the amount of €45,294 thousand refer to the transfer of property from a land purchase agreement that has been certificated by a notary public, but has not yet been fully executed. Upon further execution of the agreement, the item has to be transferred to inventories.

6.7 CASH AND CASH EQUIVALENTS

Please refer to Note 2.13 for information on the accounting methods.

Cash and cash equivalents mainly consisted of overnight bank deposits and amounted to €216,045 thousand as of December 31, 2019 (previous year: €73,931 thousand).

As in the previous year, cash and cash equivalents were not subject to restrictions.

6.8 NON-CURRENT ASSETS HELD FOR SALE

Please refer to Note 2.22 for information on the accounting methods.

The item "Non-current assets held for sale" results from GATEWAY's takeover as part of the reverse acquisition, so that the development of this item after GATEWAY's takeover as of October 1, 2018 is reported. Development Partner AG previously did not recognize any non-current assets held for sale.

All information presented here pertains to the Standing Assets segment. As in the comparative period, there were no intersegment transactions during the reporting period.

In the reporting period, measurement gains of €20,715 thousand (previous year: measurement losses of €284 thousand) were recognized in the statement of comprehensive income in the item "Fair value changes in investment properties and valuation of properties". Of that amount, €18,067 thousand (previous year: €0 thousand) concern properties whose fair value was determined based on Level 3.

The following overview represents the development of the non-current assets held for sale.

—

NON-CURRENT ASSETS HELD FOR SALE

in € thousand	
Balance as of 01.10.2018	**3,890**
Additions from acquisitions	0
Reclassification	30,820
Subsequent costs	1,164
Disposals	0
Changes in market value	–284
Balance as of 31.12.2018	**35,590**
Additions from acquisitions	6,598
Reclassification	229,767
Subsequent costs	0
Disposals	–253,920
Changes in market value	20,715
Balance as of 31.12.2019	**38,750**
Thereof fair value Level 3	23,000
Thereof fair value Level 2	15,750

Of the investment properties, properties with a total carrying amount of €38,750 thousand (previous year: €29,460 thousand) were secured by mortgages as of the reporting date.

We refer to Note 6.3 regarding reclassifications from investment properties.

The disposals refer to the following companies:

—

	Disposed as of
Asset deal:	
Gateway Elfte GmbH, Offenbach	31.03.2019
GTY 1te Siegen GmbH & Co. KG, Eschborn	31.05.2019
GTY 1te Düsseldorf GmbH & Co. KG, Eschborn	31.10.2019
Share deal:	
CE April 1 S.à r.l., Luxembourg (formerly Gateway Erste GmbH, Frankfurt am Main)	20.12.2019
CE April 2 S.à r.l., Luxembourg (formerly Gateway Fünfzehnte GmbH, Frankfurt am Main)	20.12.2019
CE Bad Honnef S.à r.l., Luxembourg (formerly Gateway Sechste GmbH, Frankfurt am Main)	20.12.2019
CE Bad Honnef S.à r.l., Luxembourg (formerly Gateway Sechste GmbH, Frankfurt am Main)	20.12.2019
CE Wilhelmshaven S.à r.l., Luxembourg (formerly Gateway Zwölfte GmbH, Frankfurt am Main)	20.12.2019
CE Abendsberg S.à r.l., Luxembourg (formerly Gateway Vierzehnte GmbH, Frankfurt am Main)	20.12.2019
Gateway Sechzehnte GmbH, Frankfurt am Main	20.12.2019

Accordingly, the companies sold via share deals were derecognized within the framework of deconsolidation.

Assets held for sale consist exclusively of properties from the Standing Assets segment that were previously allocated to the “Investment properties” item. As of the reporting date, there was a mandatory sales contract for the properties of Gateway Vierte GmbH. Pursuant to the sales contract, the properties are sold for a total of €15,750 thousand. The fair value corresponds to the selling price. The property of Gateway Fünfte GmbH is expected to occur within 12 months. This property is being actively marketed, which is very promising due to the specific market situation for these properties. As of the reporting date, this property had a fair value of €23,000 thousand. The measurement of property held for sale resulted in a fair value adjustment recognized through profit or loss of €20,715 thousand (previous year: €–284 thousand).

In order to better estimate the effects from the disposal of held-for-sale assets on income and expenses from operating activities arising, the following significant amounts recognized in the statement of profit or loss only for the properties shown as assets held for sale are presented as follows:

—

in € thousand	**2019**	**Q4 2018**
Rental revenues	15,883	31
Revenues from operating costs	3,367	11
Revenues from cost charges to others and building cost subsidies	119	54
Administration costs (operating costs, maintenance, administration, etc.)	–7,980	–284
	11,389	**–188**
Thereof fair value Level 3	11,892	–411
Thereof fair value Level 2	–503	223

The operating expenses were incurred primarily for leased properties. The expenses allocable to vacant properties are of subordinate importance.

In accordance with International Valuation Standards, the fair values of investment properties are determined on the basis of the discounted cash flow procedure. Expected future rental surpluses from a property are discounted to present value at the valuation date by applying a market-appropriate, property-specific discount rate. Whereas net rents are usually applied in determining the rental revenues, operating expenses are incurred particularly from the management costs, which the owner is obligated to pay.

The table below shows the fair values of held-for-sale investment properties for which there was no sales contract as well as the principal assumptions applied for purposes of the above-mentioned valuation technique:

—

HOTEL

in € thousand	2019	2018
Rented space in sqm	14,567	28,396
Vacant space in sqm	1,005	28,396
Initial vacancy rate in % (based on total space)	6.9	100.0
Achievable net basic rent (market rent) p.a. in € thousand	1,384	892
Achievable net basic rent (market rent) per sqm in €	*7.92*	*2.62*
Actually achieved net basic rent (contract rent) p.a. in € thousand	1,737	4
Actually achieved net basic rent (contract rent) per sqm in €	*10.67*	*n/a[1]*
Market value in € thousand	23,000	22,160
Market value per sqm in €	1,579	780
Multiplier on market rent (market value: achievable net basic rent)	16.6	n/a[1]
Multiplier on contract rent (market value: contractual net basic rent)	13.2	n/a[1]
Valuation parameters:		
Average maintenance costs p.a. in €/sqm	7.5	n/a[1]
Administrative expenses (in % of achievable rent)	4.0	n/a[1]
Operating costs not chargeable (in % of achievable rent)	1.0	n/a[1]
Vacancy costs p.a. in €/sqm	30.0	n/a[1]
Discount rate in %	5.25	6.00
Multiplier in case of resale after 10 years	18.2	18.2
Incidental acquisition costs upon resale in %	4.5	4.5

[1] Multiplier not relevant due to high vacancy rate

We refer to the explanations in Note 6.3 as regards the fair value of the held-for-sale investment properties.

The following overview shows the distribution of the fair values by property class:

—

FAIR VALUES

in € million	2019	2018
Hotel	23.0	22,2

As part of the sensitivity analysis, key non-observable input factors were varied. This was done for the discount rate and the market rent. This had the following impact on the fair values for the determined property classes.

—

SENSITIVITY ANALYSIS

	31.12.2019			
	Discount rate		Market rent	
in € million	−0.25%	0.25%	5.00%	−5.00%
Hotel	0.5	−0.6	0.3	−0.4

—

	31.12.2018			
	Discount rate		Market rent	
in € million	−0.25%	0.25%	5.00%	−5.00%
Hotel	0.3	−0.2	0.7	−0.7

6.9 EQUITY

Please refer to the above statement of changes in equity for a presentation of the development of equity.

As of December 31, 2019, the **share capital** amounts to €186,764,040 (previous year: €169,785,491) and is divided into 186,764,040 (previous year: 169,785,491) no-par-value bearer shares with a notional value in the share capital of €1 per share. The following table shows the development of the number of shares outstanding:

—

NUMBER OF SHARES

	2019	2018
Shares outstanding as of January 1	169,785,491	21,175,000
Issue of new shares in connection with a business combination	0	148,610,491
Issue of new shares against cash payment	16,978,549	0
Balance as of December 31	186,764,040	169,785,491

The Management Board was authorized at the Annual General Meeting of August 22, 2018, to increase the Company's share capital, subject to the consent of the Supervisory Board, by up to a total of 84,892,745 new no-par-value bearer shares of GATEWAY against payment in cash and/or in kind on one or more occasions by up €84,892,745 in the time until August 21, 2023 (Authorized Capital 2018/I). In the reporting period 2019, the Management Board made use of this authorization as follows.

On March 20, 2019, the Management Board of GATEWAY resolved, based on the consent of the Supervisory Board given at the same date, to issue up to 16,895,939 new no-par value registered shares – each with a notional value in the share capital of €1 per share and full dividend entitlement from January 1, 2018 – partially utilizing the authorized capital by way of a rights issue against cash contributions and at a placement price of €4 per share within the context of an international placement at institutional investors. Moreover, the existing shareholders shall be offered another 82,610 new shares at a subscription price corresponding to the placement price. The placement was fully executed on April 10, 2019, so that the share capital was increased by a total of €16,978,549 to €186,764,040.

In addition, GATEWAY shares held by the main shareholder in the amount of around 15% of subscribed capital following the capital increase were sold to institutional investors.

Hence, the total issue volume of the private placement amounted to approximately €180 million.

The gross issue proceeds from the private placement received by the Company amount to €67.6 million. In addition, the Company recorded gross issue proceeds in the amount of €0.3 million from the sale of the subscription shares to the existing shareholders. The transaction costs of €0.6 million arising in the context of this capital increase were recorded directly in equity under additional paid-in capital. Tax benefits were taken into account.

The placement and the associated increase in free float were a prerequisite for the admission of GATEWAY to the Prime Standard of the Frankfurt Stock Exchange, which means that GATEWAY now is a publicly-traded company.

After the capital increases resolved and executed in the reporting period, authorized capital amounts to €67,914,196.

