

Annual Report 2015

fair value  
REIT

# Delivering value



# Key figures

Key figures Fair Value Group			
		2015	2014
<b>Revenue and earnings</b>			
Rental income	in € thousand	24,291	23,914
Net rental result	in € thousand	17,726	17,626
Operating result (EBIT)	in € thousand	12,282	5,877
Group net profit	in € thousand	6,585	(47)
Earnings per share (basic/diluted) <sup>1)</sup>	in €	0.53/0.52	(0.01)
Adjusted group net profit (EPRA-Earnings)/FFO	in € thousand	6,406	4,402
EPRA-earnings/FFO per share (basic/diluted) <sup>1)</sup>	in €	0.52/0.51	0.47
<b>Assets and capital</b>		31/12/2015	31/12/2014
Non-current assets	in € thousand	296,914	277,909
Current assets	in € thousand	21,702	20,745
Non-current assets available for sale	in € thousand	11,750	13,240
Total assets	in € thousand	330,366	311,894
Equity/Net asset value (NAV)	in € thousand	117,278	78,273
Equity ratio	in %	35.5	25.1
Immovable assets	in € thousand	299,544	280,958
Equity within the meaning of Sec. 15 REITG	in € thousand	178,438	138,321
Equity ratio within the meaning of Sec. 15 REITG (minimum 45 %)	in %	59.6	49.2
<b>Real estate portfolio</b>		31/12/2015	31/12/2014
Number of properties	amount	40	43
Market value of properties <sup>2)</sup>	in € million	300	281
Contractual rent	in € million	23.1	23.7
Potential rent	in € million	26.0	25.9
Occupancy rate	in %	89.2	91.5
Remaining term of rental agreements	years	4.9	5.0
Contractual rental yield before costs	in %	7.7	8.4

<sup>1)</sup> Weighted average number of shares outstanding in 2015: 12.379.587 basic/13.265.505 diluted  
Weighted average number of shares outstanding 2014: basic/diluted 9.325.572

<sup>2)</sup> According to market valuations as of 31/12/2015

Further key figures			
		31/12/2015	31/12/2014
Number of shares outstanding	in pieces	14,029,013	9,325,572
Net asset value (NAV) per share	in €	8.36	8.39
EPRA-NAV per share	in €	8.36	8.49
Number of employees (including Management Board)		4	3

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# Letter to shareholders



Frank Schaich, Management Board

## Dear shareholders, ladies and gentlemen,

In the past fiscal year, we took advantage of the positive capital market environment and carried out two capital measures to finance our growth trajectory. After issuing the convertible bond in January 2015, we turned our attention to the value-enhancing acquisition of non-controlling interests held in subsidiaries. The funds obtained from the capital increase carried out in May 2015 were invested in a newly acquired majority holding and in the step-by-step direct acquisition of properties previously held indirectly via subsidiaries, increasing the Group's equity ratio in the process.

At the end of July 2015, DEMIRE Deutsche Mittelstand Real Estate AG (DEMIRE) announced an exchange offer. The offer published in October 2015 to all the Company's shareholders was welcomed by the Management Board and Supervisory Board of Fair Value REIT-AG who recommended acceptance. It was accepted by shareholders representing more than 77.70% of the voting rights in the Company. As a result, Fair Value REIT-AG has been included in the DEMIRE group as a subsidiary since 21 December 2015.

### Delivering value

In the past fiscal year, we sold seven properties for a total sales price of €17.0 million. Three of these properties in Ahaus, Cologne and Pinneberg were sold for a total sales price of around €13.2 million and notarised before the end of the previous year. The other four properties, which were sold for a total sales price of €3.8 million, were smaller directly owned bank branch offices in Ellerbek, Leezen, Norderstedt and Quickborn, towns in North German Schleswig-Holstein. Before costs, these transactions generated weighted gains on disposal of around 6% of the IFRS carrying amount as of 31 December 2014.

The majority investment in the closed-end property fund BBV 08 in mid-2015 led to the consolidation of a further subsidiary. The company holds two commercial properties in Querfurt and Zittau as well as a nursing home in Radevormwald. At the time of acquisition, its portfolio was valued at around €36 million in total. In the course of acquisition accounting, a difference of €2.3 million was identified between the purchase price of the investment and the pro rata assets acquired. In March 2016, the subsidiary BBV 08 sold the nursing home in Radevormwald for €11.1 million, that is additional proceeds of €1.2 million or 12% compared to the carrying amount of €9.9 million at the acquisition date of the investment. This development in value is contained in the 2015 measurement gains and losses.

With the direct acquisition of an inner-city property in Chemnitz to round off existing investments at that location, we generated a measurement gain of €0.6 million or some 54% of the purchase price of €1.1 million.

In 2015, we acquired five properties in Dresden, Cologne, Langenfeld, Neubrandenburg and Potsdam from three subsidiaries and, in line with our strategic objective, transferred these to direct ownership. Although this did not have an impact from a Group perspective, these transactions meant that two subsidiaries will be dissolved in the fiscal year 2016, which will lead to cost savings. After incidental acquisition costs, these transactions yielded a difference of around €1.4 million without effect on profit and loss.

In the fiscal year 2015, we also acquired almost 400 non-controlling interests in six subsidiaries. As of the reporting date, the resulting aggregated differences with effect on income came to €1.3 million.

### Successful fiscal year 2015

The net growth in the portfolio during the year already had a positive effect. The rental income of the Group came to €24.3 million, exceeding the previous-year figure of €23.9 million by some 2%. At €17.7 million, net rental income was up 1% on the previous-year figure of €17.6 million.

At €5.2 million, the general administrative expenses incurred by the Group about €2.3 million higher than the previous year. The increase mainly concerned legal and consulting fees, half of which were incurred in connection with the takeover bid by DEMIRE. The differences with effect on income from acquisitions of investments and the balance of other operating income and expenses almost entirely offset the measurement loss totalling around €2.8 million (previous-year measurement loss: €7.5 million).

At €12.3 million, EBIT was thus more than twice that of the previous-year figure of €5.9 million. At €4.2 million, net interest expenses were 16% below the previous-year figure of €5.0 million, essentially due to repayments. After deducting the share of profit/loss attributable to non-controlling interests, the group net profit came to €6.6 million, following a slight group net loss of €0.05 million in the previous year. This corresponds to a group net profit of €0.53 per average number of shares outstanding.

Group equity attributable to the shareholders of Fair Value REIT-AG as of 31 December 2015 increased to €117.3 million as a result of the capital increase and was thus 50% above the previous-year figure of €78.3 million. This corresponds to a net asset value of €8.36 for each share currently outstanding, compared to €8.39 as of the end of the previous year. Taking into account the dividend of €0.25 per share paid out in 2015 for 2014, the dilutive effects resulting from the capital increase in the past fiscal year were thus more than compensated for.

As of the reporting date, the REIT equity ratio increased to 59.6% of property assets (previous year: 49.2%) and was therefore considerably above the legally prescribed 45% minimum.

At €6.4 million, group net profit adjusted for measurement effects and special effects (EPRA result or FFO=funds from operations) was €2.0 million or 45% higher than previous-year figure of €4.4 million. This corresponds to a group net profit of €0.52 per average number of shares outstanding.

The past fiscal year 2015 was thus highly satisfactory and for the most part met our expectations. We will propose to the Annual General Meeting to distribute the planned dividend of €0.25 per share for fiscal year 2015, that is around €3.5 million. This proposed dividend corresponds to a distribution rate of 100% of the accumulated profit according to German GAAP and 55% of FFO of €6.4 million.

### Outlook for 2016

The favourable economic conditions in Germany should have a positive impact on the demand for space and therefore on the upcoming follow-up and new lets. At the beginning of the year, they represented around 37,000 m<sup>2</sup> or around 11% of potential rents. Since then, we have already re-let around 11,000 m<sup>2</sup>. This is a good 30% of the vacancies both in terms of space and income and at the same time provides proof of the quality of the properties and of our successful leasing and portfolio management.

Based on the existing portfolio, we expect funds from operations (FFO) before non-controlling interests of €10.5 million to €10.8 million for 2016. Without a further increase in the share of properties directly held by the group and a concomitant decrease in the non-controlling interests in group earnings, we expect FFO after non-controlling interests to range between €6.2 million and €6.5 million in 2016. This corresponds to FFO of €0.44 to €0.46 per share currently outstanding. The target dividend for 2016 is €0.25 per share currently outstanding. This is equivalent to a distribution ratio of 54% to 57% of FFO.

May we take this opportunity to thank you for the trust you have placed in us. We would be delighted if you would remain favourably disposed to us in the future.

Munich, 23 March 2016

The Management Board



Frank Schaich

# A REIT – higher return for investors

REIT stands for Real Estate Investment Trust. REITs are well established in many countries worldwide and represent a widely recognised form of indirect property investment. In Germany, they consist of listed companies that largely invest in property as well as in property participations.



## High flexibility

### Listed property-shares

REIT shares can be rapidly and easily bought and resold on the stock exchange.



## High payout ratio

### 90 % of net income

German REITs have a payout ratio fixed by law of at least 90% of the net income according to German commercial law.



## High profitability after tax

### No income trade tax at company level

German REITs are not subject to corporation tax and trade tax. Only the dividends are taxable at shareholder level, and even then at a maximum tax rate of 25% plus Solidarity surcharge. Companies and non-resident shareholders can, under certain conditions, limit the tax rate to 15%.



## High level of security

### Security through equity strength

German REITs have to show an equity ratio of 45% of their real estate assets on each balance sheet date.

# Focus on secondary locations

Fair Value REIT-AG invests in German commercial properties, focusing on retail and office property in secondary locations. These locations offer more stable development in rent and value in the long term than property markets in prime locations that experience shows react more strongly to economic cycles.

As of 31 December 2015, the directly and indirectly (via subsidiaries) owned portfolio comprised 40 properties with an aggregate market value of around €300 million (previous year: 43 properties with a market value of €281 million). The increase of around €19 million is due to the net balance of disposals and acquisitions of group properties as well as from the 2015 measurement result.

In line with the Group's strategic objective, the volume of directly owned properties increased on the previous year as properties previously held by subsidiaries were transferred to direct ownership.

## Portfolio overview as of 31 December 2015

Direct investments and participations	Number of properties	Total lettable area [in m²]	Annualised contractual rent [in T€]	Market value as of 31/12/2015 [in T€]	Occupancy rate [in %]	secured remaining term of rental agreements [in yrs]	Contractual rental yield before costs [in %]	Share of Fair Value REIT-AG
								Investment [in %]
Direct investments segment	17	71,251	4,968	63,440	96.0	7.3	7.8	100.0
Subsidiaries segment	23	200,565	18,181	236,104	87.5	4.2	7.7	51.6
<b>Overall portfolio</b>	<b>40</b>	<b>271,816</b>	<b>23,148</b>	<b>299,544</b>	<b>89.2</b>	<b>4.9</b>	<b>7.7</b>	<b>61.8</b>

The determined market values of the properties as of 31 December 2015 were down by €2.4 million, or 0.8%, on the like-for-like previous-year figures.

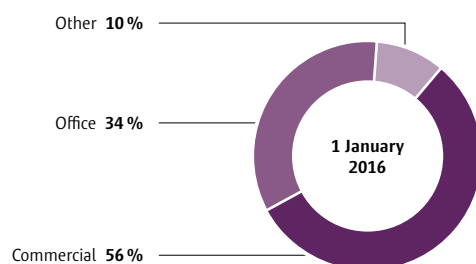
Measurement gains totalling around €7.7 million were recorded for 22 of the 40 properties. The market value remained unchanged for 6 properties. For 12 properties there was a total measurement loss of €10.1 million. This primarily resulted from estimated vacancy and reletting costs, with the shopping centre in Eisenhüttenstadt accounting for 75% of the total loss.

Due to the leases entered into after the reporting date for more than half of the vacant retail space in Eisenhüttenstadt, the value is expected to recover again considerably once the new tenants have occupied their space.



### Distribution by type of use

Overall portfolio (% of potential rent)



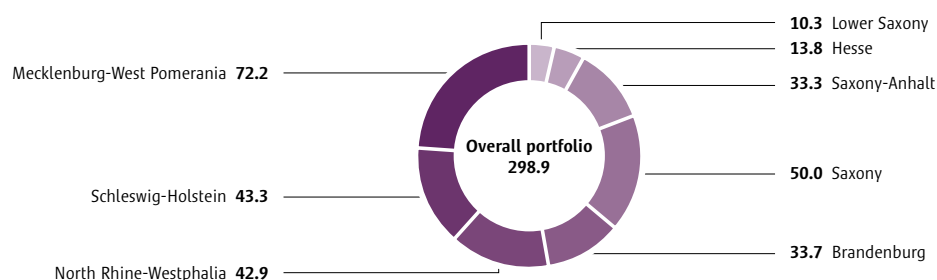
As of 1 January 2016, the overall portfolio generated around 56% of the total potential rent of €26.1 million with properties that are used primarily for retail purposes. Around 34% of potential rent is generated with properties that are used primarily as offices, 10% by other usage.

With regard to the overall portfolio, the Company continues to aim to gradually gain direct ownership of properties held by subsidiaries or in individual cases to sell them as best possible. This allows the non-controlling interests in subsidiaries to be compensated and costs to be reduced following the successive liquidation of the subsidiaries.

For its future reinvestments, the Company will continue to focus on secondary locations in Germany, particularly on the secondary real estate market of closed-end real estate funds.