The purpose of the **capital reserve** is to recognize share premiums that are paid during the issue of shares exceeding the nominal amount of subscribed capital. The capital reserve is negative as of January 1, 2019, in particular due to the adjustment of Development Partner's subscribed capital to the subscribed capital of Gateway as the legal acquirer as a result of the reverse acquisition in the comparative period. The capital increase executed on April 10, 2019, and the associated share premium received led to a significant increase of the capital reserve which, however, still has a negative balance as of the reporting date. The capital reserve reported as of the reporting date is as follows:

—

in € thousand	2019	2018
Opening balance as of 01.01.	**–73,266**	**–20,601**
Increase by the consideration for the reverse acquisition	0	97,405
Reduction due to the recognition of issue costs in equity for the execution of the transaction	0	–1,440
Reduction due to the adjustment of subscribed capital of the combined entity to the subscribed capital of Gateway as legal acquirer	0	–148,610
Proceeds from the issue of shares	50,936	0
Costs for the issue of shares	–495	0
Other	21	20
Closing balance as of 31.12.	**–22,804**	**–73,266**

The **retained earnings** comprised the accumulated and not yet utilized profits of the prior years of Development Partner AG as the acquirer for accounting purposes. The result of GATEWAY has been included in the profit for the year since October 5, 2018.

The following **dividends** were resolved and paid by GATEWAY in the reporting period:

—

in € thousand	2019	2018
€0.10 per qualifying share (previous year: €0.00)	18,676	0

The following dividends were proposed by the Management Board, subject to the consent of the Supervisory Board. The dividends were not recognized in the financial statements, and there are no consequences as regards income tax purposes.

—

in € thousand	2019	2018
€0.30 per qualifying share (previous year: €0.10)	56,029	18,676

The increase in **non-controlling interests** by €2,660 thousand in 2019 is primarily attributable to profits attributable to non-controlling interests as well as on consolidation effects.

6.10 OTHER PROVISIONS

Please refer to Note 2.14 for information on the accounting methods.

Other provisions are composed of the following:

—

in € thousand	31.12.2019	31.12.2018 adjusted	31.12.2018
Current provisions			
Provisions for employee benefits expense	0	0	2,723
Other provisions (remaining term < 1 year)	1,448	896	896
	1,448	**896**	**3,619**
Non-current provisions			
Other provisions (remaining term > 1 year)	629	639	639
	629	**639**	**639**

The miscellaneous other provisions mainly comprise provisions for current or imminent lawsuits and legal proceedings as well as for administrative proceedings in connection with construction projects and consulting expenses.

The increase in other current provisions is mainly attributable to the recognition of obligations within the framework of the contractually agreed restoration of sold plots of land (€+235 thousand) as well as the provision recorded for potential claims in connection with administrative approvals for construction projects (€+260 thousand).

No details are given as to the development due to the minor significance of other provisions for the Group.

Provisions for employee benefits expense, which mainly concern bonuses, severance payments as well as outstanding vacation entitlements, are reported under other non-financial liabilities. As of the reporting date of the comparative period (December 31, 2018), these provisions for employee benefits expense are reported in the amount of €2,723 thousand under other current provisions. We refer to Note 6.12.

6.11 FINANCIAL LIABILITIES

Please refer to Note 2.15 for information on the accounting methods.

Financial liabilities break down as follows:

—

in € thousand	31.12.2019	31.12.2018
Current financial liabilities		
Liabilities to banks	179,596	45,797
Liabilities to related companies	69,394	110,860
Liabilities to related companies from corporate bonds (interest)	0	5,491
Liabilities to related companies from corporate bonds	0	28,429
Loans from third parties	23,631	1,085
	272,620	**191,662**
Non-current financial liabilities		
Liabilities to banks	150,640	248,340
Liabilities to related companies	311	24,764
Liabilities to related companies from corporate bonds (interest)	1,927	11,371
Liabilities to related companies from corporate bonds	61,810	64,810
Liabilities to third parties from corporate bonds	73,148	33,810
Loans from third parties	55,431	15,203
Limited partners' share, non-controlling interests	123	151
	343,389	**398,449**
Total	**616,009**	**590,111**

The current financial liabilities have a remaining term of up to 12 months. They primarily include the current portion of the liabilities in connection with the acquisition of properties or the financing of the development projects. Current financial liabilities of €272,620 thousand (previous year: €191,662 thousand) are collateralized in favor of the lenders by way of land charges on the properties underlying the financing in the amount of €98,354 thousand (previous year: €71,280 thousand).

The terms of the non-current financial liabilities in the amount of €343,389 thousand (previous year: €398,449 thousand) are longer than one year. They are collateralized in the amount of €237,569 thousand (previous year: €336,748 thousand) in favor of the lender by way of land charges on the properties underlying the financing.

The majority of the loans are at fixed interest rates (loans with a remaining value of €221,649 thousand as of December 31, 2019 (previous year: €90,553 thousand) are subject to a variable interest rate based on the EURIBOR and EONIA). The interest rates in 2019 were between 1.55% and 2.90% for the loans the majority of which is collateralized. We refer to Note 7.3.D for details on the terms of the financial liabilities towards related companies.

There were no premiums and interest-free loans as of the reporting date. No payment delays or breaches of contract occurred with respect to financial liabilities in the reporting period.

There were no financial liabilities denominated in foreign currencies as of the reporting date, and neither were there any interest rate swaps or other stand-alone derivative financial instruments as of the reporting date.

We refer to Notes 3.5, 3.7 and 3.8 for information on the extent to what GATEWAY is exposed to interest rate, liquidity and financing risk.

6.12 TRADE PAYABLES AND OTHER LIABILITIES

Please refer to Note 2.15 for information on the accounting methods.

Trade payables of €60,215 thousand (previous year: €10,587 thousand) are mainly related to the acquisition of entitlement to transfer real estate (€45,294 thousand; see Note 6.6) and the purchase or construction as well as the leasing of properties.

As of the reporting date, the other financial liabilities break down as follows:

—

OTHER FINANCIAL LIABILITIES

in € thousand	31.12.2019	31.12.2018
Lease liabilities	2,534	0
Liabilities to Peires AG and CWI Real Estate AG and their subsidiaries	0	476
Security deposits received	67	124
Liabilities for employee benefits expense	5	1,104
Debtors with credit balances	50	88
Other loan liabilities	1,675	1,244
Other	1,479	101
	5,810	**3,137**
Thereof non-current	2,345	0
Thereof current	3,465	3,137

As of the reporting date, the other current non-financial liabilities break down as follows:

—

OTHER CURRENT NON-FINANCIAL LIABILITIES

in € thousand	31.12.2019	31.12.2018 adjusted	31.12.2018
Advance payments received			
For operating costs	119	0	0
Value added tax	25	337	337
Payroll tax	2,491	137	137
Subsidies received	0	230	230
Purchase price payment (GTY 1te Bochum)	0	4,900	4,900
Liabilities for costs of financial statements	351	427	427
Property transfer tax	0	8,614	8,614
Liabilities for employee benefits expense	2,531	2,723	0
Other	7	353	353
	5,525	**17,721**	**14,998**

We refer to Note 3.7 for information on liquidity risks of GATEWAY as regards trade payables as well as other liabilities.

Liabilities for employee benefits expense concern outstanding vacation entitlements, bonuses and severance payments. We refer to Note 6.10 for information on changes in the presentation compared to the comparative period.

6.13 DEFERRED TAXES

Please refer to Note 2.17 for information on the accounting methods.

Deferred tax liabilities of €15,118 thousand (previous year: €22,831 thousand) and deferred tax assets of €3,615 thousand (previous year: €4,826 thousand) are presented in the statement of financial position at the reporting date.

DEFERRED TAX ASSETS

Deferred tax assets were recognized in respect of tax loss carryforwards and deductible temporary differences in the following items of the statement of financial position:

—

DEFERRED TAX ASSETS

in € thousand	2019	2018
Assets		
Inventories	2,298	564
Liabilities		
Non-current financial liabilities	642	1,002
Other financial liabilities	194	0
Other non-current financial liabilities	21	0
Other provisions	0	19
Tax loss carryforwards	**4,178**	**4,937**
Sub-total of deferred tax assets	**7,333**	**6,522**
Netting with deferred tax liabilities	–3,718	–1,696
Total	**3,615**	**4,826**

As of December 31, 2019, the Group recorded deferred tax assets for companies that incurred a loss in the current or the previous period, with these deferred tax assets exceeding the deferred tax liabilities by €335 thousand (previous year: €0 thousand). The basis for the recognition is the fact that substantial evidence exists indicating their future recoverability. This was guaranteed in the fiscal year by forward sales already concluded and the resulting taxable future profits.

No deferred tax assets were recognized in respect of temporary differences amounting to €6,964 thousand (previous year: €5,586 thousand) because it is not probable that a taxable profit against which the deductible temporary differences can be applied will be available in the future.

Corporate income tax loss carryforwards of €27,996 thousand (previous year: €33,510 thousand) and local trade tax loss carryforwards of €29,141 thousand (previous year: €25,397 thousand) existed within the Group at the reporting date. No deferred tax assets were recognized in respect of corporate income tax loss carryforwards amounting to €12,396 thousand (previous year: €9,039 thousand) and local trade tax loss carryforwards amounting to €18,206 thousand (previous year: €18,581 thousand) because it is not probable that a taxable profit against which the deductible temporary differences can be applied will be available in the future. The loss carryforwards can be carried forward without restriction, as a general rule.

DEFERRED TAX LIABILITIES

Deferred tax liabilities were recognized in respect of temporary differences in the following items of the statement of financial position:

—

DEFERRED TAX LIABILITIES

in € thousand	2019	2018
Assets		
Property, plant and equipment	672	0
Non-current assets	5,121	0
Other non-current financial assets	76	436
Inventories	10,359	21,555
Liabilities		
Other provisions	103	1
Non-current financial liabilities	2,505	1,987
Financial liabilities	0	546
Sub-total of deferred tax liabilities	**18,836**	**24,525**
Netting with deferred tax assets	–3,718	–1,696
Total	**15,118**	**22,829**

The change in the total excess of deferred tax liabilities (€11,503 thousand) over the previous year (€18,003 thousand) in the amount of €6,500 thousand (previous year: €15,704 thousand) are recognized through profit or loss in the amount of €627 thousand. The remaining difference is attributable to the deconsolidation of the companies.

The reduction of deferred tax liabilities on inventories is largely based on the sale of properties in the fiscal year.

The temporary differences resulting from undistributed results of subsidiaries for which no deferred taxes were recognized amounted to €1,250 thousand (previous year: €1,476 thousand).

6.14 REVENUE

Please refer to Note 2.18 for information on the accounting methods.

The Group generated revenues of €94,442 thousand in the period from January 1 to December 31, 2019 (previous year. €18,569 thousand). GATEWAY mainly generates revenues from the sale of inventory properties and the rental of inventory and investment properties and the provision of services. Operating cost settlements and building subsidies received are other income sources. Specifically, revenues break down as follows:

—

in € thousand	2019	2018
Rental revenues in accordance with IFRS 16 (previous year: IAS 17)		
Rental revenues from investment properties	738	4,704
Rental revenues from IFRS 5 properties	15,883	
Rental revenues sub-letting DP AG	69	74
Rental revenues on inventory properties	6,275	8,285
	22,965	**13,063**
Revenues in accordance with IFRS 15		
Revenues from the sale of inventory properties	63,625	0
Revenues from operating costs (flat charges, settlements)	865	2,543
Revenues from operating costs (flat charges, settlements) in accordance with IFRS 5	3,367	0
Revenues from cost charges to others and building cost subsidies	136	1,247
Revenues from services	2,807	1,358
Other	677	358
	71,477	**5,506**
Thereof over time	20,866	1,358
Thereof at a point in time	50,611	4,148
Total	**94,442**	**18,569**

Of the overall revenues, €71,477 thousand (previous year: €5,506 thousand) fall under the scope of IFRS 15 and €22,965 thousand (previous year: €13,063 thousand) fall under the scope of IFRS 16 (previous year: IAS 17).

With respect to revenues under the scope of IFRS 15, the Group distinguishes between revenue recognition at a point in time and over time, depending on the type of the underlying legal transaction. Please refer to Note 2.18 for details. The increase in revenues in the past fiscal year is mainly attributable to the sale of inventory properties of Projektentwicklung Rudolfplatz in Köln GmbH, Duesseldorf, as well as Projektentwicklung Himmelgeister Straße in Düsseldorf 1 GmbH, Duesseldorf.

The rental revenues on inventory properties and investment properties do not fall under the scope of IFRS 15 and therefore no revenue recognition was carried out over time, but only revenue recognition in the period in which it accrues.

The following table presents information about receivables, contract assets and contract liabilities from contracts with customers:

—

in € thousand	31.12.2019	31.12.2018
Receivables included in trade and other receivables	0	0
Receivables included in held-for-sale assets	0	0
Contract assets	10,830	0
Contract liabilities	0	0

Contract assets mainly refer to GATEWAY's claims for a consideration for completed work for construction projects that has not been invoiced as of the reporting date; the construction projects concerned are Projektentwicklung Rudolfplatz in Köln GmbH, Duesseldorf, and Projektentwicklung Himmelgeister Straße in Düsseldorf I GmbH, Duesseldorf. Contract assets result from construction obligations that are invoiced only after the acceptance individual stages of constructions. Contract assets are reclassified to receivables when the rights become unconditional. As a rule, this is the case when GATEWAY issues an invoice to its customers.

The contract assets as of December 31, 2019, amount to €10,830 thousand and are reported in the item "Other financial assets". We refer to Note 6.6.

As of December 31, 2019, the value of the transaction prices of performance obligations from construction projects not satisfied (or partially not satisfied) amounts to €78,710 thousand (previous year: €0 thousand). The Group expects to recognize revenue from these performance obligations arising under construction projects over time until the year 2022.

6.15 CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS

The changes in inventories of finished goods and work in progress relate to the capitalized production costs for the inventory properties, which include €20,172 thousand (previous year: €23,721 thousands) in capitalized interest on borrowed capital. The specific breakdown of changes in inventory is presented in the table below.

—

in € thousand	2019	2018
Increase in inventory due to purchase of properties, construction activity and capitalization of interest on borrowed capital	221,443	39,859
Changes in inventories through incidental expenses	56	0
	221,499	**39,859**

The significant rise in the changes in inventories is largely due to the purchase of properties in the reporting period as regards the development projects Mediaspree in Berlin (€72,160 thousand), Campus Park München (€62,113 thousand), Tech Campus Stuttgart (€14,070 thousand) as well as Revaler Str. 32 (€66,512 thousand) (see Note 6.16). These costs were capitalized via changes in inventories of finished goods and work in progress.

In addition, the increase in the changes in inventories results from the continuation of existing project developments at the companies Projektentwicklung Breite Gasse in Nürnberg GmbH, Duesseldorf (€7,861 thousand), Immobilienbeteiligungsgesellschaft am Kennedydamm GmbH, Duesseldorf (€6,776 thousand) and MUC Airport Living GmbH, Munich (€6,445 thousand).

This was offset by the disposals of the property of Projektentwicklung Rudolfplatz in Köln GmbH, Duesseldorf, as well as of Projektentwicklung Himmelgeister Straße in Düsseldorf I GmbH, Duesseldorf, following the forward sales.

6.16 RAW MATERIALS AND CONSUMABLES USED

The reported raw materials and consumables used primarily comprise the production costs of the inventory properties, the acquisition costs for land, and the administration costs for the rented properties. This item breaks down as follows:

—

in € thousand	2019	2018
Land	209,505	0
Purchased services	8,179	10,396
Professional fees/projects	9,464	3,513
Other project costs	2,735	1,138
Administration costs	12,741	3,049
Other construction costs	4,939	988
	247,563	**19,084**

6.17 EMPLOYEE BENEFITS EXPENSE

Besides the members of the Management Board, the Group had 47 (previous year: 53) employees as of the end of the reporting period and 46.6 (previous year: 39.85) employees on average for the year. The employee benefits expense incurred are broken down as follows:

—

in € thousand	2019	2018
Salaries	8,982	5,872
Social security contributions and pensions	659	460
	9,642	**6,332**

About half of the employer's share of statutory social insurance consists of contributions to the statutory pension insurance system.

6.18 OTHER OPERATING INCOME AND EXPENSES

Other operating income includes the following amounts:

—

in € thousand	2019	2018
Proceeds from sale of company shares	85,657	13,725
Result from the deconsolidation of the April companies (previous year: Gateway Verwaltung)	3,921	9,034
Result from the sale of Südmeile	1,245	33
Reimbursements relating to Expenditure Compensation Act	454	0
Income from the reversal of provisions	1,070	369
Income from the reduction of liabilities	499	0
Income from in-kind benefits	0	4
Insurance compensation, indemnity	300	19
Income from cost charges	34	0
Costs charged to others, tax-exempt	85	11
Costs charged to others, 19%	0	82
Other income from internal settlement, not taxable	0	1
Income from the reversal of provisions	0	128
Other in-kind benefits charged	0	2
Other in-kind benefits charged, motor vehicle 19%	126	145
Insurance compensation, indemnity	0	10
General partner compensation	2	3
Other	3,037	444
	97,260	**24,010**

The amount of €85,657 thousand primarily originate from the sale in the current fiscal year of the LE companies accounted for using the equity method. Please refer to Note 7.3.c for more details.

Other operating expenses include the following amounts:

—

in € thousand	2019	2018
Legal and consulting expenses	4,198	2,399
Advertising, travel and motor vehicle expenses	1,673	1,067
Accounting, financial statements and auditing expenses	4,855	2,210
Selling expenses for properties	1,555	0
Space costs	495	643
IT, office and communication expenses	295	150
Insurance, premiums and dues	238	160
Selling expenses (1te Bochum)	0	235
Unbillable operating costs from prior years	0	431
Costs for termination of purchase contract (Gateway 6te)	600	0
Costs of capital increase	1,468	0
Advertising expenses property	73	284
Leasing expenses	15	371
Replacement space for a let property	108	238
Other project development expenses	228	223
Purchased services	1,000	361
Tenant brokerage commission	4,446	62
Appraiser expenses	0	9
Supervisory Board compensation	104	0
Continuing education expenses	52	41
Other financing expenses	379	0
Additions to specific allowances	732	0
Expenses from profit and loss transfer agreement	3,087	0
Disposal losses	12	2
Non-deductible input tax	323	0
Other tax expenses	5	30
Prior-period expenses	34	0
Other	1,010	990
	26,986	**9,906**

6.19 NET FINANCE COSTS

Net finance costs can be broken down as follows:

—

in € thousand	2019	2018
Finance income	2,499	726
Finance costs	–29,508	–32,240
Interest expenses for leases	–47	0
Result from associates	9,884	0
Profit and loss from companies accounted for using the equity method	0	16,296
	–17,172	**–15,218**

Finance income primarily results from changes in the market value of embedded derivative financial instruments as well as from granting loans to companies related with the Group. We refer to Note 7.3.D for details on these loans.

The finance costs predominantly result from borrowings to finance the development projects. An amount of €20,172 thousand (previous year: €23,721 thousand) of these finance costs was capitalized in the reporting period (see Note 6.5). The profit and loss shares in companies accounted for using the equity method are explained in Note 6.4.

6.20 INCOME TAX EXPENSE

Please refer to Note 2.17 for information on the accounting methods.

Companies resident in Germany with the legal form of a corporation are subject to corporate income tax of 15%, the solidarity surtax of 5.5% of the standard corporate income tax, and local trade tax, the amount of which depends on locally specific assessment rates. Commercially active or predominantly commercial enterprises with the legal form of an unincorporated partnership are only subject to the local trade tax. For purposes of taxation using the corporate income tax, the tax result is directly attributed to the shareholder.

The expected nominal income tax rate for the Group's parent company Gateway Real Estate AG in 2019 is 31.925% (previous year: 31.925%) and is calculated as follows:

—

in %	2019	2018
Corporate income tax	15.0	15.0
Solidarity surcharge	0.825	0.825
Local trade tax rate	16.1	16.1
Tax rate	**31.925**	**31.925**

Income taxes are calculated on the basis of the tax regulations applicable to each company. The income taxes presented in the statement of comprehensive income mainly consist of deferred income taxes:

—

in € thousand	2019	2018
Current income taxes	5,457	4,467
Deferred income taxes	–627	3,950
For temporary differences	–385	4,805
For tax loss carryforwards	–1,606	–1,054
From consolidation	1,364	199
Income tax expense	**4,830**	**8,417**

The current income taxes for the 2019 fiscal year were influenced by tax expenses from prior years in the amount of €224 thousand (previous year: income of €128 thousand). The deferred income tax income of €627 thousand (previous year: expense of €3,950 thousand) are composed of the change in deferred tax assets in respect of loss carryforwards in the amount of €–1,606 thousand (previous year: €–1,054 thousand), the decrease in netted deferred tax liabilities in respect of asset differences in the amount of €385 thousand (previous year: increase of €4,805 thousand), and the increase in deferred tax liabilities in respect of consolidation issues in the amount of €1,364 thousand (previous year: €199 thousand).