### Regional distribution of properties (overall portfolio)

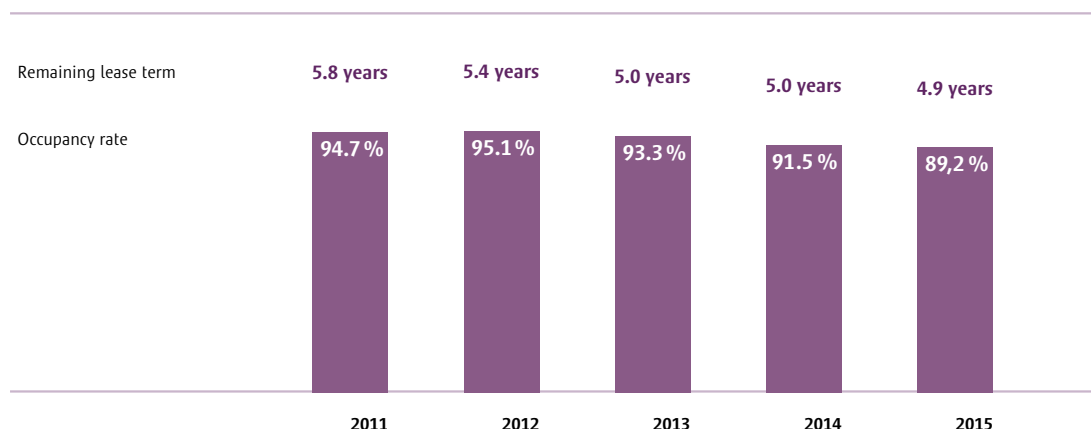
Market values on 31 December 2015 in € million



# Well positioned portfolio

Fair Value REIT-AG's portfolio continued to demonstrate its quality and substance in fiscal year 2015. Although the occupancy rate fell temporarily by 2 percentage points, it remains high at around 89 %. The first leasing successes in the current fiscal year are indicative of an upward trend. The weighted remaining lease term remains stable at 4.9 years.

## Occupancy rate of overall portfolio



At the beginning of the past fiscal year 2015, with an occupancy rate of around 91.5% of potential rents, 88 leases accounting for around 18% of the total contractual rental volume were due for renewal. This contractual rental volume was to a large extent successfully maintained by extending leases and through new lets as well as by acquiring fully leased buildings.

This put the occupancy rate of Fair Value REIT-AG's overall portfolio at 89.2% of the potential rent of €26.0 million as of year-end 2015. The weighted remaining term of the rental agreements of 4.9 years, which remains virtually unchanged on the previous year, is a further indication of the portfolio's quality in terms of properties and location.

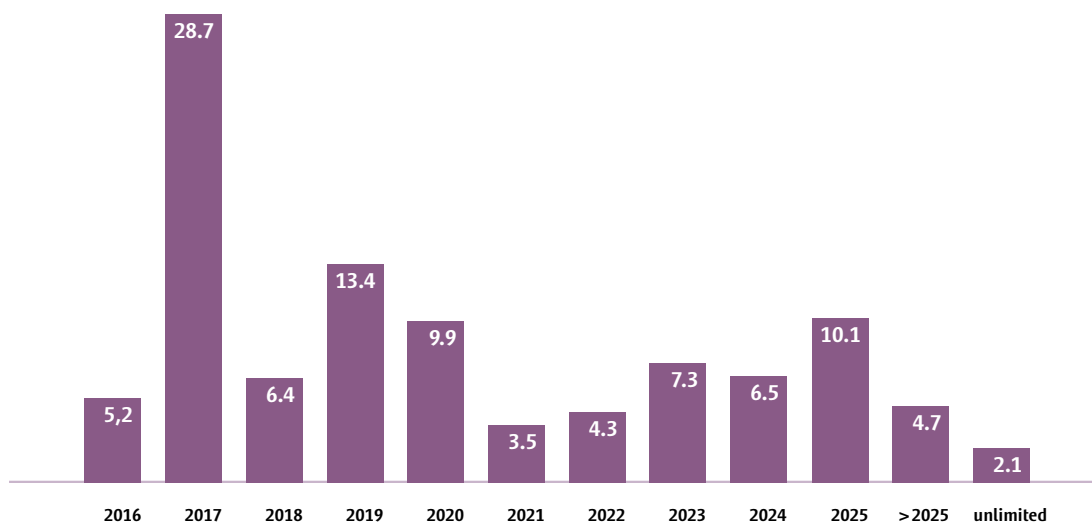
Of the current 529 leases in the overall portfolio, a total of 54 leases are due for renewal in the current fiscal year 2016. They represent a share of 5.2% of the contractual rents of €23.1 million as of 1 January 2016.

Right from the start, the current fiscal year has seen great leasing successes, with 30.2% of vacant space and 30.5% of the income-related vacancies having already been successfully let by the time of reporting.

The largest share was accounted for by four long-term leases with the retail chains EDEKA, Penny, Rossmann and Woolworth with a total space of 7,600 m<sup>2</sup> in Eisenhüttenstadt. Once the new tenants have occupied their space in the fourth quarter of 2016, the occupancy rate of this property will increase again from its current level of around 60% of the potential retail rent to 80%. Two additional leases with a total of around 4% of potential retail rent are in final negotiations.

### Rental expiry by year of expiry

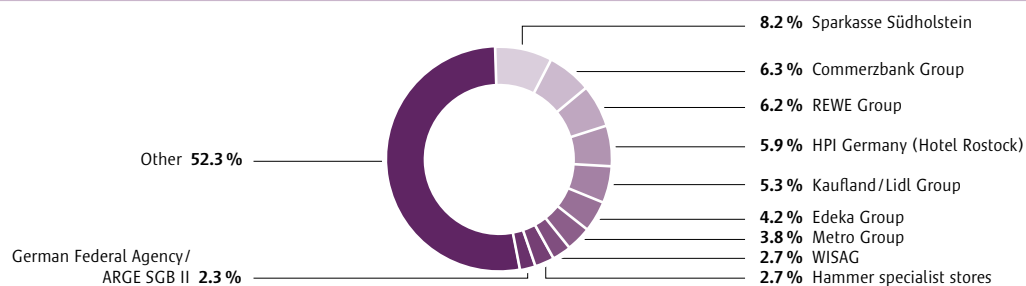
in % of contractual rents, as of 1 January 2016



The ten largest tenants in the portfolio account for around 48% of the Fair Value Group's contractual rents. At around 22%, large retail companies (REWE, Lidl/Kaufland, Edeka, Metro and Hammer Fachmärkte) make up the largest share of contractual rents. Bank tenants (Sparkasse Südholstein, Commerzbank Group) come in second at around 15%.

### 10 largest tenants as of 1 January 2016

in % of contractual rent



# The Fair Value REIT-AG on the capital market

In 2015, development on the stock markets was highly volatile due to economic concerns and uncertainty among investors in light of political crises. Nevertheless, the DAX, Germany's leading share index comprising the 30 largest companies in Germany, closed 2015 with a plus of around 10 %. The smaller stocks index MDAX and the small-cap index SDAX even reported increases of 23 % and 27 %, respectively.

The Fair Value REIT-AG share also gained significantly during the 2015 trading period and, at a price of €7.06 in the electronic trading system XETRA at year-end 2015, was up a good 9% on the previous-year level. Buoyed by the positive business development of Fair Value REIT-AG, the share price trended upward until mid-April 2015, peaking at a closing price of €8.51 on 21 April 2015. This corresponds to a plus of around 31% compared to its annual low of €6.43 on 12 January 2015. On 31 July 2015, the announcement of DEMIRE Deutsche Mittelstands Real Estate AG's plans to take over Fair Value REIT-AG caused the share price to jump 12% to €8.19, softening somewhat over the remaining course of the year in a difficult capital market environment.

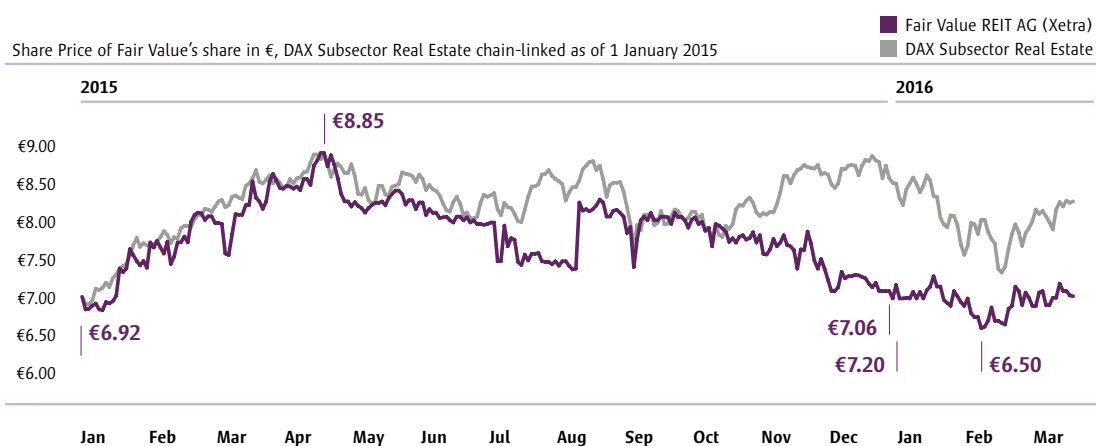
In 2015, 25,596 Fair Value shares were traded on average per day on all German stock exchanges, with the electronic trading system Xetra recording the largest volume with an average of 23,137 shares sold daily.

The share capital of Fair Value REIT-AG was raised by approximately €9.4 million to approximately €28.22 million in the course of a successful cash capital increase with shareholder subscription rights. Thanks to the high demand from existing shareholders (subscription rate of 42%) as well as from additional investors from Germany and the rest of Europe, all 4,703,441 new no-par value bearer shares were placed. At a subscription price of €7.90, the Company thus received a gross amount of around €37 million.

DEMIRE's voluntary public offer of two DEMIRE shares for one Fair Value share was accepted by approximately 77.70% of the share capital and voting rights of Fair Value REIT-AG. With all contractual conditions having been complied with on 21 December 2015, DEMIRE has since been the majority shareholder of Fair Value REIT-AG and therefore controls the Company. 21.72% of the Fair Value shares are in free float.

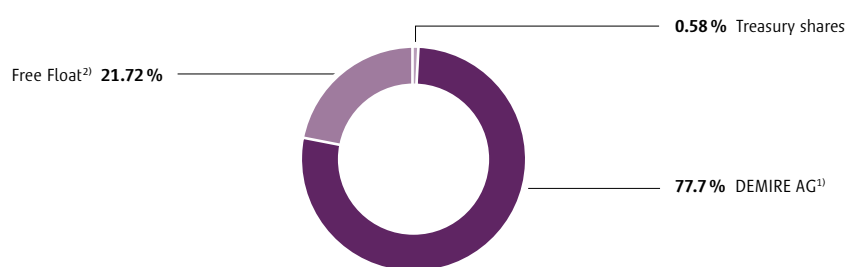
As a result of the change of control, the creditors of the convertible bond issued on 19 January 2015 were entitled under the terms of the bond to demand early repayment. The convertible bond, bearing interest at 4.5% p.a., had a volume of €8.46 million and an original term until 19 January 2020. After the end of the reporting period, in February 2016, the bond was repaid prematurely at the request of the creditors and delisted on the Quotation Board of the Frankfurt Stock Exchange. The repayment amount was financed by two loans with a term of three and four years with a weighted average effective interest rate of around 3.7% p.a. – and therefore significantly below the nominal interest rate of the convertible bond.

### Development of Fair Value's share



### Fair Value REIT-AG's shareholder structure

as of 23 March 2016



<sup>1)</sup> FVR Beteiligungsgesellschaft Erste mbH <10%, FVR Beteiligungsgesellschaft Zweite mbH <10%, FVR Beteiligungsgesellschaft Dritte mbH <10%, FVR Beteiligungsgesellschaft Vierte mbH <10%, FVR Beteiligungsgesellschaft Fünfte mbH <10%, FVR Beteiligungsgesellschaft Sechste mbH <10%, FVR Beteiligungsgesellschaft Siebente mbH <10%, FVR Beteiligungsgesellschaft Achte mbH <10%

<sup>2)</sup> According to Free-Float definition of Deutsche Börse AG (shareholding <5%)

## Key data

Fair Value REIT-AG's share	2015
Sector	Real Estate (REIT)
WKN (German Securities Code)/ISIN	A0MW97/DE000A0MW975
Stock symbol	FVI
Share capital	€28,220,646.00
Number of shares (non-par value shares)	14,10,323 pcs.
Proportion per share in the share capital	€2.00
Initial listing	16 November 2007
High/low 2015 (XETRA)	€8.51/€6.43
Market capitalization as of 31 December 2015 (XETRA)	€99.6 million
Market segment	Prime Standard
Stock exchanges Prime Standard	Frankfurt, XETRA
Stock exchanges OTC	Stuttgart, Berlin-Bremen, Düsseldorf, München
Designated sponsor	ODDO SEYDLER Bank
Indices	RX REIT All Shares-Index, RX REIT Index

## Investor relations

Fair Value REIT-AG attaches great importance to open and transparent communication with investors and shareholders as well as journalists and analysts. For this reason, the Board of Management again took part in the most important capital market conferences in 2015 such as the German Equity Forum in Frankfurt am Main, and explained the Company's strategy and perspective in more detail during roadshows.

The Company publishes details on the Company, portfolio, business development and shares on its website [www.fvreit.de](http://www.fvreit.de) and provides information in ad-hoc announcements and press releases as well as annual and interim reports.

Various analysts observed Fair Value REIT-AG in fiscal year 2015 and regularly published research. More information can be found at [www.fvreit.de](http://www.fvreit.de) in the Investor Relations section.

## Group management report

Group net profit €6.6 million  
(2014: €−0.05 million)

Operating result (FFO)  
€6.4 million  
(2014: €4.4 million)

Balance sheet equity ratio  
35.5 %  
(2014: 25 %)

REIT-equity ratio 59.6 %  
(2014: 49.2 %)

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# Basic group information

## Group structure and business model

Fair Value REIT-AG (hereinafter also referred to as Fair Value) is headquartered in Munich and does not have any branch offices. As a listed property investor, the Company satisfies the provisions of the REITG [“Gesetz über deutsche Immobilienaktiengesellschaften mit börsennotierten Anteilen”: German REIT Act] and is exempt from corporation and trade tax.

For the Company to be exempt from these taxes it must comply with certain legal and capital-related provisions. These are primarily aimed at the sustainable management of a mainly commercial real estate portfolio and are intended to enable distributions to be continuously made to the shareholders.

These distributions must amount to at least 90% of the Company's net profit for the year. They are taxed at the shareholder level, with a flat tax rate that is currently at a maximum of 25% plus solidarity surcharge being applied.

## Key indicators REIT criteria

Proof that the legal provisions have been complied with must be provided as of the end of the reporting period and confirmed by the auditor. Confirmation by the auditor relates to declarations made by the Management Board to comply with the requirements of Secs. 11 and 13 at the level of Fair Value REIT-AG (distribution of shares and minimum distribution) as well as Secs. 12, 14 and 15 (net assets and income requirements, exclusion of real estate trading and proof of minimum equity) at group level. As in previous years, Fair Value REIT-AG again fulfilled all requirements of the REIT law as of 31 December 2015.

### Requirements of the REIT Act

REIT-G	Criteria	Requirement	Status Fair Value	
			31/12/2015	31/12/2014
Sec. 11	Free float – separate financial statements <sup>1)</sup>	Min. 15%	21.7%	62.4%
Sec. 12, para. 2 a	Capital requirements – Group	Min. 75%	90.7%	90.1%
Sec. 12, para. 3 a	Income requirements – Group	Min. 75%	100.0%	100.0%
Sec. 13	Minimum distribution to shareholders – separate financial statements	Min. 90%	n.a% <sup>2)</sup>	n.a% <sup>2)</sup>
Sec. 14	Exclusion of real estate trading – Group	Max. 50%	31.3%	30.9%
Sec. 15	Minimum equity – Group	Min. 45%	59.6%	49.2%

<sup>1)</sup> Free float pursuant to Secs. 22 and 23 WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]

<sup>2)</sup> In 2015 the accumulated profit pursuant to HGB for fiscal year 2014 was fully distributed. This will also be proposed to the Annual General Meeting for fiscal year 2015.

### Business model

The Fair Value Group concentrates on the acquisition and management of commercial property in Germany. Its investing activities focus on retail and office property in secondary and regional locations. Fair Value invests directly in real estate as well as indirectly via investments in real estate partnerships and actively manages its portfolio.

Non-strategic operating functions such as accounting as well as commercial and technical property management are outsourced to external service providers, which receive partly fixed and partly performance-based variable remuneration for their services.

Taking into account the trade limitations of the REITG, the strategy also encompasses the targeted sales of individual portfolio properties, with particular focus on smaller properties and non-strategic real estate. The successive liquidation of subsidiaries is intended to save on investment-related administrative expenses and further expand the share of directly owned properties in the overall portfolio.

### Portfolio

As of 31 December 2015, the directly and indirectly owned portfolio comprised 40 properties (previous year: 43 properties) with market values totalling around €300 million (previous year: €281 million).

The increase of around €19 million is due to the net balance of disposals and acquisitions of group properties as well as to the 2015 measurement result. In line with the Group's strategic objective, the volume of directly owned properties increased year on year as properties previously held by subsidiaries were transferred to direct ownership.

The contractual rent volume of the overall portfolio came to €23.1 million as of 1 January 2016 with a weighted remaining lease term of 4.9 years; this corresponds to a profit-weighted occupancy rate of 89.2% of potential rents with full occupancy of €26.0 million (previous year like-for-like: 92.5% of potential rents with full occupancy of €27.5 million).

**Direct investments** As of the reporting date, the Company directly owns 17 commercial properties (previous year: 16 properties) with a total rentable space of 71,251 m<sup>2</sup> (previous year: 32,819 m<sup>2</sup>). The increase stems from the acquisition of land in Chemnitz and the acquisition of direct ownership of five properties previously held by subsidiaries as well as the disposal of five properties that were largely used as bank branches in Schleswig-Holstein.

The market values of the directly owned properties were determined by an expert at around €63.4 million in total as of the reporting date. They are slightly above the like-for-like previous-year figure of €62.7 million.

The total contractual rent volume of these properties came to €5.0 million as of 1 January 2016 with a weighted remaining lease term of 7.3 years; this corresponds to a profit-weighted occupancy rate of 96.0% of potential rents with full occupancy of €5.2 million (previous year like-for-like: 98.5% of potential rents with full occupancy of €5.5 million).

**Subsidiaries** Fair Value REIT-AG holds interests in a total of 16 subsidiaries, of which 10 companies are property-holding partnerships (previous year: 11), five companies are management partnerships with any direct property holding. One subsidiary is the general partner GmbH (limited liability company) in the BBV management partnerships and in the IC Fonds KGs (see the consolidated financial statements note 2).

The subsidiaries held 23 properties as of the reporting date (previous year: 27). The market values of the properties held by the subsidiaries totalling €236.1 million as of 31 December 2015 were down on balance by €2.6 million or 1.1% on the like-for-like previous-year figure of €238.7 million.

The fall in value is the balance of measurement gains totalling €7.0 million with 16 properties and measurement losses totalling €9.6 million with 7 properties. These largely resulted from measurement-related rental costs and associated fit-out expenses, of which 79% relates to the shopping centre in Eisenhüttenstadt (€7.6 million) and 18% to the office building in Dresden, Nossener Brücke (€1.7 million) as well as the retail property in Zittau currently being fitted out in the course of the long-term lease extension with the main tenant REWE.

The contractual rents of the subsidiaries as of the reporting date totalling €18.2 million were down by 9% on the like-for-like previous-year figure of €20.0 million, mainly due to vacancies. This corresponds to a profit-weighted occupancy rate of 86.9% of potential rents with full occupancy of €20.9 million (previous year like-for-like: 91.0% with full occupancy of €22.0 million).

## Objectives and strategy

Fair Value REIT-AG pursues a sustainable dividend policy and strives to pay out dividends that fulfil the legal provision of at least 90% of net profit under the German commercial law as well as at least 50% of the adjusted profit/loss of the Group (EPRA earnings/funds from operations (FFO)). The proposed dividend for the past fiscal year 2015 of €0.25 per share corresponds to a pay-out of around €3.5 million or around 55% of the FFO achieved in 2015 of €6.4 million.

The dividend potential of the Group is to be secured and expanded in the long term with successive reduction of external administrative levels at the indirectly held properties.

Given this goal, free cash available for investments are to be used by the Company to further increase existing investments and expand the portfolio of directly held properties. This allows the non-controlling interests within the Group and also costs to be reduced as a result of the successive liquidation of subsidiaries.

When investing in the future, the Company will continue to focus on secondary locations in Germany, particularly on the secondary real estate market of closed-end real estate funds.

## Governance and control

Fair Value REIT-AG is managed autonomously by the Management Board. The Management Board currently consists of one person – Frank Schaich. He has more than 30 years' experience in the acquisition, portfolio management and sale of commercial properties and participations in closed-end real estate funds. The main responsibilities of the Company's management are the strategic management of the Company and its participations and real estate portfolio, risk management, financial reporting and investor relations. Moreover, the Company performs the function of general partner and therefore has management functions in all property-holding participations via its subsidiaries.

The Management Board works closely with the Supervisory Board and the latter is involved in all important decisions. The Supervisory Board has three members in accordance with its articles of incorporation.

Information on the remuneration system of the Management Board and Supervisory Board is provided in this group management report, in the notes to the consolidated financial statements (note 32) as well as in the corporate governance statement pursuant to Sec 289a HGB ["Handelsgesetzbuch": German Commercial Code]. The declaration concerning the German Corporate Governance Code in accordance with Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act] can also be downloaded from the Investor Relations/Corporate Governance section of the Company's website [www.fvreit.de](http://www.fvreit.de).

## Management system

Accounting and property management functions are carried out via service agreements by IC Immobilien Service GmbH, a subsidiary of IC Immobilien Holding AG based in Unterschleißheim close to Munich. With its subsidiaries, the company currently provides support for an investment volume of approximately €10 billion on behalf of private and institutional investors, according to its own information.

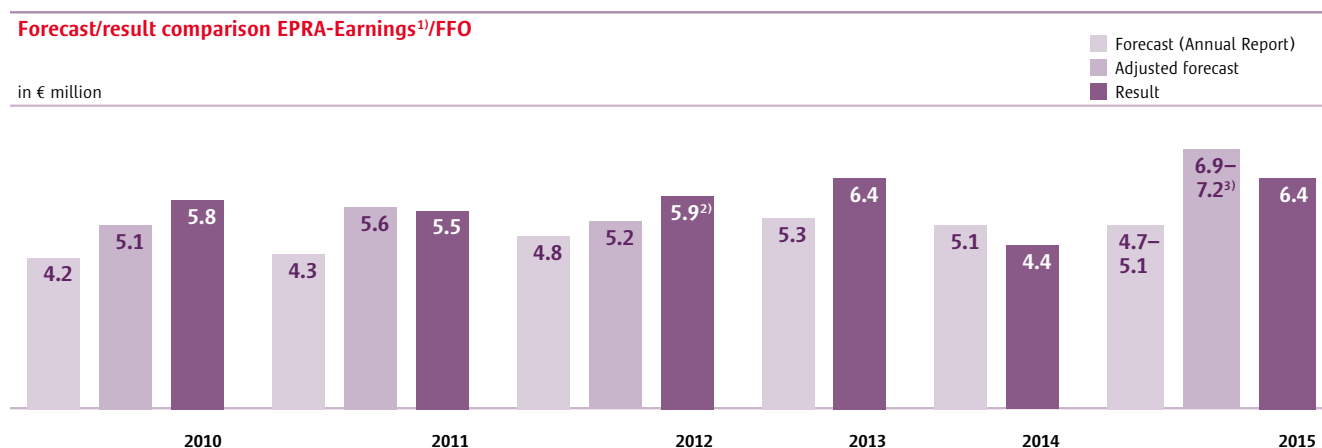
Fair Value REIT-AG's internal management system is based on rolling five-year forecasts for the individual properties in the directly and indirectly held real estate portfolio.

At least every quarter, the Company obtains information in accordance with its specifications about all the directly and indirectly held properties. The reports contain information about important, contractually relevant incidents or incidents that deviate from plans and strategy. Important performance indicators in this respect are net rental income, current management costs as well as maintenance costs and capital expenditures.

At group level, property and company information is aggregated including Fair Value's overhead costs and financing expenses. Planning figures from the forecast report are also published for the EPRA earnings/ funds from operations.

### EPRA-earnings<sup>1)</sup>

For this key indicator, the profit/loss of the Group is adjusted for the gain/loss from the sale, changes in the market value of the property and interest rate derivatives as well as other non-recurring effects. The comparison of actual versus projected values of the FFO management and planning key figures for the past five years is as follows:



<sup>1)</sup> Earnings calculated in accordance with the best practice recommendations of the European Public Real Estate Association (EPRA) on IFRS reporting of real estate companies

<sup>2)</sup> Increase of €0.3 million on the 2012 annual report pursuant to IAS 8 after correcting non-controlling interests

<sup>3)</sup> Increase due to capital measures during the year (issue of convertible bond and capital increase)

## Research and development

In view of the business activities of the Group, which focus on property management and property portfolio services, the Group does not dedicate any of its own resources to research and development activities.

# Economic report

**Macroeconomic and sector-specific conditions** The German economy experienced moderate growth of 1.7 % in 2015. The number of persons employed reached a new record high of around 43 million. The rate of inflation decreased to 0.3 %. In the commercial letting markets, the office and retail segment saw a significant rise in space turnover and rising rents. The German commercial investment market recorded a considerable increase once again with a transaction volume of €55.1 billion.

## Macroeconomic situation

Sources: German Federal Statistics Office, Deutsche Bundesbank, German Federal Ministry of Economics and Energy, German Federal Employment Agency

In 2015, GDP (adjusted for price effects) increased by 1.7% following 1.6% in the previous year. This development was driven by higher private consumer spending as well as construction output. Foreign trade declined in comparison to the previous year.

Consumer prices in 2015 increased by an average of 0.3% on the previous year. The price increase was thus well below the previous-year level of 0.9%. The annual inflation rate was largely shaped by falling energy prices. Without taking the development of energy prices into account, the annual inflation rate was up 1.1% in 2015.

Given the good economic development, the labour market continued to develop very positively. The annual average number of persons in gainful employment increased to 43.0 million, thus reaching its highest level since the German Reunification. An average of 2.8 million persons were registered as unemployed in 2015. The unemployment rate thus dropped by 0.3 percentage points to 6.4%.

## Real estate market in Germany

Source: Jones Lang LaSalle

**The rental market Office space** Space turnover on the German office letting market significantly increased to a total volume of 3.6 million m<sup>2</sup> in fiscal year 2015. That is around 21% more than in the previous year. There was an above-average share in turnover of 30% in the fourth quarter alone. The strongest growth was achieved in Düsseldorf (46%) and in Berlin (43%). Two-digit growth figures were also recorded in Munich and Cologne. The other strongholds, Hamburg, Stuttgart and Frankfurt, closed the year 2015 with a slight increase in space turnover.

Prime rents in fiscal year 2015 increased in every major city except for Cologne and Düsseldorf. The prime rent price index rose by 3%, while average rents increased by 4% due to rising rents also in B-locations.

The average vacancy rate of the “Big 7”<sup>1)</sup> fell from 7.6% to 6.4% during the year, the lowest level since 2002. At the same time, a total of only about 870,000 m<sup>2</sup> was completed during the year, which corresponded to a 12% decrease in comparison to the previous year.