A reconciliation of tax expenses/income is presented in the table below:

—

in € thousand	2019	2018
Profit before tax	131,804	41,665
Tax rate in %	31,925	31,925
Expected tax expense	42,078	13,301
Tax effects on		
Tax rate differences	–270	–432
Change of permanent differences	–756	–35
Taxes prior years	–8,078	30
Tax-exempt income and non-tax-deductible expenses	–28,986	–9,558
Local trade tax corrections	–3,712	853
Tax group effect	–171	0
Change in the non-recognition of deferred tax assets in respect of loss carryforwards and utilization of recoverable loss carryforwards from prior years	2,506	–1,129
Change in non-recognition of deferred tax assets in respect of asset differences	1,999	2,715
Loss expiration pursuant to Section 8c KStG, Section 10a GewStG	509	2,540
Other	–290	132
Actual tax expenses (+) or tax income (–)	**4,830**	**8,417**

Based on the actual income taxes, the effective tax rate for the fiscal year is 3.66% (previous year: 20.20%).

6.21 LEASES

Please refer to Note 2.20 for information on the accounting methods.

A. LEASES AS LESSEE (IFRS 16)

GATEWAY rents office space in the locations of Duesseldorf, Frankfurt and Berlin. Moreover, the Group makes monthly payments for existing heritable building rights that also meet the definition of leases. The terms of the leasing agreements are between seven and ten years and include options to extend the lease terms after this period. Several of the underlying rental payments are linked to local price indices. An adjustment of the rental payments is made not earlier than upon an increase or decrease of the consumer price index by at least 5% compared to a defined baseline; the adjustment is then made in the same direction and by the same percentage.

Furthermore, in the past fiscal year, the Group has sublet a part of the rented office space in Duesseldorf. The sublease contract expires on February 29, 2020. The sublease is classified as an operating lease from the lessor's perspective and the lease payments are recognized as income.

GATEWAY rents motor vehicles. The term of the lease agreements for the motor vehicles is between three and four years. There are no extension options and the lease agreement contains fixed lease payments.

GATEWAY also rents a part of the IT equipment in use. If the underlying contractual relationships are not classified as short-term leases or as a low-value asset, right-of-use assets and lease liabilities are recognized. The contractual term of printers and multi-mode devices are between one and three years and the lease agreement contains fixed lease payments.

The leases were previously recognized as operating leases pursuant to IAS 17. Information about leases with the Group as lessee are presented in the following.

a) Right-of-use assets

Right-of-use assets that do not meet the definition of investment properties are presented as part of property, plant and equipment (see Note 6.2).

—

in € thousand	Plant and machinery	Land buildings	Office furniture and equipment	Total
Balance as of 01.01.2019	**63**	**2,693**	**92**	**2,848**
Depreciation amount in the fiscal year	53	331	33	417
Additions to right-of-use assets	159	0	0	159
Disposals of right-of-use assets	0	442	0	442
Balance as of 31.12.2019	**169**	**1,920**	**59**	**2.148**

The disposals of right-of-use assets result from changes in the current rental agreements and the associated rent reduction.

b) Amounts recognized in profit or loss

—

in € thousand	2019
Leases in accordance with IFRS 16	
Interest expenses for lease liabilities, presented in net finance costs	–47
Income from subleases of right-of-use assets, presented in revenue	69
Expenses for short-term leases	–167
Expenses for leases for low-value assets, except for short-term leases of low value	0
	2018
Leases in accordance with IAS 17	
Lease expenses	–793
Expenses for contingent rent	0
Income from subleases, presented in revenue	74

c) Amounts recognized in the cash flow statement

—

in € thousand	2019
Total cash outflows for leases	**258**

d) Extension options

Several property leases include extension options. Extension options may only be exercised by GATEWAY, not by the lessor. As of the commencement date, the Group assesses whether it is reasonably certain that the extension option is exercised and, on that assumption, determines the useful life. When a significant event or a significant change in circumstances occurs that are outside of the Group's control, it reassesses whether the exercise of the extension option is reasonably certain.

The Group expects that the potentially future lease payments would lead to a lease liability of €1,889 thousand if the extension options are exercised.

e) Future leases

Until the end of the reporting period, the Group had entered into leases for which the commencement date is in the subsequent period; therefore, they are not yet taken into account in the lease liabilities. These lease liabilities mainly refer to rentals of office premises and are expected to lead to the following cash outflows:

—

FUTURE LEASES COMMENCING AFTER THE REPORTING DATE

in € thousand	2019
Less than one year	110
Between one and five years	530
More than five years	30
Total	**670**

B. LEASES AS LESSOR

GATEWAY acts as the lessor within the context of properties held as inventory properties and investment properties. In case of the inventory properties, this refers to the lease termination phase. Note 6.3 includes information on investment properties. The Group classifies these leases as operating leases since not substantially all the risks and rewards of ownership are transferred.

The Group recorded lease income in the amount of €22,965 thousand (previous year: €13,063 thousand) in the reporting period.

The following table presents a maturity analysis of lease receivables and shows the undiscounted lease payments to be received after the reporting date.

—

in € thousand	2019
Operating leases in accordance with IFRS 16	
Less than one year	7,707
One to two years	7,059
Two to three years	3,421
Three to four years	3,403
Four to five years	3,370
More than five years	10,384
Total	**35,343**

in € thousand	2018
Operating leases in accordance with IAS 17	
Less than one year	20,272
Between one and five years	58,761
More than five years	11,377
Total	**90,410**

7. OTHER DISCLOSURES

7.1 EARNINGS PER SHARE

The basic earnings per share are as follows:

—

in €	2019	2018
Earnings per share	**0.69**	**0.22**

As in the prior year, there were no potentially diluting equity instruments such as stock options at the reporting date. The basic earnings per share is calculated as the quotient of the profit attributable to the shareholders of the parent company and the average number of shares outstanding during the fiscal year as follows:

—

A. ATTRIBUTION OF PROFIT TO COMMON SHAREHOLDERS (BASIC)

in € thousand	2019	2018
Profit attributable to owners of the parent company	125,976	33,235
Profit attributable to holders of common shares	125,976	33,235

The average number of shares is calculated as follows:

—

B. WEIGHTED AVERAGE OF COMMON SHARES (BASIC)

in thousands of shares	2019	2018
Common shares outstanding as of 01.01.	169,785	148,610
Effect of shares issued in connection with a business combination	0	21,175
Common shares issued in connection with a capital increase in April 2019	16,979	0
Common shares outstanding as of 31.12.	186,764	169,785
Weighted average number of common shares as of 31.12.	**182,048**	**153,904**

In the reporting period, the average number of common shares outstanding is calculated as the time period-weighted sum of outstanding common shares before and after the capital increase on April 10, 2019 (100/360 x 169,785,491 + 260/360 x 186,764,040).

The special rules set out in IFRS 3.B.25-27 are applicable to the calculation of earnings per share for the comparative period due to the reverse business combination. The average number of common shares outstanding is calculated as the time period-weighted sum of outstanding common shares before and after the business combination (9/12 x 21,175,000 x 7 + 3/12 x 169,785,000).

7.2 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As of December 31, 2019, the Group has contingent liabilities with respect to contingencies, order commitments and rental contracts.

Contingencies occur in the form of interest guarantees, rent deposit guarantees, cost overrun guarantees, comfort letters, partial releases from liability of co-shareholders and bank guarantees. The liability arising from these cannot be quantified exactly.

The order commitment for investment projects amounts to €21,396 thousand (previous year: €10,401 thousand).

Leases for business premises, vehicles and IT equipment result in future obligations under non-cancellable operating leases. In the 2019 financial year, rights of use and lease liabilities were recognised in accordance with IFRS 16. We refer to Notes 6.21 and 2.3.

—

in € thousand	31.12.2018
Due within one year	819
Due between one and five years	117
Due after more than five years	0
Adjustment due to change in estimates	2,085
	3,021

7.3 RELATED PARTY TRANSACTIONS

A. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

Development Partner AG was acquired by SN Beteiligungen Holding AG by way of a contract dated July 28, 2017. By contract dated July 9, 2018, SN Beteiligungen Holding AG contributed the shares held in Development Partner AG to GATEWAY and received 148,610,491 shares as consideration for this contribution. This corresponds to a majority interest in SN Beteiligungen Holding AG of 87.5% in GATEWAY. Due to the capital increases and transactions executed in the reporting period (also see Note 6.9), the investments of SN Beteiligungen Holding AG in GATEWAY as of December 31, 2019, amounts to 65.75%. SN Beteiligungen Holding AG is controlled by Norbert Ketterer. GATEWAY is therefore also controlled by Norbert Ketterer. A cash dividend of €12,281 thousand resolved by the Annual General Meeting on 21 August 2019 was paid to SN Beteiligungen Holding.

B. COMPENSATION OF MEMBERS OF KEY MANAGEMENT PERSONNEL

The members of the Supervisory Board and the Management Board of GATEWAY are the key management personnel within the meaning of IAS 24.9.

The compensation of the active members of the Management Board and the Supervisory Board comprises:

—

in € thousand	2019	2018
Short-term benefits	1,123	1,014
Termination benefits	0	1,000
	1,123	**2,014**

The compensation stated for the comparative year 2018 refers to the Management Board of Development Partner AG for the period until October 4, 2018, and to the Management Board of GATEWAY (as the legal parent of the combined entity) for the period from October 5, 2018, until December 31, 2018. As of 31 December 2019, the remuneration outstanding for 2019 was paid in full.

The short-term benefits exclusively refer to non-performance-related compensation components and include, in terms of the Management Board compensation, a fixed compensation as well as fringe benefits for using the member's own car for business matters in a total amount of €1,019 thousand (previous year: €1,014 thousand).

As in the comparative period, the members of the Management Board were not granted any advances or loans in the reporting period.

The members of the Supervisory Board exclusively receive a fixed compensation and received a compensation of a total of €104 thousand (previous year: €0 thousand) in the current fiscal year.

The members of the Supervisory Board were not granted any advances or loans in the reporting period.

For further information, we refer to the remuneration report in the management report.

C. TRANSFER OF SHARES BY RELATED COMPANIES

By contract dated December 10, 2019, Gateway Residential GmbH, Frankfurt am Main, sold its shares in LE Quartier 1.4 GmbH, Leipzig – including the property holdings –, in Jugendstilpark München 1 Holding GmbH, Leipzig – including the shares held as well as the property holdings –, in LE Quartier 1.5 GmbH, Leipzig, as well as in LE Quartier 1.6 GmbH, Leipzig, ("Purchase Agreement 1") for a purchase price of €23,428,326.00. Jugendstilpark München 1 Holding GmbH, for its part, holds 50% of the shares in Casa Nova GmbH, Grünwald, Casa Nova 2 GmbH, Gruenwald, Casa Nova 3 GmbH, Gruenwald, as well as Projektgesellschaft Jugendstilpark München mbH, Leipzig, that are also transferred in the context of the transaction. The acquirer was SN Beteiligungen Holding AG, Zug, Switzerland, a company controlled by Norbert Ketterer. Accordingly, the companies were disposed within the context of deconsolidation.

By contract dated December 10, 2019, Gateway Residential GmbH, Frankfurt am Main, sold its limited partnership interest in LE Quartier 1 GmbH Co. KG, Leipzig, ("Purchase Agreement 2") for a purchase price of €26,997,634.30. The acquirer was SN Beteiligungen Holding AG, Zug, Switzerland, a company controlled by Norbert Ketterer. Accordingly, the company was disposed within the context of deconsolidation.

By contract dated December 10, 2019, Gateway Residential GmbH, Frankfurt am Main, sold its limited partnership interest in LE Quartier 5 GmbH & Co. KG, Leipzig, ("Purchase Agreement 3") for a purchase price of €6,081,685.10. The acquirer was SN Beteiligungen Holding AG, Zug, Switzerland, a company controlled by Norbert Ketterer. Accordingly, the company was disposed within the context of deconsolidation.

In order to settle the total purchase price of the abovementioned Purchase Agreements 1–3 dated December 10, 2019, in the amount of €66,507,645.40, SN Beteiligungen Holding AG, Zug, Switzerland – a company controlled by Norbert Ketterer – assigned the loan receivables to Gateway Residential GmbH, Frankfurt am Main, by way of an agreement dated December 18, 2019. The total volume of the assigned loan receivables amounts to €66,507,645.40 and exclusively are due from the Group parent Gateway Real Estate AG, Frankfurt am Main. The assignment became effective on December 19, 2019.

By way of an agreement dated December 21, 2019, between Gateway Residential GmbH, Frankfurt am Main, as seller of the loan receivables, and Gateway Real Estate AG, Frankfurt am Main, as borrower, the netting with the receivable of Gateway Real Estate AG, Frankfurt am Main, as regards the interim profit distributions due to the resolution passed by the shareholders of Gateway Residential GmbH, Frankfurt am Main, dated December 21, 2019, in the amount of €64,000,000.00 was declared and executed.

By contract dated December 20, 2019, Gateway Residential GmbH, Frankfurt am Main, disposed shares in the amount of 79% of the total shares in Projektentwicklung Taunusstr. 52–60 in Frankfurt GmbH, Duesseldorf, for a purchase price of €18,543,570.00. The acquirer was Taunusstr. 52–60 in Frankfurt GmbH & Co. KG, Leipzig, a company which is controlled by Susanne Ketterer – via an indirect stake in its general partner – and by Norbert Ketterer – via a direct stake in its sole limited partner. Accordingly, the company was disposed within the context of deconsolidation; the remaining 11% of the shares still held by Gateway Residential GmbH, Frankfurt am Main, will be reported as an equity investment under other non-current financial assets. We refer to Note 6.6.

D. DEALINGS WITH COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER RELATED COMPANIES

Dealings with companies accounted for using the equity method and other related companies exist to a large degree within the Group. Above all, financing via other related companies is a key source of financing. For this reason, the following table includes the key information for each loan taken out.

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Other related companies	Borrower	Amount in € thousand	Interest rate in %	Outstanding amount as of 31.12.2018 € thousand	Outstanding amount as of 31.12.2019 € thousand	End of contract term
Helvetic Financial Services AG, Switzerland						
21.12.2017	Projektentwicklung Michaelkirchstraße in Berlin Beteiligungsgesellschaft mbH, Duesseldorf	33,400	20.00	30,467	30,597	31.03.2021
15.12.2017	Immobilienbeteiligungsgesellschaft am Kennedydamm in Duesseldorf mbH, Duesseldorf	44,600	20.00	23,144	34,472	31.12.2021
23.12.2016	Projektentwicklung Rudolfplatz in Köln GmbH, Duesseldorf	14,541	20.00	11,199	0	30.06.2020
10.01.2017	Projektentwicklung Breite Gasse in Nürnberg GmbH, Duesseldorf	35,655	20.00	28,429	0	31.12.2019
Helvetic Private Investments AG, Schweiz						
24.04.2015	Projektentwicklung Himmelgeister Straße in Duesseldorf I GmbH, Duesseldorf (vormals: Single Apartment erste Beteiligungs-GmbH, Leipzig)	2,500	4.00	1,850	2,181	31.12.2019
Hübner 1. VVG						
01.06.2010	Development Partner AG, Duesseldorf	5,000	2.00	459	468	31.12.2019
01.11.2014	Projektentwicklung Himmelgeister Straße in Duesseldorf I GmbH, Duesseldorf (formerly: Single Apartment erste Beteiligungs-GmbH, Leipzig)	100	2.00	15	17	31.12.2019
Ketom AG, Switzerland						
25.05.2016	MUC Airport Living GmbH, Munich	100	2.00			31.12.2019
02.06.2017, 22.09.2017, 24.10.2017	MUC Airport Living GmbH, Munich	600	2.00	5,200	5,200	31.12.2019
05.09.2018, 12.10.2018, 16.11.2018, 18.12.2018	MUC Airport Living GmbH, Munich	4,500	4.25			31.12.2020
15.01.2019	MUC Airport Living GmbH, Munich	1,500	4.25	n/a	1,500	31.12.2020
27.02.2019	MUC Airport Living GmbH, Munich	7,500	4.25	n/a	6,700	Unlimited
27.10.2016	Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	650	2.00	650	650	31.12.2020
06.09.2016	Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	5,700	2.00	5,700	5,700	31.12.2020
31.10.2018	Beteiligungsgesellschaft Berlin Heinersdorf 18 GmbH, Berlin	914	4.25	1,043	80	31.12.2019
12.10.2018	Beteiligungsgesellschaft Berlin Heinersdorf 18 GmbH, Berlin	50	4.25	0	50	31.12.2019
15.01.2019	Beteiligungsgesellschaft Berlin Heinersdorf 18 GmbH, Berlin	100	4.25	n/a	100	31.12.2020
21.05.2019	Beteiligungsgesellschaft Berlin Heinersdorf 18 GmbH, Berlin	500	2.00	n/a	300	Unlimited
23.10.2018	Projektentwicklung Taunusstrasse 52–60 in Frankfurt GmbH, Duesseldorf[1]	10,397	10.00	11,387	10,397	31.12.2020
22.09.2017	Projektentwicklung Taunusstrasse 52–60 in Frankfurt GmbH, Duesseldorf[1]	990	4.25		990	31.12.2020
24.10.2017	Gateway SoHo Sullivan GmbH & Co. KG, Frankfurt am Main (formerly: 2. Colossa Projekt GmbH & Co. KG, Leipzig)	10	2.00	10	0	31.12.2018
28.06.2018	Gateway Residential GmbH, Frankfurt am Main (formerly: Development Partner Residential, Duesseldorf)	9,450	4.25	26,980	0	30.09.2024
28.06.2018, 31.10.2018	Gateway Residential GmbH, Frankfurt am Main (formerly: Development Partner Residential, Duesseldorf)	16,682	4.25			30.09.2024
12.02.2018	S1 Rialto Quartier GmbH, Frankfurt am Main	7,000	10.00	n/a	8,315	Unlimited