<sup>1)</sup> Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Cologne, Munich, Stuttgart

**Retail space** In line with the good economic environment, there was steady space turnover of around 525,000 m<sup>2</sup> on the retail property market in fiscal year 2015. Although this was 10% less than in the previous year, the number of transactions closed (1,077) was significantly above the previous year's figure (994). Spaces of 1,000 m<sup>2</sup> or more continued to be in high demand.

Retail textile tenants remained the strongest sector with 37% of total space turnover. The second strongest category at around 22% was gastronomy and food for the fifth time in a row. The health and beauty retail segments at 10% represented the third strongest sector. The prime rent in the 1a commercial locations in the 185 locations across Germany increased by 1.2% following a 1.9% increase in the previous year.

**The investment market** The German investment market for commercial property recorded a significant increase in transaction volume of nearly 40% to €55 billion (previous year: €40 billion). At almost €17 billion, the fourth quarter alone accounted for 30% of this net income for the year. Around 41% of the commercial transaction volume relates to office property, following 44% in the previous year. Retail property ranked second with a share of 31%, following 22% in the previous year. The remaining shares are largely spread among mixed-use properties (10%), hotel properties (8%) and warehouse/logistic properties (a good 7%).

In line with the rise in demand for commercial property, net present values rose significantly not only in the prime locations but also increasingly in the secondary locations and for properties with partial vacancies or shorter remaining terms.



## Overall statement by the company management on business development

Fair Value REIT-AG closed the past fiscal year 2015 with a highly satisfactory group net profit. This is primarily due to the advantageous acquisition of non-controlling interests and to the equity interest of a new majority shareholding acquired below fair value as well as a significantly improved measurement result from the investment properties. By contrast, the takeover bid by DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt, to the shareholders of Fair Value REIT-AG, which was welcomed and endorsed by the Management Board and the Supervisory Board, brought about additional consulting fees.

Gross proceeds totalling around €46 million flowed to the Company as a result of the convertible bond issued in January 2015 and the capital increase in May 2015. In line with the Group's strategic objective, the net cash inflows from the capital measures were used to gradually increase the shareholding in subsidiaries as well as to acquire a new majority shareholding and direct ownership of six properties previously held indirectly. At the same time, non-strategic real estate were sold for an aggregated purchase price of around €3.8 million.

As of 31 December 2015, the occupancy rate of the portfolio stood at 89.2% of potential rents following 91.0% (like-for-like) as of the end of the previous year. At 4.9 years, the average remaining term of the leases was on a par with the previous-year level of 5.0 years.

Marking the properties to market as of the reporting date, taking into account an advantageous acquisition of land (€0.6 million) as well as incidental acquisition costs from intercompany real estate transactions (€0.9 million), resulted in a total measurement loss of around €2.8 million (previous-year loss: €7.5 million). In the course of the expert marking properties to market, measurement gains totalling €7.7 million were determined as well as unchanged market values for 27 properties and measurement losses totalling €10.1 million for 13 properties. 95% (€9.6 million) of this measurement loss relates to four properties in Dresden (two properties), Eisenhüttenstadt and Zittau and is primarily due to expected vacancy and reletting costs.

At €4.2 million, net interest expenses were down by €0.8 million (16%) on the previous-year figure of €5.0 million. This was mainly attributable to unscheduled repayments of financial liabilities.

Overall, after deducting the share of profit/loss attributable to non-controlling interests, this resulted in a group net profit of €6.6 million (previous year: group net loss of €47 thousand).

As of the reporting date, group equity amounted to €117.3 million (previous year: €78.3 million) or €8.36 for each share currently outstanding (previous year: €8.39). The nominal increase in group equity is chiefly due to the capital increase performed in May 2015 by fully using the authorised capital 2014. Total assets increased as of the reporting date 2015 to €330.4 million compared to €311.9 million in the previous year, thus causing the equity ratio as of 31 December 2015 to increase to 35% (previous year: 25%).

Including the shares in non-controlling interests in subsidiaries, as intended when calculating REIT equity, the equity of all shareholders amounted to €178.4 million or 54% of total assets (previous year: 44%).

As of the reporting date, the REIT equity ratio came to 59.6% of the immovable property (previous year: 49.2%) and was therefore considerably over the 45% minimum prescribed by Sec. 15 REITG.

**EPRA earnings (FFO) compared to planning** Following the successful capital increase, the plan for fiscal year 2015 was adjusted and specified on the occasion of the semi-annual financial reporting. In this regard, the Management Board expected funds from operations (FFO) adjusted for measurement effects and special effects before non-controlling interests to amount to between €9.8 million and €10.2 million. After non-controlling interests, the FFO plan for 2015 communicated in the 2014 Annual Report was raised from between €4.7 million and €5.1 million to between €6.9 million and €7.2 million. This increase depended on how rapidly and comprehensively the net cash inflows from the capital increase could be invested in the planned direct acquisition of property held by subsidiaries.

In effect, the FFO before non-controlling interests at €10.3 million was slightly above the upper end of the plan and thus demonstrates the stability and profitability of the portfolio that was added to over the course of the year. After deducting the non-controlling interests, the FFO came to around €6.4 million, which fell around 7% short of the targeted lower end of plan due to the higher shares of profit/loss attributable to non-controlling interests.

**EPRA earnings (FFO) compared to the previous year** Under other property-related expenses, value-enhancing measures taken at the properties in Rostock and Eisenhüttenstadt in the amount of around €1.0 million were adjusted, as these have or will influence the measurement result to the same extent. At €18.7 million, the adjusted net rental income for the past fiscal year was thus around 6% above the previous-year figure. This increase was offset by higher general administrative expenses. As a result, the adjusted operating result adjusted for these special effects came to €14.5 million, down marginally on the previous-year figure of €14.7 million. The decrease in net interest expenses relating primarily to repayments caused FFO before non-controlling interests to increase to €10.3 million accordingly, following €9.7 million in the previous year.

At €3.9 million, the share of profit/loss attributable to non-controlling interests was down by 26% on the previous-year figure of €5.3 million.

The adjusted profit/loss of the Group (EPRA earnings/FFO) of €6.4 million or €0.52 per share currently outstanding was therefore up by €2.0 million on the previous-year figure of €4.4 million.

The past fiscal year 2015 was thus highly satisfactory and exceeded FFO expectations prior to deducting the share of profit/loss attributable to non-controlling interests.

In light of this, the Management Board proposes to distribute the planned dividend of €0.25 per share for fiscal year 2015, or around €3.5 million. This proposed dividend corresponds to a distribution rate of 55% of FFO of €6.4 million.

<b>Adjusted profit/loss of the Group (EPRA earnings) or FFO 2015</b>					
in € thousand	According to the consolidated statement of income	Adjustment for one-off effects			Adjusted consolidated statement of income
		Gains/losses on disposal	Property measurement	Other	
Rental income	24,291	–	–	–	24,291
Service charge income	5,556	–	–	–	5,556
Service charge expenses/ground rent	(7,929)	–	–	–	(7,929)
Other property-related expenses	(4,192)	–	–	962	(3,230)
<b>Net rental income</b>	<b>17,726</b>	<b>–</b>	<b>–</b>	<b>962</b>	<b>18,688</b>
General administrative expenses	(5,230)	–	–	1,170	(4,060)
Other operating income and expenses	2,607	–	–	(2,854)	(247)
Profit/loss from disposal of investment properties	(29)	147	–	–	118
Measurement result	(2,792)	–	2,792	–	–
<b>Operating result</b>	<b>12,282</b>	<b>147</b>	<b>2,792</b>	<b>(722)</b>	<b>14,499</b>
Net interest expenses	(4,201)	–	–	23	(4,178)
<b>Result before non-controlling interests</b>	<b>8,081</b>	<b>147</b>	<b>2,792</b>	<b>(699)</b>	<b>10,321</b>
Share of profit/loss attributable to non-controlling interests	(1,496)	(74)	(1,853)	(492)	(3,915)
<b>Group net profit</b>	<b>6,585</b>	<b>73</b>	<b>939</b>	<b>(1,191)</b>	<b>6,406</b>
Profit/loss of the Group per share	0.53/0.52 <sup>1)</sup>				0.52/0.51 <sup>1)</sup>

<sup>1)</sup> Weighted average number of shares outstanding in 2015: 12,379,587 basic/13,265,505 diluted

<b>Adjusted consolidated net income (EPRA-earnings) or FFO 2014</b>					
in € thousand	According to the consolidated statement of income	Adjustment for one-off effects			Adjusted consolidated statement of income
		Gains/losses on disposal	Property measurement	Other	
Rental income	23,914	–	–	–	23,914
Service charge income	6,235	–	–	–	6,235
Service charge expenses/ground rent	(8,617)	–	–	–	(8,617)
Other property-related expenses	(3,906)	–	–	–	(3,906)
<b>Net rental income</b>	<b>17,626</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>17,626</b>
General administrative expenses	(2,920)	–	–	–	(2,920)
Other operating income and expenses	(599)	–	–	630	31
Profit/loss from disposal of investment properties	(692)	692	–	–	–
Measurement result	(7,538)	–	7,538	–	–
<b>Operating result</b>	<b>5,877</b>	<b>692</b>	<b>7,538</b>	<b>630</b>	<b>14,737</b>
Net interest expenses	(5,046)	–	–	26	(5,020)
<b>Result before non-controlling interests</b>	<b>831</b>	<b>692</b>	<b>7,538</b>	<b>656</b>	<b>9,717</b>
Share of profit/loss attributable to non-controlling interests	(878)	(287)	(4,136)	(14)	(5,315)
<b>Group net profit</b>	<b>(47)</b>	<b>405</b>	<b>3,402</b>	<b>642</b>	<b>4,402</b>
Profit/loss of the Group per share	(0.01) <sup>1)</sup>				0.47 <sup>1)</sup>

<sup>1)</sup> Weighted average number of shares outstanding in 2014: basic/diluted 9,325,572

## Financial performance, cash position and financial position

### Financial performance

in € million	2015	2014	Change	
			[€ million]	[%]
<b>Rental income</b>	<b>24.3</b>	<b>23.9</b>	<b>0.4</b>	<b>2</b>
Service charge income	5.6	6.2	(0.6)	(10)
Service charge expenses	(7.9)	(8.6)	(0.7)	(8)
Other property-related expenses	(4.2)	(3.9)	0.3	8
<b>Net rental income</b>	<b>17.7</b>	<b>17.6</b>	<b>0.1</b>	<b>1</b>
General administrative expenses	(5.2)	(2.9)	2.3	79
Balance of other operating income and expenses, disposal and measurement gains/losses	(0.2)	(8.8)	8.6	98
<b>Operating result</b>	<b>12.3</b>	<b>5.9</b>	<b>6.4</b>	<b>108</b>
Net interest expenses	(4.2)	(5.0)	(0.8)	(16)
Share of profit/loss attributable to non-controlling interests	(1.5)	(0.9)	0.6	67
<b>Group net profit/loss</b>	<b>6.6</b>	<b>(0.05)</b>	<b>6.6</b>	
Group net profit/loss per share basic/diluted	0.53/0.52 <sup>1)</sup>	(0.01)/(0.01) <sup>2)</sup>		

<sup>1)</sup> Weighted average number of shares outstanding in 2015: 12,379,587 basic/13,265,505 diluted

<sup>2)</sup> Weighted average number of shares outstanding in 2014: basic/diluted 9,325,572

At €24.3 million, rental income was up by 2% on the previous-year figure. Service charge income of €5.6 million (down by 10% on the previous-year figure) is counterbalanced by service charge expenses of €7.9 million, which are down by €0.7 million or 8% on the previous year. Other property-related expenses amounted to €4.2 million, exceeding the previous-year figure by 8%. However, around €1.0 million of this is related to value-enhancing measures taken at the properties in Rostock and Eisenhüttenstadt. Net rental income of €17.7 million was up marginally on the previous-year figure of €17.6 million.

At €5.2 million, general administrative expenses in the Group were up by 79% on the previous year. The increase relates primarily to legal and consulting fees, which increased by around €1.9 million and therefore covered more than three quarters of the cost increase. At around €1.0 million, the largest share was accounted for by legal and consulting fees incurred in connection with the takeover bid by DEMIRE Deutsche Mittelstand Real Estate AG announced to all the shareholders of Fair Value REIT-AG.

In the past fiscal year, Fair Value REIT-AG generated income of €3.6 million from the advantageous acquisition of non-controlling interests and from the equity interest of a new shareholding in BBV 08 acquired at fair value; this income was included under other operating income and expenses. Including the profit/loss from the disposal of investment property and the measurement result leads overall to an expense of €0.2 million following an expense of €8.8 million in the previous year.

In light of this, the operating result of €12.3 million was more than twice that of the previous-year figure of €5.9 million.

At €4.2 million, net interest expenses were down by €0.8 million or 16% on the previous-year figure largely due to repayments.

Deducting the share of profit/loss attributable to non-controlling interests in the subsidiaries generated a group net profit of €6.6 million (previous year: group net loss of €47 thousand). This corresponds to earnings per average number of shares outstanding of €0.53 after €–0.01 in the previous year.

### Cash position

**Principles and goals of financial management** The Fair Value Group's financial management ensures that the Group is able to meet its payment obligations at all times. To this end, the cash flows from operating activities are recognised in a rolling plan. Liquidity surpluses are placed in risk-free call deposit accounts.

The loan agreements concluded are continually monitored for potential savings in interest expenses. To hedge against cash flow fluctuations of floating-rate interest loans, the Company in earlier years used derivative financial instruments (interest rate hedges) on a case-by-case basis and also does not rule this out for the future. As of the reporting date, there were no interest rate hedges in the Group.

**Capital structure** Equity attributable to the shareholders of Fair Value REIT-AG amounted to €117.3 million as of the reporting date (previous-year figure: €78.3 million). The increase is mainly attributable to the capital increase performed in May 2015. Including the shares in non-controlling interests in subsidiaries totalling €61.2 million, the equity of all shareholders amounts to €178.4 million (previous year: €138.3 million). This corresponds to 54% of consolidated total assets of €330.4 million (previous year: 44% of €311.9 million).