Other related companies	Borrower	Amount in € thousand	Interest rate in %	Outstanding amount as of 31.12.2018 in € thousand	Outstanding amount as of 31.12.2019 in € thousand	End of contract term
MUC 14. Vermögensverwaltungs GmbH Co. KG						
26.09.2016	MUC Airport Living GmbH, Munich	1,450	2.00	1,450	1,450	31.12.2020
MUC Real Estate GmbH						
24.08.2018	Beteiligungsgesellschaft Berlin Heinersdorf 18 GmbH, Berlin	100	2.00	100	100	31.12.2020
24.05.2017	MUC Airport Living GmbH, Munich	50	2.00	50	50	31.12.2020
29.03.2018, 26.04.2018, 20.06.2018	MUC Airport Living GmbH, Munich	950	2.00	950	950	31.12.2020
02.08.2018	MUC Airport Living GmbH, Munich	600	2.00	600	600	31.12.2020
02.08.2018	Projektentwicklung Taunusstrasse 52–60 in Frankfurt GmbH, Duesseldorf[1]	100	2.00	100	100	31.12.2020
Objektgesellschaft Königin-Luise-Str. 5						
01.10.2014	Projektentwicklung Himmelgeister Straße in Duesseldorf I GmbH, Düsseldorf (formerly: Single Apartment erste Beteiligungs-GmbH, Leipzig)	500	2.00	265	293	31.12.2019
SN Beteiligungen Holding AG, Switzerland						
24.10.2017	Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	500	2.00	500	522	31.12.2020
20.12.2018	Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	650	4.25	650	678	31.12.2020
17.12.2019	Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	500	4.25	n/a	501	31.12.2020
23.10.2018	Development Partner AG, Duesseldorf	6,971	10	7,324	8,021	31.12.2020
26.06.2019	Gateway Real Estate AG, Frankfurt am Main	6,650	4.25	n/a	0	31.12.2019
03.07.2019	Gateway Real Estate AG, Frankfurt am Main	5,750	4.25	n/a	0	31.12.2019
18.07.2019	Gateway Real Estate AG, Frankfurt am Main	3,050	4.25	n/a	0	31.12.2019
19.08.2019	Gateway Real Estate AG, Frankfurt am Main	18,700	4.25	n/a	0	31.12.2019
25.09.2019	Gateway Real Estate AG, Frankfurt am Main	50,150	4.25	n/a	0	30.10.2019
25.09.2019	Gateway Real Estate AG, Frankfurt am Main	4,000	4.25	n/a	0	31.12.2020
09.10.2019	Gateway Real Estate AG, Frankfurt am Main	16,950	4.25	n/a	0	31.12.2020
15.10.2019	Gateway Real Estate AG, Frankfurt am Main	14,000	4.25	n/a	0	31.12.2020
01.11.2019	Gateway Real Estate AG, Frankfurt am Main	250	4.25	n/a	0	31.12.2020
28.11.2019	Gateway Real Estate AG, Frankfurt am Main	11,000	4.25	n/a	9,928	31.12.2020
Ketom AG, Switzerland						
29.06.2017	Gateway Real Estate AG, Frankfurt am Main	18,500	4.25	11,231	1,253	Property-specific
28.07.2017	Gateway Real Estate AG, Frankfurt am Main	33,972	4.25	11,753	1,774	Property-specific
26.10.2017	Gateway Real Estate AG, Frankfurt am Main	5,000	4.25	1,082	1,124	Property-specific
04.12.2017	Gateway Real Estate AG, Frankfurt am Main	5,000	4.25	225	225	31.12.2018
20.12.2017	Gateway Real Estate AG, Frankfurt am Main	1,000	2.00	1,018	1,038	Property-specific
24.04.2018	Gateway Real Estate AG, Frankfurt am Main	5,000	2.00	5,068	5,168	Property-specific
23.08.2018	Gateway Real Estate AG, Frankfurt am Main	18,000	2.00	18,096	18,456	31.12.2019
SN Beteiligungen Holding AG, Switzerland						
10.10.2018	Gateway Real Estate AG, Frankfurt am Main	5,000	4.25	5,047	0	31.12.2018
Total				**212,042**	**159,948**	

[1] By contract dated December 20, 2019, the Group sold all but 11% of its shares in the company. The company was disposed within the context of deconsolidation and will be reported as an equity investment of the Group.

The total of the loans with other related companies listed in the table is lower than the total of all liabilities due to related companies in Note 6.11. This is largely due to the fact that interest expenses for the corporate bonds are not contained in this detailed overview. The other difference in the current fiscal year results from other liabilities to other related companies of €1,484 thousand (previous year: €1,091 thousand).

There are also the following loan receivables due from companies accounted for using the equity method.

Investments accounted for using the equity method	Borrower	Amount in € thousand	Interest rate in %	Outstanding amount as of 31.12.2018 in € thousand	Outstanding amount as of 31.12.2019 in € thousand	End of contract term
Development Partner AG, Duesseldorf						
19.05.2016	Projektentwicklung Weender Straße in Göttingen GmbH & Co.KG, Duesseldorf	600	8.00	533	243	Property-specific
18.02.2019	Projektentwicklung Weender Straße in Göttingen GmbH & Co. KG, Duesseldorf	400	12.00	n/a	442	Upon the fulfillment of any claims of the financing bank
Projektentwicklung Venloer Straße in Köln Beteiligungsgesellschaft mbH, Duesseldorf						
28.12.2015	Projektentwicklung Venloer Straße in Köln S.à r.l., Berlin	2,200	8.00	2,733	0	15.04.2021
Gateway Real Estate AG, Frankfurt am Main						
30.01.2018	Duisburg EKZ 20 Objekt GmbH, Berlin	1,000	10.00	1,092	1,192	31.12.2020

The following table details the other business dealings with companies and other related companies accounted for using the equity method:

Other related companies	Borrower	Amount in € thousand	Interest rate in %	Outstanding amount as of 31.12.2018 in € thousand	Outstanding amount as of 31.12.2019 in € thousand	End of contract term
Gateway Real Estate AG, Frankfurt am Main						
30.11.2018	SN Beteiligungen Holding AG, Switzerland	7,000	0.00	3,485	0	Unlimited
Projektentwicklung Michaelkirchstraße in Berlin Beteiligungsgesellschaft mbH, Duesseldorf						
27.02.2018	SKE Immobilien Holding AG, Switzerland	1,455	20.00	1,695	2,034	31.12.2023

The following table details the other business dealings with companies and other related companies accounted for using the equity method:

	Transaction values		Outstanding balances as of 31.12.	
in € thousand	**2019**	**2018**	**2019**	**2018**
Services provided				
Joint ventures	0	0	0	0
Associates	230	775	393	607
Other related parties	244	88	26	19
Services received				
Joint ventures	0	0	0	0
Associates	0	0	0	0
Other related parties	0	0	0	0
Other				
Joint ventures	0	0	0	0
Associates	853	0	6,438	0
Other related parties	0	596	0	411

E. DISCLOSURES ON RELATED PERSONS
In accordance with IAS 24, the Group also reports transactions between the Group and related persons and their family members. Related persons are defined as members of the Management Board and the Supervisory Board as well as their family members.

In the reporting period 2019, the following transactions and legal matters involving this group of persons had to be reported:

Ms. Natalie von Rom – wife of the Supervisory Board member Ferdinand von Rom – was active as a notary public for companies of the Group in the fiscal year 2019 and invoiced a total amount of €114 thousand for her services. The balances outstanding as of the reporting date amount to €1 thousand.

In relation to the compensation of key management personnel required to be reported in accordance with IAS 24, we refer to Subsection B of this Note; this comprises the compensation of the active members of the Management Board and the Supervisory Board.

7.4 GOVERNING BODIES

A. SUPERVISORY BOARD
In accordance with the articles of association, the Supervisory Board of GATEWAY consists of five members who are elected by the Annual General Meeting. The members of the Group's Supervisory Board during the reporting year 2019 are presented below:

- Norbert Ketterer, businessman, Wollerau/Switzerland (Chairman)
- Thomas Kunze, business management graduate, Leipzig/Germany (Deputy Chairman)
- Ferdinand von Rom, attorney (Rechtsanwalt), Frankfurt am Main/Germany
- Jan Hedding, businessman, Zurich/Switzerland, since August 21, 2019
- Marcellino Graf von und zu Hoensbroech, businessman, Horgen/Switzerland, from August 21, 2019 to April 30, 2020

B. MANAGEMENT BOARD
The members of the Group's Management Board during the reporting year 2019 are presented below:

- Manfred Hillenbrand, Dreieich/Germany, CEO
- Tobias Meibom, Hamburg/Germany, CFO

7.5 FEES OF THE INDEPENDENT AUDITOR

The total fee charged by the independent auditor for its activity throughout the Group in the past fiscal year in the amount of €476 thousand (previous year: €994 thousand) includes fees for auditing services and other certification services, plus the statutory sales tax. The total fee can be broken down as follows:

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in € thousand	2019	2018
Financial statements auditing services	343	225
Other certification services	0	769
Tax advisory services	0	0
Other services[1]	133	0
Total	**476**	**994**

[1] Concerns fees to affiliated companies of the auditor.

7.6 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

GATEWAY's Management Board and Supervisory Board have issued the declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz; AktG). The declaration is included in the 2019 Annual Report and will also be permanently accessible to the shareholders on the website under https://gateway-re.de/en/investor-relations/corporate-governance/declarations-of-compliance/ (German only).

7.7 LIST OF SHAREHOLDINGS PURSUANT TO SECTION 313 (2) HGB

The parent company is Gateway Real Estate AG, Frankfurt. The following table presents the shareholdings of GATEWAY pursuant to Section 313 (2) HGB. The disclosures for equity and earnings as well as the disclosure of equity investments within the meaning of Section 313 (2) No. 4 HGB are not made to the extent that they are of minor significance for the presentation of the financial performance, cash flows and financial position pursuant to Section 313 (3) sentence 4 HGB.

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Name of the company	Registered office, country	Ownership interest in in %	Footnote
Fully-consolidated subsidiaries (standing assets)			
Gateway Asset Management GmbH	Eschborn, Germany	100.00	
ABK Wohnraum GmbH & Co. KG	Leipzig, Germany	94.50	9
Gateway Zweite GmbH & Co. KG	Frankfurt am Main, Germany	100.00	9
Gateway Vierte GmbH	Frankfurt am Main, Germany	94.90	
Gateway Fünfte GmbH	Frankfurt am Main, Germany	94.90	
Gateway Siebte GmbH	Frankfurt am Main, Germany	100.00	
Gateway Achte GmbH	Frankfurt am Main, Germany	100.00	
Gateway Neunte GmbH	Frankfurt am Main, Germany	100.00	
Gateway Elfte GmbH	Frankfurt am Main, Germany	94.00	
GATEWAY Betriebsvorrichtungen – Dienstleistungen – Marketing GmbH	Frankfurt am Main, Germany	100.00	
GTY 1te Bochum GmbH & Co. KG	Eschborn, Germany	100.00	1, 9
GTY 1te Siegen GmbH & Co. KG	Eschborn, Germany	100.00	1, 9
GTY 1te Düsseldorf GmbH & Co. KG	Eschborn, Germany	100.00	1, 9
GTY Betriebsvorrichtung GmbH	Eschborn, Germany	100.00	1
Fully-consolidated subsidiaries (property development)			
Development Partner AG	Duesseldorf, Germany	100.00	
Projektentwicklung Kranhaus im Rheinauhafen Köln GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Kassel GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Große Bockenheimer Straße in Frankfurt am Main GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Brotstraße in Trier GmbH	Duesseldorf, Germany	94.00	
Projektgesellschaft Wohnen an der Neuenhöfer Allee in Köln GmbH & Co. KG	Duesseldorf, Germany	90.00	9
Projektentwicklung in Düsseldorf Beteiligungsgesellschaft mbH & Co. KG	Duesseldorf, Germany	80.00	9
Projektentwicklung Schloßstraße in Berlin GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Venloer Straße in Köln Beteiligungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung Am Barmbecker Bahnhof in Hamburg Beteiligungs-Verwaltungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung Rudolfplatz in Köln GmbH	Duesseldorf, Germany	94.00	
Projektentwicklung Abraham-Lincoln-Straße in Wiesbaden Beteiligungs-Verwaltungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung Uerdinger Straße in Düsseldorf Residential GmbH	Duesseldorf, Germany	94.00	
Projektentwicklung Uerdinger Straße in Düsseldorf Office GmbH	Duesseldorf, Germany	94.00	
Projektentwicklung Breite Gasse in Nürnberg GmbH	Duesseldorf, Germany	94.00	
Projektentwicklung Himmelgeister Straße in Düsseldorf I GmbH (formerly: Single Apartment erste Beteiligungs GmbH)	Duesseldorf, Germany	94.00	
Projektentwicklung Mediaspree in Berlin GmbH	Duesseldorf, Germany	94.90	
Projektentwicklung Campus Park München GmbH	Duesseldorf, Germany	94.90	
Projektentwicklung Michaelkirchstraße in Berlin GmbH	Duesseldorf, Germany	94.90	5
Projektentwicklung Michaelkirchstraße in Berlin Beteiligungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung Technologiecampus Großraum Stuttgart GmbH	Duesseldorf, Germany	94.90	
Movingstairs GmbH	Kitzbühel, Austria	90.00	
Gewerbepark Neufahrn Projektentwicklungs-GmbH	Kitzbühel, Austria	100.00	3
Immobiliengesellschaft Am Kennedydamm in Düsseldorf mbH	Duesseldorf, Germany	94.00	
Immobilienbeteiligungs-Verwaltungsgesellschaft am Kennedydamm in Düsseldorf mbH i.L.	Duesseldorf, Germany	100.00	8
Gateway Residential GmbH (formerly: Development Partner Residental GmbH)	Frankfurt am Main, Germany	100.00	
Beteiligungsgesellschaft Berlin-Heinersdorf 18 GmbH	Berlin, Germany	90.00	
Objekt Heinersdorf in Berlin GmbH	Munich, Germany	100.00	
Gateway SoHo Sullivan GmbH & Co. KG (formerly: 2. Colossa Projekt GmbH & Co. KG)	Frankfurt am Main, Germany	90.00	9
S1 Rialto Quartier GmbH	Frankfurt am Main, Germany	100.00	4
S2 Cliffhanger GmbH	Frankfurt am Main, Germany	100.00	4
S3 Forum Sullivan GmbH	Frankfurt am Main, Germany	100.00	4
S4 De Gregori Quartier GmbH	Frankfurt am Main, Germany	100.00	4
S5 Dalla Quartier GmbH	Frankfurt am Main, Germany	100.00	4
S7 Curve Quartier GmbH i.G.	Frankfurt am Main, Germany	100.00	4
S9 Casino Quartier GmbH & Co. KG	Frankfurt am Main, Germany	100.00	4, 9
S6 Park Lane GmbH & Co. KG	Frankfurt am Main, Germany	100.00	4
S8 Chelsea Quartier GmbH & Co. KG	Frankfurt am Main, Germany	100.00	4, 9
S11 Piazza GmbH & Co. KG	Frankfurt am Main, Germany	100.00	4, 9
S12 Sound & Vision GmbH & Co. KG	Frankfurt am Main, Germany	100.00	4, 9
Revaler Straße 32 PE GmbH	Berlin, Germany	51.00	2
Storkower Straße 140 PE GmbH	Berlin, Germany	51.00	2
Storkower Straße 142–146 PE GmbH & Co. KG	Berlin, Germany	51.00	2, 9
Storkower Straße 142–146 Verwaltung GmbH	Berlin, Germany	51.00	2
Augskor 1 GmbH (S.à.r.l.)	Luxembourg, Luxembourg	100.00	2
Augskor 2 GmbH (S.à.r.l.)	Luxembourg, Luxembourg	100.00	2
Augskor 3 GmbH (S.à.r.l.)	Luxembourg, Luxembourg	100.00	2
SKE Immo Sulzbach GmbH (S.à.r.l.)	Bereldange, Luxembourg	100.00	2
MUC Airport Living GmbH	Munich, Germany	90.00	

Name of the company	Registered office, country	Ownership interest in in %	Foot-note
Non-consolidated subsidiaries			
Gateway Siebzehnte GmbH (vormals: Gateway Erste Verwaltungsgesellschaft mbH)	Eschborn, Germany	100.00	
Gateway Achtzehnte GmbH (vormals: Gateway Fünfzehnte Verwaltungsgesellschaft mbH)	Eschborn, Germany	100.00	
Projektentwicklung Europaallee in Frankfurt GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Große Packhofstraße in Hannover GmbH	Duesseldorf, Germany	40.00	
Projektentwicklung Airgate in Düsseldorf Verwaltungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung Airgate in Düsseldorf GmbH & Co. KG	Duesseldorf, Germany	50.00	
Projektentwicklung Schadowstraße in Düsseldorf Verwaltungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung Schadowstraße in Düsseldorf GmbH & Co. KG	Duesseldorf, Germany	30.00	
Projektentwicklung Fürstenrieder Straße in München GmbH	Duesseldorf, Germany	22.50	
Projektentwicklung Tegernseer Landstraße in München GmbH	Duesseldorf, Germany	22.50	
Projektentwicklung Am Schauspielhaus in Düsseldorf Verwaltungsgesellschaft mbH	Duesseldorf, Germany	50.00	
Projektentwicklung Am Schauspielhaus in Düsseldorf GmbH & Co. KG	Duesseldorf, Germany	6.00	
Projektentwicklung Schirmständerhaus in Berlin GmbH	Duesseldorf, Germany	50.00	
Verwaltungsgesellschaft Wohnen an der Neuenhöfer Allee in Köln mbH	Duesseldorf, Germany	100.00	
Projektentwicklung in Düsseldorf Beteiligungs-Verwaltungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung KÖLNCUBUS Beteiligungsgesellschaft mbH & Co. KG	Duesseldorf, Germany	50.00	
Projektentwicklung KÖLNCUBUS Beteiligungs-Verwaltungsgesellschaft mbH	Duesseldorf, Germany	100.00	
Projektentwicklung KÖLNCUBUS Verwaltungsgesellschaft mbH	Duesseldorf, Germany	50.00	
Projektentwicklung KÖLNCUBUS GmbH & Co. KG	Duesseldorf, Germany	50.00	
DEVELOPMENT PARTNER Immobilien Consulting GmbH	Duesseldorf, Germany	100.00	
Objekt Bonn 1101 Verwaltungsgesellschaft mbH	Duesseldorf, Germany	25.00	
Objektgesellschaft Bonn 1101 mbH & Co. KG	Duesseldorf, Germany	10.00	
Projektentwicklung Friedrichstraße in Düsseldorf GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Speditionstraße in Düsseldorf GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Kaistraße in Düsseldorf GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Marktplatz in Düsseldorf GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Baierbrunner Straße in München GmbH	Duesseldorf, Germany	100.00	
Projektentwicklung Damm GmbH (i.L.)	Duesseldorf, Germany	30.00	8
Projektentwicklung Rotkreuzplatz in München GmbH (i.L)	Duesseldorf, Germany	25.00	8
Projektentwicklung Wilmersdorfer Straße in Berlin GmbH & Co. KG	Duesseldorf, Germany	100.00	
Projektentwicklung Wilmersdorfer Straße in Berlin Verwaltungsgesellschaft i.L.	Duesseldorf, Germany	75.00	8
Projektentwicklung Hofgartengarage in Düsseldorf Verwaltungsgesellschaft mbH (i.L.)	Duesseldorf, Germany	50.00	8
Projektentwicklung Joachimstaler Straße in Berlin GmbH (i.L.)	Duesseldorf, Germany	100.00	8
Gateway SoHo Sullivan Verwaltungs GmbH	Frankfurt am Main, Germany	100.00	
So SoHo Sullivan GmbH & Co. KG	Frankfurt am Main, Germany	50.00	4
Associates accounted for using the equity method			
GAM Retail Portfolio Holding GmbH	Berlin, Germany	42.15	
Retail Portfolio Teilestraße Objekt UG	Berlin, Germany	40.00	
Retail Portfolio Wittenauer Straße Objekt UG	Berlin, Germany	40.00	
Retail Portfolio Bremerhaven Objekt UG	Berlin, Germany	40.00	
Projektentwicklung Venloer Straße in Köln S.à r.l.	Berlin, Germany	20.00	6
Joint ventures accounted for using the equity method			
Duisburg EKZ 20 Objekt GmbH	Berlin, Germany	50.00	
GAMWAY Holding GmbH (i.L.)	Berlin, Germany	50.00	8
Projektentwicklung Am Barmbeker Bahnhof in Hamburg Beteiligungsgesellschaft mbH & Co. KG	Duesseldorf, Germany	75.00	7
Projektentwicklung Am Barmbeker Bahnhof in Hamburg GmbH	Duesseldorf, Germany	40.00	
Projektentwicklung Weender Straße in Göttingen GmbH & Co. KG	Duesseldorf, Germany	20.50	
Projektentwicklung Weender Straße in Göttingen Verwaltungsgesellschaft mbH	Duesseldorf, Germany	50.00	
Projektentwicklung Abraham-Lincoln-Straße in Wiesbaden Beteiligungsgesellschaft mbH & Co. KG	Duesseldorf, Germany	60.00	
Immobiliengesellschaft Hutfiltern in Braunschweig GmbH	Duesseldorf, Germany	60.00	
Other investments			
Projektentwicklung Taunusstr. 52–60 in Frankfurt GmbH	Duesseldorf, Germany	11.00	

[1] Investment held via Gateway Achte GmbH, Frankfurt
[2] Investment held via Gateway Neunte GmbH, Frankfurt
[3] Investment held via Movingstairs GmbH, Kitzbühel, Austria
[4] Investment held via Gateway SoHo Sullivan GmbH, Frankfurt
[5] Investment held via Projektentwicklung Michaelkirchstraße in Berlin Beteiligungsgesellschaft mbH, Duesseldorf
[6] Investment held via Projektentwicklung Venloer Straße in Köln Beteiligungsgesellschaft mbH, Duesseldorf
[7] Investment held via Projektentwicklung Am Barmbeker Bahnhof in Hamburg Beteiligungs-Verwaltungsgesellschaft mbH, Duesseldorf
[8] Company in liquidation
[9] Exemption utilized pursuant to Section 264b HGB

7.8 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

By way of a purchase agreement dated March 6, 2020, the construction project in Uerdinger Straße, Duesseldorf conducted by the Group companies Projektentwicklung Uerdinger Straße in Düsseldorf Office GmbH and Projektentwicklung Uerdinger Straße in Düsseldorf Residential GmbH was sold via a forward sale. The purchase price, which comprises the land transfer as well as the services to erect an office building with a rented space of approximately 6,000 sqm and a residential building expected to consist of ten residential units, amounted to a total of €45.2 million.