As presented below, the Group's financial liabilities amounted to €144.1 million as of the reporting date (previous year: €165.1 million):

<b>Financial liabilities of the Group</b>						
Short name	Lender	Amount 12/2014 [T€]	Amount 12/2015 [T€]	Interest rate	Bankmargin	Term
FV AG	Convertible bond (ISIN DE000A13SAB8)	–	(8,460)	4.50%	–	19/02/2016M
FV AG	Capital Bank GRAWE Group, Graz	(7,000)	–	–	–	–
FV AG	WIB Westdeutsche Immobilienbank AG <sup>1)</sup>	(9,700)	(9,300)	2.55%	–	30/06/2019M
FV AG	WIB Westdeutsche Immobilienbank AG <sup>1)</sup>	(12,004)	(7,256)	floating	1.27%	30/06/2019M
FV AG	Stadt-Sparkasse Langenfeld <sup>2)</sup>	(2,741)	(2,719)	1.55%	–	30/03/2020
IC 07	HSH Nordbank AG	(816)	–	–	–	–
IC 13	HSH Nordbank AG	(10,693)	–	–	–	–
IC 13	HSH Nordbank AG	(2,067)	–	–	–	–
BBV 06	Unicredit Bank AG	(8,072)	–	–	–	–
IC 12	WIB Westdeutsche Immobilienbank AG <sup>3)</sup>	(1,979)	(1,907)	5.20%	–	31/08/2016
IC 15	HSH Nordbank AG	(6,349)	–	–	–	–
IC 15	Sparkasse Südholstein	(7,720)	(7,490)	2.71%	–	30/01/2018
IC 15	pbb Deutsche Pfandbriefbank	(2,904)	–	–	–	–
BBV 02	Bayer. Beamten Lebensvers. a.G. <sup>4)</sup>	(139)	(139)	5.80%	–	31/12/2016M
BBV 02	Bayer. Beamten Lebensvers. a.G. <sup>4)</sup>	(942)	(942)	6.15%	–	31/12/2016M
BBV 08	Unicredit Bank AG	–	(18,576)	floating	2.90%	31/12/2016
BBV 10	Bayer. Beamten Lebensvers. a.G. <sup>4)</sup>	(22,193)	(20,980)	3.90%	–	31/12/2016
BBV 10	Unicredit Bank AG <sup>5)</sup>	(25,658)	(23,670)	floating	1.97%	31/03/2016
BBV 10	Unicredit Bank AG <sup>6)</sup>	(9,947)	(9,850)	floating	2.05%	31/03/2016
BBV 14	DG Hypothekenbank AG <sup>4)</sup>	(34,150)	(32,824)	1.38%	–	31/03/2020M
<b>Separate financial statements</b>		<b>(165,074)</b>	<b>(144,113)</b>	–	–	–
Reversal of marked-to-market differences and deferred loan processing fees		(8)	–			
<b>Total</b>	<b>Consolidated financial statements</b>	<b>(165,082)</b>	<b>(144,113)</b>			

<sup>1)</sup> LTV 75 % // DSCR 120 %

<sup>2)</sup> Previous year IC 13 Corealcredit Bank AG, replaced by Stadt-Sparkasse Langenfeld in 3/2015, in 8/2015 taken over by FVAG following acquisition of the Langenfeld property

<sup>3)</sup> LTV 50 % // DSCR 120 %

<sup>4)</sup> Interest-free and redemption-free on account of assigning the purchase price share deposited to an escrow account for the property sold in Erlangen

<sup>5)</sup> Extended by one year until 31 March 2017 at a margin of 2.05 % as of 1 April 2016

<sup>6)</sup> Extended by one year until 31 March 2017 at a margin of 2.10 % as of 1 April 2016

Other than those loans marked with an "M" indicating the date of final maturity, the dates relate to the interest terms agreed as of 31 December 2015. After the terms expire, the lenders have to offer new conditions.

As of the reporting date, there were no financial liabilities at the Group secured using interest rate swaps (previous year: €5.0 million or 3.0%). There are also no longer any interest caps). In the previous year, there was still one interest cap with a total volume of €34.1 million or 20.7% of financial liabilities of the Group. Fixed-interest loans amounted to €84.8 million or 59% of the Group's financial liabilities (previous year: €47.6 million or 28.9%).

At €59.4 million, around 41% of financial liabilities with no interest hedges were thus subject to floating-rate interest as of the reporting date (previous year: €117.5 million, or 71.1%).

Assuming a stable 3-month EURIBOR interest rate of 0.0% p.a., the weighted interest rate for the financial liabilities at the Group amounted to around 2.5% p.a. as of the reporting date. This represents a decline of 7% compared with the previous-year figure of 2.7% p.a. The weighted bank margin for the loans with floating-rate interest rates increased from 209 bp in the previous year to 291 bp.

The weighted remaining term of the fixed-interest and bank margin agreements amounted to 23 months as of the reporting date compared to 18 months in the previous year.

**Investments** Investment property of €35.9 million was capitalised in the past fiscal year in the course of the first-time consolidation of the subsidiary BBV 08. In addition, unrecognised value-enhancing measures totalling around €1.0 million were taken for the properties in Rostock and Eisenhüttenstadt, which has or will influence the measurement result to the same extent.

**Liquidity** The Group's cash and cash equivalents amounted to €16.0 million as of the reporting date, up by €1.4 million, or 10%, on the previous-year figure of €14.6 million. The total incidental acquisition costs of around €0.9 million incurred for the acquisition of direct ownership of group properties reduced cash inflows from operating activities. In 2015, this came to €3.3 million, which is €2.7 million below the previous-year figure of €6.1 million.

#### Net cash flow from operating activities

in € thousand	2015	2014
<b>Net profit/loss of the Group</b>	<b>6,585</b>	<b>(47)</b>
Measurement and sales result	2,580	6,846
Non-controlling interests (shares of gains/distributions)	(3,284)	(4,015)
Income from the acquisition of non-controlling interests	(3,607)	–
Other adjustments	1,049	2,584
<b>Net cash flow from operating activities</b>	<b>3,323</b>	<b>6,060</b>

**Cash flow from investment activities** Investment activities resulted in a cash inflow of €11.6 million following €22.4 million in the previous year. In 2015, cash inflows resulted from cash received from the disposal of seven properties for a total of €17.0 million (previous year: €22.9 million), which was counter-balanced by cash paid for investments of €5.4 million (previous year: €0.4 million).

in € thousand	2015	2014
<b>Net cash inflow from investment activities</b>	<b>11,632</b>	<b>22,442</b>
<b>Net cash outflow from financing activities</b>	<b>(13,515)</b>	<b>(31,275)</b>
Change to cash and cash equivalents	1,440	(2,773)
Cash and cash equivalents at the beginning of the period	14,588	17,361
<b>Cash and cash equivalent at the end of the period</b>	<b>16,028</b>	<b>14,588</b>

**Cash flow from financing activities** The cash flow from financing activities of €13.5 million (previous year: €31.3 million) with an outflow of €40.0 million resulted from the repayment of and proceeds from financial liabilities (previous year: €26.1 million). Cash outflows totalling around €5.0 million resulted from compensation paid to former non-controlling interests in subsidiaries. The dividends for fiscal year 2015 account for cash outflow of €2.3 million, as in the previous year. The capital increase in May yielded cash inflow of €34.7 million after transaction costs.

### Financial position

More than 90% of the Fair Value Group's assets is shaped by the market values of the directly and indirectly held properties. The market values of the Group's properties, for which there is no notarised purchase agreement, is calculated at least once a year as of the respective reporting date by external appraisers who primarily use the discounted cash flow method. Additional information on the methods of property measurement can be found in the notes to the consolidated financial statements under notes 2 and 6.

Assets	31/12/2015		31/12/2014		Change	
	[€ thousand]	[%]	[€ thousand]	[%]	[€ thousand]	[%]
Total non-current assets	296,914	90	277,909	89	19,005	7
Total current assets	21,702	7	20,745	7	957	5
Non-current assets available for sale	11,750	4	13,240	4	(1,490)	(11)
<b>Total assets</b>	<b>330,366</b>	<b>100</b>	<b>311,894</b>	<b>100</b>	<b>18,472</b>	<b>6</b>

Total assets increased by 6% compared to the previous year to €330.4 million. The increase was due to the positive balance from acquisitions (majority acquisition of a subsidiary with three properties), disposals of five non-strategic properties and the measurement result.

Non-current assets of €296.9 million accounted for 90% of total assets (previous year: €277.9 million, or 89%). Around 97% or €287.8 million related to investment property (previous year: 96% or €267.7 million).

Current assets of €21.7 million (previous year: €20.7 million) comprised €16.0 million or around 74% of cash and cash equivalents (previous year: €14.6 million). Around €2.9 million (13%) related to other receivables and assets (previous year: €12.8 million). Around €2.8 million relates to trade receivables following €2.9 million in the previous year.

Non-current assets held for sale relate to two properties in Radevormwald (€11.1 million) and Tornesch (€0.65 million), both of which were sold at their carrying amounts after the reporting date. Title, risks and rewards are transferred once the usual prerequisites for payment have been met in return for payment of the purchase price.



Equity and liabilities	31/12/2015		31/12/2014		Change	
	[€ thousand]	[%]	[€ thousand]	[%]	[€ thousand]	[%]
<b>Equity parent company</b>	<b>117,278</b>	<b>35</b>	<b>78,273</b>	<b>25</b>	<b>39,005</b>	<b>50</b>
Non-controlling interests	61,160	19	60,048	19	1,114	2
Financial liabilities, derivatives, other liabilities	118,770	36	112,532	36	6,238	6
<b>Total non-current liabilities</b>	<b>179,930</b>	<b>54</b>	<b>172,580</b>	<b>55</b>	<b>7,350</b>	<b>4</b>
Total current liabilities	33,158	10	61,041	20	(27,883)	(46)
<b>Total liabilities</b>	<b>213,088</b>	<b>65</b>	<b>233,621</b>	<b>75</b>	<b>(20,533)</b>	<b>(9)</b>
Thereof financial liabilities	144,113	68	165,082	71	(20,969)	(13)
<b>Total equity and liabilities</b>	<b>330,366</b>	<b>100</b>	<b>311,894</b>	<b>100</b>	<b>18,472</b>	<b>6</b>

On the reporting date, a total of 35% of assets (previous year: 25%) was financed by equity attributable to shareholders of the parent company and 65% (previous year: 75%) by liabilities. Here it must be taken into account that the non-controlling interests in subsidiaries of €61.2 million (previous year: €60.0 million) are recognised under liabilities pursuant to IFRSs. For the calculation of the minimum equity ratio for the purpose of the REITG, interests in subsidiaries included in the consolidated financial statements not belonging to the parent company and recognised as debt capital are treated as equity. Accordingly, group equity increased to €178.4 million, or 54% of total equity and liabilities (adjusted previous-year figure: €138.3 million, or 44%).

The financial liabilities of the Group amounted to €144.1 million on the reporting date, or 44% of the total equity and liabilities (previous year: €165.1 million or 53%). The decrease in financial liabilities by €21.0 million or 13% on the previous year is due to (unscheduled) repayments.

**Equity ratio pursuant to Sec. 15 REITG** When calculating the equity ratio pursuant to Sec. 15 REITG, the total of the equity attributable to the shareholders of the parent company and the non-controlling interests in subsidiaries is divided by the immovable assets.

Immovable assets comprise the market value of investment property.

As of 31 December 2015 immovable assets totalled €299.5 million. Nominal REIT equity amounted to €178.4 million. This resulted in a REIT equity ratio of 59.6%. It is thus over the legally required minimum ratio of 45.0% of immovable assets.

Calculation of equity ratio pursuant to Sec. 15 REITG	31/12/2015		31/12/2014	
	[€ thousand]	[%]	[€ thousand]	[%]
Investment properties incl. assets under construction	287,794		267,718	
Non-current assets held for sale	11,750		13,240	
<b>Immovable assets</b>	<b>299,544</b>	<b>100.0</b>	<b>280,958</b>	<b>100.0</b>
Equity	117,278		78,273	
Minority interests	61,160		60,048	
<b>Equity according to Sec. 15 of the REIT Act</b>	<b>178,438</b>	<b>59.6</b>	<b>138,321</b>	<b>49.2</b>

**Equity/net asset value (NAV) per share** As of 31 December 2015, the net asset value amounted to €117.3 million (previous year: €78.3 million). The net asset value is a central measurement indicator for property holding real estate companies. The 14,029,013 shares outstanding as of the reporting date produce a NAV of €8.36 per share in the previous year (9,325,572 shares outstanding).

<b>NAV in the consolidated statement of financial position</b>		
in € thousand	<b>31/12/2015</b>	<b>31/12/2014</b>
Market value of properties (incl. properties held for sale)	299,544	280,958
Other assets minus other equity and liabilities	27,400	27,135
Non-controlling interests	(61,160)	(60,048)
Financial liabilities	(144,113)	(165,082)
Other liabilities	(4,393)	(4,690)
<b>Net Asset Value</b>	<b>117,278</b>	<b>78,273</b>
Net Asset Value per share	8.36	8.39

**EPRA-NAV per share** The Best Practice Recommendations of the European Public Real Estate Association (EPRA) are accepted guidelines which complement the IFRS reporting of real estate companies and provide guidance on a transparent calculation of the net asset value. The EPRA-NAV indicator shown below is based on this guideline. As deferred taxes are not relevant to Fair Value REIT-AG due to its REIT status, the EPRA-NAV figure presented below also corresponds with the NNAV indicator used by some experts.