By letter dated March 16, 2020, the Supervisory Board member Marcellino Graf von und zu Hoensbroech informed the Management Board of GATEWAY in accordance with the articles of association and in due time to resign from his Supervisory Board office effective April 30, 2020.

In March 2020, in the wake of the globally-spreading coronavirus pandemic, GATEWAY initiated a number of measures to protect its employees and to limit the risk for GATEWAY's business activities. In order to contain the novel virus, which is spreading at a fast pace in Europe and also in Germany as of the preparation of this report, the German authorities pursue a strategy that focuses on restricting social contacts and on reducing travelling (even within Germany). Therefore, GATEWAY has advised its employees since March 16, 2020, to cancel business travels and meetings that are not absolutely necessary and to hold such meetings via videotelephony, conference calls or online meetings. This was also communicated to GATEWAY's customers and business partners. Since GATEWAY had in place the technical infrastructure for home office (telecommuting) already before the outbreak of the coronavirus pandemic, this was implemented very quickly and without any larger inefficiencies. Therefore, a major portion of GATEWAY's staff has been working from home since March 16, 2020. An even more intense, regular dialogue about current market developments and about the current risk assessment is maintained with important service providers, such as at the construction sites of GATEWAY's projects, as well as with the Company's investors. The Management Board continues to believe that the Group is well positioned and currently does not see any effects that could threaten the Company's continued existence based on the analyzed and assessed risks. In this context, we refer to our statements in the management report in the sections "Report on expected developments" and "Report on risks and opportunities".

Frankfurt am Main, March 27, 2020

Gateway Real Estate AG
The Management Board

Manfred Hillenbrand   Tobias Meibom

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the management report of the Group includes a fair view of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Frankfurt am Main, March 27, 2020

Gateway Real Estate AG
The Management Board

Manfred Hillenbrand Tobias Meibom

INDEPENDENT AUDITOR'S REPORT

Note: This is a convenience translation of the German original. Solely the original text in the German language is authoritative.

To Gateway Real Estate AG, Frankfurt am Main

Report on the audit of the consolidated financial statements and of the Group management report

AUDIT OPINIONS

We have audited the consolidated financial statements of Gateway Real Estate AG, Frankfurt am Main and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2019 to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report of Gateway Real Estate AG, Frankfurt am Main for the financial year from 1 January 2019 to 31 December 2019. In accordance with German legal requirements, we have not audited the contents of the section 1.3 "Corporate Governance Statement" in the Group management report, which refers to the Corporate Governance Report.

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

— the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January 2019 to 31 December 2019, and

— the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not cover the contents of the aforementioned parts of the Group management report not included within the scope of our audit.

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

BASIS FOR THE AUDIT OPINIONS

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon we do not provide a separate audit opinion on these matters.

In our view, the matters presented below were the most significant as part of our audit:

REVENUE RECOGNITION IN ACCORDANCE WITH IFRS 15 FOR FORWARD SALES

— **Reasons for designation as Key Audit Matter**
In the 2019 financial year, subsidiaries included in the consolidated financial statements processed two so-called forward sales, i.e. binding contracts for the sale of real estate were concluded before the completion of the development phase of the respective projects. In the consolidated financial statements, Gateway Real Estate AG reported the full amount of revenue from the transfer of the corresponding land, while it recognized the revenue from the development project over time by measuring the progress towards complete satisfaction of the performance obligation. In total, revenues from these two forward sales amounted to €58.7 million, or 62% of the revenues reported in the consolidated statement of comprehensive income.

The provisions of the complex contracts underlying the forward sales were analyzed by the Management in each case in accordance with the requirements of IFRS 15 with regard to "identifying the contract with the customer", "identifying the performance obligations", "determining the transaction price", "allocating the transaction price to the performance obligations" and "revenue recognition upon satisfaction of the performance obligations".

In their analysis, the legal representatives came to the conclusion that transfer of the land and development projects are each separate performance obligations. They have used estimates in allocating the contractually agreed transaction price to these performance obligations. They have applied the cost-to-cost method for the recognition of revenue from the performance obligation of the "development project"; estimates were also used to determine the underlying total costs and the progress towards complete satisfaction of a performance obligation.

Due to the effects on the presentation of the financial performance in the consolidated financial statements as well as the existing uncertainties caused by estimates, this matter was defined as a key audit matter within the scope of our audit.

— **Our audit approach**
We have inspected the contracts and critically evaluated the analysis carried out by Management in accordance with the requirements of IFRS 15. For the legal assessment of the agreements, in particular with regard to the determination of the relevant point in time of the transfer of possession, rights and obligations for the recognition of the revenue from the "property" performance obligation, we have consulted lawyers from Rödl & Partner specializing in real estate law. In order to assess the progress towards complete satisfaction of the development projects, we have carried out on-site inspections and critically reviewed the project costing. In addition, by means of a retrospective comparison of the project plans from previous years with the actual values that actually occurred, we satisfied ourselves of the planning reliability of the company required for the application of the cost-to-cost method. On the basis of a risk-oriented selection, we reviewed the actual costs incurred using appropriate evidence. We have also assessed the completeness and accuracy of the disclosures required by IFRS 15 in the notes to the consolidated financial statements.

— **Reference to related disclosures in the notes**
With regard to the accounting policies applied to the recognition of revenue from forward sales and the related disclosures on accounting estimates and assumptions, we refer to the disclosures in the notes to the consolidated financial statements in sections "2.18 Revenue recognition" under "2. Significant accounting policies" and "6.14 Revenue" under "Additional notes to the items of the consolidated financial statements".

RECOGNITION AND MEASUREMENT OF INVENTORIES

— **Reasons for designation as Key Audit Matter**
The consolidated financial statements of Gateway Real Estate AG for the year ending 31 December 2019, show inventories in the amount of €581.6 million. This corresponds to 56% of total assets. Due to its focus on real estate development and the acquisition of several properties for this purpose, the Group has further increased its inventories. The accounting for real estate in inventories is associated with uncertainties caused by estimates and the exercise of discretion due to the following circumstances. First, Management must decide for each property whether it is to be held for long-term rental or for capital appreciation or whether it is to be sold and accordingly reported as investment property or in inventories. As part of the subsequent measurement of inventories, Management must ensure that the acquisition or production costs are determined correctly and examine whether an impairment to a net realizable value lower than (amortized) cost is necessary. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses still to be incurred. Due to the significance of inventories for the financial statements and the uncertainties caused by estimation and the exercise of discretion by Management, we have determined that this is a key audit matter.

— **Our audit approach**
We have assessed the correct presentation of the properties in inventories on the basis of the contractual documents, information provided by the legal representatives and other documents submitted. In order to review the valuation, we assessed the implementation, design and functionality of the relevant internal controls. With regard to the acquisition or production costs, we carried out a document review based on a deliberate risk-oriented selection. With regard to the determination of the net realizable value, the appropriateness of the estimate of future or expected market prices on the real estate market was assessed on the basis of comparable transactions, expert opinions prepared during the year by experts of the legal representatives or existing business plans. We assessed the competence, ability and objectivity of the aforementioned experts. For properties selected from the perspective of risk, we carried out on-site inspections and checked the calculation of the values of the properties in these expert's reports. We have also assessed the completeness and accuracy of the disclosures required by IAS 2 in the notes to the consolidated financial statements.

— **Reference to related disclosures in the notes**
With regard to the accounting policies applied regarding real estate in inventories and the related disclosures on accounting estimates and assumptions, we refer to the disclosures in the notes to the consolidated financial statements in the sections "2.12 Inventories" under "2. Significant accounting policies" and "6.5 Inventories" under "Additional notes to the items of the consolidated financial statements".

OTHER INFORMATION

The Management and the Supervisory board are responsible for the other information. The other information comprises:

— the statement on corporate governance in accordance with Section 289f HGB in conjunction with Section 315d HGB, to which reference is made in section 1.3 "Corporate Governance Statement" in the Group management report,

— the Corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code, to which reference is made in the section 1.3 "Corporate Governance Statement" in the Group management report,

— the confirmation pursuant to Section 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Section 315 (1) sentence 5 HGB regarding the Group management report,

— the remaining parts of the annual report, with the exception of the audited consolidated financial statements and Group management report, which has been audited in relation to its contents, and our auditor's report.

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

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

— is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

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

RESPONSIBILITIES OF THE MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

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

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

We exercise professional judgement and maintain professional skepticism throughout the audit. We also

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

- obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements, and of arrangements and measures (systems) relevant to the audit of the Group management report, in order to design audit procedures that are appropriate in the circumstances, albeit not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies applied by the Management Board members and the reasonableness of estimates made by the Management Board members as well as related disclosures.

- conclude on the appropriateness of the Management Board members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to be able to express audit opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the Management Board members in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions applied by the Management Board members as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. A substantial unavoidable risk exists that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group auditor by the Annual General Meeting on 20 January 2020. We were engaged by the Supervisory Board on 20 January 2020. We have been the auditor of the consolidated financial statements of Gateway Real Estate AG, Frankfurt am Main since the financial year 2019.

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

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Frank Wellhöfer.

Nuremberg, 27 March 2020

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Landgraf	Wellhöfer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR

30.03.2020	Publication of annual report
12.05.2020	Annual General Meeting
29.05.2020	Publication Q1
30.09.2020	Publication H1
16.–18.11.2020	Eigenkapitalforum
30.11.2020	Publication Q3

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