<b>EPRA-NAV</b>		
in € thousand	<b>31/12/2015</b>	<b>31/12/2014</b>
NAV pursuant to consolidated statement of financial position	117,278	78,273
Market value of derivative financial instruments	–	990
Thereof attributable to non-controlling interests	–	(76)
<b>EPRA-NAV</b>	<b>117,278</b>	<b>79,187</b>
EPRA-NAV per share	8.36	8.49

# Subsequent events

By purchase agreement dated 29 January 2016, the property in Tornesch, Willy-Meyer-Str. 3–5, was sold to a local entrepreneur. The purchase price of €650 thousand is 10% higher than the market value as of 31 December 2015 of €590 thousand according to the valuation report and was repaid in full on 16 March 2016.

As a result of the change of control at Fair Value REIT-AG that occurred on 21 December 2015, the creditors of the convertible bond, issued on 19 January 2015 bearing an interest rate of 4.5% p.a. with a total nominal value of €8.46 million and with a term until 19 January 2020, demanded in their declaration on 9 February 2016 early repayment at 103% of the nominal amount plus accrued interest under the terms of the bond as of 19 February 2016, the date on which the contract took effect.

The corresponding amount of around €8.75 million was duly paid on 19 February 2016. The repayment amount was refinanced by taking out two loans at CapitalBank – GRAWE Gruppe AG, Graz, and at Stadt-Sparkasse Langenfeld.

At CapitalBank – GRAWE Gruppe AG, Graz, the Company took out a bullet loan with a term of three years until 15 February 2019 for €7.0 million less a processing fee of 1% at a variable 3-month EURIBOR interest rate plus a margin of 400 basis points but at least at an interest of 4.0% p.a. 25% of the loan is secured by a mortgage and the rest by pledges of company shares as well as other assets.

At Stadt-Sparkasse Langenfeld, the Company took out a loan secured by a mortgage for €2.0 million with a term until 30 March 2020, which is subject to interest at 1.69% p.a. and with principal repayment at 3.0% p.a. plus interest saved.

In light of the successful takeover bid by DEMIRE Deutsche Mittelstand Real Estate AG made to the shareholders of Fair Value REIT-AG, the Supervisory Board members Dr. Oscar Kienzle and Professor Heinz Rehkugler resigned from the Supervisory Board at the end of February 2016. The Munich local court appointed Honorary Professor Andreas Steyer and Markus Drews as their successors as of 1 March 2016, both of whom are management board members at DEMIRE Deutsche Mittelstand Real Estate AG (“DEMIRE”). At the constitutive meeting, Mr. Elgeti was elected chairman and Mr. Drews deputy chairman of the Supervisory Board.

The supervisory board of DEMIRE appointed Mr. Frank Schaich, the sole Management Board member of the Company, as an additional member of the management board of DEMIRE as of 1 February 2016 for three years until 31 January 2019 and endorsed the extension of his board appointment at Fair Value REIT-AG. For the term of the appointment, a management board service agreement was concluded with Mr. Schaich subject to the condition precedent for the termination of the existing service agreement with Fair Value REIT-AG.

On 1 March 2016, the Supervisory Board of the Company extended the current management board appointment of Mr. Schaich until 31 January 2019 and the existing service agreement was mutually terminated as of 29 February 2016. In this context, the phantom stock outstanding as of the reporting date and the variable remuneration due upon termination of this contract of 0.2% of the gain in the market capitalisation of the Company since 1 October 2012 as per the figure reported in the statement of financial position as of 31 December 2015 were settled, although actual payment will be made on 31 March 2016.

In addition, Mr. Schaich's additional membership on the management board at DEMIRE was approved and the proposal by the Management Board to bear the pro rata share of the short-term remuneration components, fringe benefits and travel expenses for Mr. Schaich incurred by DEMIRE effective upon termination of his service contract.

The share in the costs for the Company was set at 70% plus VAT, until further notice, with a view to the time he is expected to require for his Management Board activity for Fair Value. With the approval of the Supervisory Board, a cost allocation agreement was concluded with a term that is linked to the management board service agreement with DEMIRE.

By purchase agreement dated 4 March 2016, the subsidiary BBV08 sold the nursing home property in Radevormwald at a carrying amount of €11.1 million. Title, risks and rewards are to be transferred on 1 April 2016, provided that the usual conditions are satisfied.

# Forecast report

**Economic conditions and industry prospects** The German economy will maintain its essentially healthy constitution in 2016. The office and retail markets are expected to at least remain stable. In light of high demand and persistently good financing conditions, the German investment market will remain stable at a high level.

## Macroeconomic situation

In its annual economic report for 2016, the forecast issued by the German federal government expects the German economy to grow by 1.7% in 2016 compared to the previous-year level. On the domestic side, this will primarily be driven by private consumer spending and increased government spending on refugee migration as well as investments in residential buildings. It is also assumed that the global economy and global trade will accelerate slightly. The low external value of the euro against the US dollar will provide impetus for growth in foreign trade. Development of prices for private consumption is forecast at 1.1%.

## Letting markets

According to analysts' estimates, the office letting market will settle at a high level in 2016. The volume of new construction is anticipated at around 1.3 million m<sup>2</sup>, 65% of which has already been let in advance. Due to the continuing demand for office space, the vacancy rate is thus expected to decline slightly again in 2016. This should have a positive impact on average rents; an increase of 2% is expected.

Positive consumer sentiment owing to the good labour market conditions and increasing income will bolster retail revenue in 2016 as well. This will probably entail increasing rents, at least in prime city locations.

## Investment market

Based on the good fundamental data and persistently low financing costs, the investment market for commercial property in Germany is likely to record a very high transaction volume again in 2016, albeit falling presumably short of the €55 billion high recorded in the previous year. The sustained investor demand is leading to a noticeable yield compression and increasing net present values, even in secondary locations. The requirements of lenders of debt capital with regard to equity backing remain high, although an increase in loan-to-value ratio is to be expected. Additionally, intensified competition is putting pressure on investors' margins.

Sources: German Federal Ministry of Economics and Energy, Jones Lang LaSalle

## Anticipated financial performance of the Group

### Forecast of consolidated earnings for 2016

The forecast for fiscal year 2016 is based on item-by-item planning of income and expenses of the directly and indirectly held properties of the Group.

If income is not derived from contractual rents for the year as a whole, assumptions on the likelihood of the lease being renewed and the duration of vacancies were made in relation to the rental space. This is also the case for anticipated rental expenses contained in property-related operating expenses. The planned repair and maintenance expenses are primarily based on firmly planned measures or are otherwise generally estimated based on past experience. Operating costs for the properties were rolled forward based on the values of the previous year.

Any special effects, such as from market valuations, were not taken into account. With the exception of the disposal of assets held for sale as of 31 December 2015, an unchanged real estate portfolio is assumed.

With the refinancing of previously unencumbered property, the Management Board plans to invest freed-up cash to further expand Fair Value REIT-AG's stake in selected subsidiaries and to acquire further previously indirectly owned properties. As the spread of these investments to individual subsidiaries or to directly held properties cannot be precisely planned, the Management Board refrains from issuing a precise FFO forecast.

Based on the existing portfolio, the Management Board expects funds from operations (FFO) in 2016 of €10.5 million to €10.8 million before non-controlling interests. With an unchanged share of directly held properties and thus of the share of non-controlling interests in group earnings, the Management Board expects FFO after non-controlling interests of between €6.2 million and €6.5 million in 2016. This corresponds to FFO of €0.44 to €0.46 per share to all shares outstanding. The target dividend for 2016 is €0.25 per share to all shares outstanding. This corresponds to a distribution ratio of 54% to 57% of FFO.

## Opportunities and overall statement of the management on the expected development of the Group

The forecast economic development for Germany offers good framework conditions overall for the real estate industry and therefore also for Fair Value REIT-AG. These are expected to continue having a positive effect on demand for space and therefore on upcoming follow-up and new rentals.

The demand for real estate investments remains high and is also likely to extend to properties in secondary locations in 2016. The Management Board is confident that it can achieve good results in this competitive environment through active lease and portfolio management. This explicitly includes the disposal of non-strategic and/or marketable properties. The freed-up cash and cash inflow from this will be invested with the purpose of generating substantial cash flows through additions to the existing property and investment portfolio.

In accordance with the business model of Fair Value REIT-AG, the Management Board will focus its attention in particular on opportunities in the secondary real estate market of closed-end real estate funds.

# Risk report

## Risk management system

### Objectives, principles and methods of risk management

The risk management system of Fair Value REIT-AG is an integral part of the management and control system of the Fair Value Group. It enables all risks relevant to the business activities of Fair Value to be identified as early as possible, analysed, evaluated and managed. Opportunities are not recognised on an ongoing basis.

The risk management system is integrated into the regular reporting to the Management Board and Supervisory Board in order to ensure that risks are dealt with proactively and efficiently. The Company's risk strategy also involves the services of external service provider, IC Immobilien Service GmbH (ICIS).

The service provider supports the management of Fair Value in the identification, notification, assessment and management of current and potential risks. Risk control and reporting are carried out centrally by the management of Fair Value REIT-AG. This ensures that the Management Board is informed in a timely manner of all significant risks in order to initiate appropriate measures.

The Management Board believes that no material risks for the Group exist which are not identified by risk management and which can be fundamentally avoided.

### Key features of the internal control and risk management system with respect to the Group's accounting pursuant to section 289 (5) of the HGB

**Internal control system** The internal accounting control system has been implemented with the objective of ensuring adequate certainty in the internal and external accounting and reporting procedures by introducing suitable control mechanisms. This ensures that the annual accounts and consolidated financial statements are issued in accordance with statutory provisions.

Fair Value REIT-AG is involved in the budgeting process for both directly and indirectly held properties. This is based on the contractual arrangements with the service provider ICIS, which is responsible for the property management of the directly owned real estate of Fair Value REIT-AG and the Company's accounting.

At least every quarter, the Company receives property, fund and portfolio information as required, in which it is informed of any important matters relevant to the contracts and any deviations from budget. The information is analysed, validated and examined for recognisable risks. Identified risks are assessed and reported to the Supervisory Board in regular or ad-hoc risk reports.

**Risk management system with regard to the Group's accounting process** The risk management system of Fair Value REIT-AG ensures the early identification, analysis and management of risks that could lead to significant errors in internal and external reporting. The service provider ICIS, which is appointed to take care of most of the accounting procedures for the Company, is also involved in the risk management system.

Its services include fulfilling accounting obligations pursuant to the HGB as well as responsibility for payment transactions, preparing monthly VAT returns, statements of income, account and business analyses and preparing consolidated quarterly financial statements in accordance with IFRSs as well as providing property, fund and portfolio information.

The accounting procedures at ICIS as well as at Fair Value REIT-AG are monitored by an effective internal control system which ensures compliance of the financial reporting and compliance with legal provisions. Specifically, this includes the clear allocation of responsibilities and controls bearing in mind the principles of dual control and segregation of duties, appropriate data access rights for the IT system used for financial reporting and consideration of the risks identified and assessed.

For determining the market value of property as well as measuring pension obligations, the Company consults external experts or draws on expert opinions for the subsidiaries.

In view of the size of the Company, Fair Value REIT-AG has up to now not established an internal audit function. At least once a year in the course of the audit of financial statements, the auditor is to assess whether the Management Board took the steps required by Sec. 91(2) AktG to install a monitoring system capable of identifying, at an early stage, any risks jeopardising the Company's ability to continue as a going concern and whether the monitoring system implemented is capable of performing its function.

**Risk management system Other Risk identification** To identify risky developments at the earliest possible stage, Fair Value continuously monitors macroeconomic and industry-specific developments in the real estate and finance sectors as well as the processes within the Fair Value Group.

**Risk analysis** Identified risks are carefully analysed. Any potential loss is calculated and weighted according to a probability of occurrence. The potential effect on earnings for the Fair Value Group is calculated using scenario analyses.

**Risk control** A key component of risk control is the above-mentioned reporting system as a basis for defining, assessing and documenting individual risks. The assessments of individual risks are recorded in the risk inventory. The risk inventory is used as a basis for making decisions on managing risks and shows the overall risk position of the Fair Value Group.

Early warning indicators are defined for individual risks to indicate the development of a potential risk. In addition to the early warning indicators, thresholds have been defined and immediate reporting to the Management Board is triggered when they are exceeded.

**Risk management** The respective employee responsible decides together with the Management Board on the risk management measures to take.



## Individual risks

### Systemic and industry risks

The future development of rental income constitutes a risk that can also have an indirect impact on the measurement of the portfolios of Fair Value REIT-AG. Fair Value is exposed to strong competition in the commercial property sector and therefore to a risk that the Company might not be able to assert itself sufficiently.

### Business strategy risks

Business strategy risks mainly exist in the misjudgement of future market developments and aligning business activities based on this. Strategic risks also arise from unexpected changes in the market and economic conditions having negative effects on the financial performance and competitive position of the Group.

### Operating risks

**Letting and leasing** There are risks related to rent reduction, rental losses and vacancies. Moreover, rent increases based on price indexes cannot always be implemented completely, immediately or if at all. In extreme cases, decreases in rent based on price indexes can also occur. A total downward variance of rental income of 5% of the contractual amount, for example, would implicate a deterioration in FFO before non-controlling interests estimated at around €1.2 million.

**Management of property** There are risks related to unexpected costs being incurred for maintenance and repair or adapting properties to modernisation requirements.

**Measurement** The value of directly and indirectly owned properties affects the business value of Fair Value REIT-AG directly and indirectly. The measurement result as the balance of measurement gains and losses has an impact on the fixed assets, the composition of the statement of financial position, and financing conditions (see debt capital).

A general change in the capitalisation rates for property measurement of 25 basis points upward or downward, for example, with unchanged market rents, implicates a fluctuation margin of the market measurement of the entire portfolio of around 2% below to around 2% above the market values as of 31 December 2015. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €6 million.

If market rents of the portfolio moved upward or downward by 5%, with an unchanged capitalisation rate, this would have effects of around 4% below or above the market values as of 31 December 2015. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €10 million.

**Insurance** There is the risk that Fair Value does not have the required extent of insurance coverage in the event of damage claims.

**Liability** There is a warranty risk related to material and legal defects when leasing and disposing of properties and property management companies. Fair Value REIT-AG is liable up to the amount of its contribution as a limited partner in property funds and as a shareholder in a civil law partnership (BGB-Gesellschaft), up to an unlimited amount.

**Litigation** There is the risk that Fair Value REIT-AG or its subsidiaries may be involved in legal disputes with tenants, real estate buyers and sellers or shareholders or even co-partners of property funds. There are currently no legal disputes pending.

**Personnel-related risks** Fair Value is exposed to the risk of its Management Board or its employees leaving the Company as well as not being able to replace them with sufficiently qualified staff. The dependence on the centralised service provided by IC Immobilien Service GmbH could bring about comparable risks for Fair Value REIT-AG.

**IT risks** The IT networks of Fair Value REIT-AG and its service providers could irretrievably lose important data or encounter unauthorised access to data from the outside. Both could result in costs and ultimately lead to financial losses.

### **Financial risks**

**Risks from investing activities** **Selection of property** Fair Value's operations depend on the acquisition of suitable commercial property and property management companies at appropriate prices and conditions.

**Due diligence** Investments in property assets could develop negatively as a result of misjudgements, unforeseen problems or unidentified risks. Investments in interests in property-holding partnerships could develop unfavourably due to misjudgements or negative developments in the real estate market.

**Selling** The selling of property assets by Fair Value is subject to the risk of selling prices declining, the market value of the property being misjudged as well as warranty claims from the buyer.

**Risks from financing activities** Fair Value REIT-AG's operations are affected by the future procurement of equity and debt capital and thus also the general interest rate level.

**Equity** Opportunities for organic growth without external capital injections are very limited on account of the requirement of REITG law on the distribution of at least 90% of the net profit for the year pursuant to German GAAP.

**Liquidity** The liquidity of Fair Value REIT-AG differs from the liquidity ratio of the Fair Value Group. It is developed from the current income of directly owned properties and from inflows of affiliated companies and equity investments less management costs, administrative expenses and financing costs as well as amortisation, depreciation and write-downs.

There is the risk that the Company will not always have access to sufficient liquidity during the year to meet its current obligations together with paying out the legally required minimum dividends.

The existing cash and cash equivalents as of the reporting date and the planned cash flow in 2015 are sufficient for the present needs of the current operating activities as well as for the proposed dividend payouts.

**Debt capital** There is the risk that follow-up financing or loan extensions cannot be agreed for the planned amount or only under unfavourable conditions. The same applies to borrowing in connection with the refinancing of previously unencumbered property assets, with the direct acquisition of previously indirectly owned properties or with the acquisition of investments in property-holding partnerships.

There is the risk of a decline in income and the market values of the properties. This could reduce the loan-to-value ratio (LTV), the debt service coverage ratio (DSCR) or the capability to service debt. As a consequence, Fair Value REIT-AG could be faced with providing additional collateral, additional debt servicing or deposits into pledged credit accounts as further loan collateral.

A general interest rate risk also exists. In addition to the interest rate risk, there is the risk of an increase in funding costs of banks and thus bank margins. Any increase in the overall interest burden for the existing financial obligations within the Group as of 31 December 2015, for example, of one percentage point, would involve a reduction in the FFO before non-controlling interests of around €1.4 million in total.

Then again, the current low interest rate level could lead to high compensation payments to creditors, for example, in connection with the sale of properties with premature redemption of loans. This would correspondingly burden liquidity and financial performance.

## Other risks

### **Legal and tax framework**

Fair Value possibly might not be able to exert sufficient influence on non-controlling interests and, for example, not be successful in passing partner resolutions which require a qualified majority of the votes cast. The legal and tax framework could change to the disadvantage of Fair Value.

### **Risks for REIT-AG**

The prerequisite for REIT-AG for exemption from corporate income tax and trade tax is meeting the criteria of Secs. 8 to 15 of the REIT law.

### **Risks from the REIT status**

Infringements of the requirements of the REIT law in some cases implicate the immediate loss of tax exemption. In some cases of infringement penalties would be incurred, while in others there would be no immediate consequences. However, given repeat occurrences these would result in the loss of the tax exemption.

This could potentially lead to tax backpayments and considerable cash outflows. If Fair Value REIT-AG is not able to maintain its REIT stock corporation status, this could also adversely affect the competitive position of Fair Value. If it were to lose its REIT status, the partners could be entitled to claims for compensation.

## Overall statement on the risks faced by the Group

### Management's assessment of risk exposure

To assess the risk situation of the Fair Value Group, the individual budgets used as a basis for the forecast report which contain the risk provisioning, for example, for losses in rental income or vacancy losses as well as the calculated market values of the properties as the base value were recognised with a probability of occurrence ratio of 50%. Negative deviations from the base value were calculated with a probability of occurrence ratio of 30% (lower deviation) or 20% (higher deviation).

For the calculation of rental risks, the planned income from properties for each company was reduced by a further 1.5% or 3% with regard to the direct portfolio and 2.5% or by 5% with regard to the subsidiaries; only for the subsidiary BBV 10 in view of its reletting responsibilities in the Eisenhüttenstadt and Langen property was there a reduction of 5% or 10% of the planned income of all properties of the subsidiary.

To assess the measurement risks, the market values calculated by the valuers as of 31 December 2015 were taken into account with a reduction of 2.5% or 5% with regard to the direct portfolio and 5% or 10% with regard to the subsidiaries.

Countermeasures for weighted gross risks were not taken into account; they therefore also pertain to net risks. The maximum risk was calculated from the sum of digits of all the risks assessed with a maximum deviation from the base value with a probability of occurrence of 100%.

Using this approach, the maximum risks amount to around €20.3 million after deducting non-controlling interests. Of this amount, 75% (€16.3 million) constitutes non-cash measurement risks.

Weighted net risks amount to €6.1 million; of this amount, with a share of €5.7 million, 93% constitutes non-cash measurement risks. Net risks with cash effects of the Fair Value Group are thus estimated at a total of €0.4 million.

Overall for fiscal year 2015, the Management Board thus does not expect any risks to occur that could jeopardise the ability of Fair Value-AG to continue as a going concern.

### Company rating

There are no issuer credit ratings for Fair Value REIT-AG.

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# Opportunities

The Management Board is confident that it can exploit the current market environment to enhance the value-added of Fair Value's share in the overall portfolio and to further and sustainably improve the Company's financial position and performance. This is likely to be supported by the historically low interest environment which looks set to persist.

In addition, the Management Board sees a wide range of opportunities in the secondary real estate market of closed-end real estate funds for value-adding investments with a strategic focus on office and commercial property in secondary locations in Germany.

# Remuneration report

## Remuneration of the Management Board

The remuneration of the Management Board of the parent company Fair Value REIT-AG breaks down into a basic component of €220,000 p.a. plus fringe benefits (primarily contributions to a pension fund of 10% of the basic salary and the provision of a company car in the price category of up to €50,000 net for both work and private use) as well as three variable components.

The variable compensation components comprise

- a) variable remuneration pegged at 4% of the dividends distributed by the Company This variable compensation is paid out either in cash or in phantom stock in Fair Value REIT AG depending on the discount of the share price on the XETRA exchange of the Frankfurt Stock Exchange compared to the NAV as reported in the consolidated financial statements. The variable remuneration is paid in phantom stock at the amount of the percentage discount and not in cash, in this case. The phantom stock entitles the holder to a cash pay-out at the prevailing price of the shares on the XETRA exchange on the date of pay-out, which shall not however be within two years of the grant date.
- b) an additional cash bonus of 10% of the annual savings in the administrative expenses of the Company. The calculation for the first year of the contract (October 2012 to October 2013) is indexed to the administrative expenses in fiscal year 2011. In following years, the base amount is adjusted by the percentage change in NAV, whereby
- c) the maximum bonus permitted under a and b is 100% of the annual salary plus certain fringe benefits (use of a company car and contributions to the pension fund).
- d) a bonus of 0.2% of any gain in the market capitalisation of the Company. The bonus to be granted under these long-term components will be calculated after four years by comparing the market capitalisation of the Company on 1 October 2012 and 30 September 2016. If the Chairman of the Management Board leaves the Company prematurely, the bonuses will be calculated and paid out at the end of his service agreement. Until it is paid out, the bonus is capped at the amount of the basic remuneration exclusive of any fringe benefits plus the average annual remuneration pursuant to a and b).

This employment contract was rescinded by mutual agreement in light of Mr. Schaich's appointment as an additional member of the management board of DEMIRE on 1 March 2016 effective 29 February 2016. In this context, the phantom stock outstanding as of the reporting date and, as falling due upon rescission of his contract the variable remuneration of 0.2% of the gain in the market capitalisation of the Company since 1 October 2012 as per the figure reported in the statement of financial position as of 31 December 2015 were invoiced; the payment will be settled on 31 March 2016. The dividend-based remuneration component for 2015 and the pro rata temporis component for 2016 are each fully paid out in cash when due. In the event that the Annual General Meeting does not pass any resolutions on dividends in 2016 and 2017, they are settled on the basis of a notional dividend of €0.25 per participating share.

In the management board service agreement concluded between DEMIRE and Mr. Schaich, a basic remuneration component of €230,000 p.a. plus fringe benefits (primarily contributions to a pension fund of €5,200 p.a., contributions to a private health insurance of around €3,600 p.a. and the provision of a company car, including costs for leasing and fully comprehensive insurance coverage, of up to €18,000 p.a. net for both work and private use) was agreed.

In addition to the annual basic remuneration, Mr. Schaich receives a bonus of up to €125,000 per year based on conditions related to success and performance.

As a long-term remuneration component, Mr. Schaich has been granted 400,000 phantom stock options of DEMIRE, which after a vesting period of four years under the conditions of the stock option programme 2015 at DEMIRE entitles the holder to a cash pay-out less taxes on the part of DEMIRE.

Based on a corresponding resolution by the Supervisory Board, a cost allocation agreement was concluded between DEMIRE and the Company effective 1 March 2016, according to which a pro rata share of the short-term remuneration components, fringe benefits and travel expenses for Mr. Schaich incurred by DEMIRE will be borne by the Company. The share in the costs for the Company was set at 70% plus VAT, until further notice, with a view to the time he is expected to require for his Management Board activity for Fair Value.

## Remuneration of the Supervisory Board

The remuneration of the Supervisory Board breaks down into a fixed component of €5,000 per year and pro rata temporis and a performance-related component of €1 per €1,000 in paid-out dividends. The variable remuneration component is limited to a maximum amount of €25,000. The Chairman receives twice the amount of the fixed and variable components of a member of the Supervisory Board and the Deputy Chairman, one-and-a-half times the said amount. In accordance with Sec. 314(1) No. 6 HGB, the total remuneration of the Management Board and the Supervisory Board is included in the notes to the consolidated financial statements, under no. 32.



# Other disclosures pursuant to Sec. 315 (4) HGB

## Composition of the share capital, voting rights and privileges

The Company's share capital consists of 14,110,323 no-par value bearer shares (Stückaktien). As of the reporting date, the Company held 81,310 treasury shares, meaning that at that point in time there were only 14,029,013 shares outstanding. All shares have the same rights and duties attached. Each share carries one vote at the Annual General Meeting.

The shares can be independently transferred in accordance with the legal requirements applicable to no-par value bearer shares. No shares with special rights granting control authority were issued. If employees have an interest in the Company, they exercise their rights of control directly.

## Share of 10 % or more of the voting rights

Pursuant to Sec. 11 (4) REITG, no single shareholder may directly hold 10% or more of the shares or voting rights (maximum participation ratio). Should the maximum participation ratio be exceeded, the shareholder concerned must provide proper evidence of the reduction in his or her direct participation within two months of the Management Board's request. According to regulations, a continuing breach of the maximum participation ratio can result in the non-compensated transfer of the shares in excess of the maximum participation ratio or in the confiscation of these shares without compensation.

As of the reporting date, DEMIRE Deutsche Mittelstand Real Estate AG directly held a total of 77.70% of the voting rights. In accordance with regulations, DEMIRE was requested by the Management Board to reduce its direct shareholding in compliance with the legal provisions of the REITG and the articles of incorporation. On 29 February 2016, and thus within the statutory time limit, the Company received evidence proving that the shares directly held by DEMIRE had been transferred to eight of its subsidiaries (FVR Beteiligungsgesellschaft Erste mbH through to ... Achte mbH). As of 23 February 2016, the first seven companies each had 9.93% of the voting rights in Fair Value REIT-AG; FVR Beteiligungsgesellschaft Achte mbH had 8.17% of the voting rights in Fair Value REIT-AG as of 23 February 2016. Pursuant to Sec. 11 (4) REITG, it is permissible for the maximum participation ratio to be exceeded indirectly.

## Authorisation of the Management Board to acquire treasury shares and to issue new shares

**Authorised capital** The Management Board was authorised by the Annual General Meeting on 19 May 2015 to increase the share capital of the Company in the period until 18 May 2020, with the approval of the Supervisory Board, once or several times by a total of up to €14,110,323.00 by issuing up to 7,055,161 new no-par value bearer shares (ordinary shares) in exchange for cash contributions and/or contributions in kind (authorised capital 2015). The Management Board is authorised, with the approval of the Supervisory Board, to preclude the subscription rights of shareholders under certain conditions.

**Contingent capital** The Management Board was authorised by the Annual General Meeting on 27 May 2014, with the approval of the Supervisory Board, to issue once or several times until 26 May 2019 convertible bonds or warrant bonds or profit participating rights (referred to together as "bonds") with or without a limited term for a total nominal amount of up to €50,000,000.00 and to grant holders or creditors of bonds conversion or option rights (also with conversion or option duties) on no-par value bearer shares of the Company with a pro rata amount of the share capital totalling up to €9,406,882.00 in accordance with the Convertible and Warrant Bond Terms.

By resolution of the Annual General Meeting on 27 May 2014, the share capital of the Company was contingently increased by up to €9,406,882.00 by issuing up to 4,703,441 new bearer shares with a right to participate in profits from the beginning of the fiscal year in which they are issued (contingent capital 2014). The contingent capital increase was performed to serve bonds issued on the basis of the authorisation resolved by the Annual General Meeting on 27 May 2014.

**Repurchasing treasury shares** The Annual General Meeting on 27 May 2014 authorised the Company to acquire treasury shares until 26 May 2019 up to 10% of the existing share capital of the Company as of the date of the resolution. The number of shares acquired on the basis of this authorisation together with the other treasury shares held by the Company, or allocable to the company in accordance with Sec. 71a et seq. AktG [“Aktiengesetz”: German Stock Corporation Act], may not at any time exceed 10% of the share capital.

The Management Board can choose to acquire treasury shares either via the stock exchange, through a public purchase offer addressed to all shareholders, or through a public invitation for the submission of bids. The purchase price indicated or offered or the upper and lower limits of the range of purchase prices offered per share (excluding incidental acquisition costs) may not exceed or fall below the notional mean closing rate for the Company’s share (excluding incidental acquisition costs) as traded on XETRA (or a comparable successor system) at Frankfurt Stock Exchange during the ten trading days prior to acquisition via the stock exchange by more than 10%, and through a public purchase offer addressed to all shareholders or through a public invitation for the submission of bids, by more than 20%.

### Changes to the articles of incorporation

For changes to the articles of incorporation, a majority of 75% of the voting rights represented at the Annual General Meeting is required as prescribed by the provisions of the German Stock Corporation Act.

### Appointment and dismissal of Management Board members

Determination of the number as well as the appointment of the members of the Management Board and the deputies of the members of the Management Board, the conclusion of employment agreements and revocation of appointments is handled by the Supervisory Board.

### Agreements in place with the Management Board in the event of a takeover bid

There are no agreements in place with the Management Board in the event of a change of control as a result of a takeover bid. There are also no compensation agreements in place in favour of the Management Board or employees in the event of a takeover bid.

Munich, 21 March 2016

Fair Value REIT-AG



Frank Schaich

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# Consolidated balance sheet

<b>Consolidated balance sheet</b>			
in € thousand	Note no.	31/12/2015	31/12/2014
<b>Assets</b>			
<b>Non-current Assets</b>			
Intangible assets	(5)	78	78
Property, plant and equipment	(5)	26	3
Investment property	(6)	287,794	267,718
Other receivables and assets	(7)	9,016	10,110
<b>Total non-current assets</b>		<b>296,914</b>	<b>277,909</b>
<b>Current assets</b>			
Trade receivables	(9)	2,757	2,981
Income Tax receivables	(10)	22	19
Other receivables and assets	(11)	2,895	3,157
Cash and cash equivalent	(12)	16,028	14,588
<b>Total current assets</b>		<b>21,702</b>	<b>20,745</b>
Non-current asset held for sale	(8)	11,750	13,240
<b>Total assets</b>		<b>330,366</b>	<b>311,894</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital	(13)	28,221	18,814
Capital reserves		99,729	74,387
Revaluation reserve	(16)	(18)	(18)
Accumulated loss		(10,258)	(14,512)
Treasury shares		(398)	(398)
<b>Total equity attributable to the shareholders of the parent company</b>		<b>117,278</b>	<b>78,273</b>
<b>Non-current liabilities</b>			
Non-controlling interests	(14)	61,160	60,048
Financial liabilities	(15)	125,995	110,907
Derivative financial instruments	(16)	–	990
Other liabilities	(17)	1,076	635
<b>Total non-current liabilities</b>		<b>188,231</b>	<b>172,580</b>
<b>Current liabilities</b>			
Provisions	(18)	743	555
Financial liabilities	(15)	18,118	54,175
Trade payables		2,679	2,256
Other liabilities	(17)	3,317	4,055
<b>Total current liabilities</b>		<b>24,857</b>	<b>61,041</b>
<b>Total shareholders' equity and liabilities</b>		<b>330,366</b>	<b>311,894</b>

# Consolidated statement of income

<b>Consolidated statement of income</b>			
in € thousand	Note no.	2015	2014
Rental income		24,291	23,914
Service charge income		5,556	6,235
Leasehold payments		(9)	(4)
Service charge expenses	(22)	(7,920)	(8,613)
Other property operating expenses	(22)	(4,192)	(3,906)
<b>Net rental income</b>	(21)	<b>17,726</b>	<b>17,626</b>
<b>General administrative expenses</b>	(23)	<b>(5,230)</b>	<b>(2,920)</b>
Other operating income		4,246	791
Other operating expenses		(1,639)	(1,390)
<b>Total other operating income and expenses</b>	(24)	<b>2,607</b>	<b>(599)</b>
Income from the disposal of investment property and non-current assets held for sale		17,022	22,906
Expenses in connection with the disposal of investment property and non-current assets held for sale		(17,051)	(23,598)
<b>Profit/loss from the disposal of investment properties and non-current assets held for sale</b>	(25)	<b>(29)</b>	<b>(692)</b>
Measurement gains from investment property and non-current assets held for sale		9,655	1,638
Measurement losses from investment property and non-current assets held for sale		(12,447)	(9,176)
<b>Measurement result</b>	(26)	<b>(2,792)</b>	<b>(7,538)</b>
<b>Operating result</b>		<b>12,282</b>	<b>5,877</b>
Interest income		11	79
Interest expenses	(27)	(4,212)	(5,125)
Share of profit/loss attributable to non-controlling interests	(14)	(1,496)	(878)
<b>Financial result</b>		<b>(5,697)</b>	<b>(5,924)</b>
<b>Net profit/loss of the Group</b>		<b>6,585</b>	<b>(47)</b>
Earnings per share in € (basic/diluted)	(29)	0.53/0.52	(0.01)

# Consolidated statement of comprehensive income and statement of changes in consolidated equity

<b>Consolidated statement of comprehensive income</b>			
in € thousand	Note no.	2015	2014
<b>Net profit/loss of the Group</b>		<b>6,585</b>	<b>(47)</b>
Other comprehensive income			
Gains (+)/losses (–) from changes of actuarial assumptions	(7)	2	(18)
<b>Total other comprehensive income</b>		<b>2</b>	<b>(18)</b>
<b>Total Comprehensive income</b>		<b>6,587</b>	<b>(65)</b>

No amounts need to be recycled from other comprehensive income to the statement of income in later periods.

<b>Statement of changes in consolidated equity</b>								
in € thousand except for circulating shares	Note no.	Number of shares out-standing	Issued capital	Capital reserves	Revaluation reserve	Accumulated loss	Treasury shares	Total
<b>As of 1 January 2014</b>	(13)	<b>9,325,572</b>	<b>47,034</b>	<b>46,167</b>	–	<b>(12,130)</b>	<b>(398)</b>	<b>80,673</b>
Reduction of issued capital		–	(28,220)	–	–	–	–	(28,220)
Addition to the capital reserves		–	–	28,220	–	–	–	28,220
Distribution		–	–	–	–	(2,335)	–	(2,335)
Profit/loss of the Group		–	–	–	–	(47)	–	(47)
Other comprehensive income		–	–	–	(18)	–	–	(18)
<b>As of 31 December 2014</b>		<b>9,325,572</b>	<b>18,814</b>	<b>74,387</b>	<b>(18)</b>	<b>(14,512)</b>	<b>(398)</b>	<b>78,273</b>
Increase in capital		4,703,441	9,407	25,342	–	–	–	34,749
Distributions		–	–	–	–	(2,331)	–	(2,331)
Profit/loss of the Group		–	–	–	–	6,585	–	6,585
Other comprehensive income		–	–	–	2	–	–	2
<b>As of 31 December 2015</b>		<b>14,029,013</b>	<b>28,221</b>	<b>99,729</b>	<b>(16)</b>	<b>(10,258)</b>	<b>(398)</b>	<b>117,278</b>

A dividend of €0.25 per share was paid out in the reporting period for the previous year. In the previous year, a dividend of €0.25 per share was distributed.

The authorised capital 2014 was fully exhausted on 7 May 2015 for the capital increase. 4,703,441 shares with an imputed value of €2.00 per share were also placed at an issue price of €7.90. The gross issue proceeds in excess of issued capital of €37,157 thousand were added to the capital reserves (less capital procurement costs of €2,408 thousand).

# Consolidated statement of cash flows

<b>Consolidated statement of cash flows</b>			
in € thousand	Note no.	2015	2014
<b>Net profit/loss of the Group</b>		<b>6,585</b>	<b>(47)</b>
Adjustments to consolidated earnings for reconciliation to cash flow from operating activities			
Interest expenses		4,212	5,125
Interest income		(11)	(79)
Depreciation of property, plant and equipment and amortisation of intangible assets	(5)	4	38
Gains (-)/losses (+) on disposal of investment properties	(25)	(212)	692
Measurement result	(26)	2,792	7,538
Cash paid in connection with intercompany transactions		(933)	–
Non-cash income from the acquisition of non-controlling interests and BBV 08		(3,607)	–
Other non-cash relevant expenses and income		(5)	828
Shares of losses (+) / gains (-) attributable to non-controlling interests	(14)	1,496	878
Distributions to non-controlling interests	(14)	(3,284)	(4,015)
Interest paid	(27)	(4,672)	(4,786)
Interest received		11	79
Changes in assets, equity and liabilities			
(Increase)/decrease in trade receivables	(9)	465	(659)
(Increase)/decrease in other receivables	(7)	906	672
(Decrease)/increase in provisions	(18)	173	126
(Decrease)/increase in trade payables		364	106
(Decrease)/increase in other liabilities	(17)	(961)	(436)
<b>Net cash flow from operating activities</b>		<b>3,323</b>	<b>6,060</b>
Cash paid for the purchase of interests in BBV 08		(4,713)	–
Purchase of investment properties	(6)	(650)	–
Net income from the disposal of investment property	(6)	17,022	22,900
Cash paid for the acquisition of non-current assets	(7)	–	(450)
Purchase of property, plant and equipment and intangible assets		(27)	(8)
<b>Net cash flow from investing activities</b>		<b>11,632</b>	<b>22,442</b>
Severance payments to former non-controlling interests	(14)	(4,988)	(1,925)
Proceeds from borrowings	(15)	44,876	–
Repayment of borrowings	(15)	(84,831)	(26,099)
Redemption of swaps/caps		(990)	(919)
Cash received from capital increases		37,157	–
Transaction costs of the capital increase		(2,408)	–
Dividend payments	(13)	(2,331)	(2,332)
<b>Net cash flow from financing activities</b>		<b>(13,515)</b>	<b>(31,275)</b>
<b>Change in cash and cash equivalents</b>	(12)	<b>1,440</b>	<b>(2,773)</b>
Cash and cash equivalents at the beginning of the period	(12)	14,588	17,361
<b>Cash and cash equivalents at the end of the period</b>		<b>16,028</b>	<b>14,588</b>

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# Notes to the consolidated financial statements

## (1) General corporate information

The consolidated financial statements of Fair Value REIT-AG for the fiscal year ended 31 December 2015 were authorised for issue by a resolution of management on 21 March 2016. Fair Value REIT-AG is a stock corporation founded and based in Germany. The Company does not have any branch offices. Following its registration as a stock corporation on 12 July 2007, Fair Value REIT-AG (the "Company") has been listed on the stock exchange since 16 November 2007. It qualified as a real estate investment trust (REIT) on 6 December 2007. The shares of Fair Value REIT-AG are publicly traded. The registered offices of the Company are located at Leopoldstr. 244 in 80807 Munich.

As a real estate investment firm, the Company concentrates on the acquisition and management of commercial property in Germany. Its investing activities focus on office and retail property in regional locations. Fair Value REIT-AG invests directly in real estate as well as indirectly via the acquisition of investments in property-holding partnerships. Information on the group structure is presented in note 2. Information on other group relationships with related parties is presented in note 32.

## Accounting and valuation methods

### (2) Significant accounting, valuation and consolidation methods

**Basis of preparation** The consolidated financial statements prepared by Fair Value REIT-AG were prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU.

The consolidated financial statements are prepared in accordance with the historical cost convention, except for investment property and derivative financial instruments, which were measured at fair value, provided they have a balance as of the reporting date.

The consolidated financial statements have been prepared in euros. Unless otherwise specified, all amounts are stated in thousands of euro (€ thousand). It is possible that differences arise due to rounding the figures.

**Accounting policies subject to first-time adoption** In fiscal year 2015, the following standards and interpretations were subject to mandatory adoption for the first time in accordance with the provisions of the European Union:

- IFRIC 21 – Levies
- Annual Improvements to International Financial Reporting Standards (2011–2013 cycle)

IFRIC 21 Levies was issued by the IASB in May 2013 and contains rules for accounting for obligations to pay public levies which do not represent income taxes within the meaning of IAS 12 Income Taxes. The interpretation mainly clarifies how, and in particular when, provisions, contingent liabilities and contingent assets are recognised for such obligations pursuant to IAS 37. The interpretation was transposed into European law on 14 June 2014 and its adoption was mandatory at the latest for fiscal years beginning on or after 17 June 2014.

In December 2013, the amendments resulting from the Annual Improvements Project 2011–2013 were issued by the IASB. These relate to clarifications in four standards; IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property. These amendments were transposed into European law on 19 December 2014 and – contrary to the date of first-time adoption pursuant to IASB (1 July 2014) – for entities reporting in accordance with IFRSs are subject to mandatory adoption in the EU for reporting periods beginning on or after 1 January 2015, with earlier adoption permitted.

The standards and interpretations subject to mandatory adoption for the first time in fiscal year 2015 in accordance with the provisions of the European Union did not have any material effect on the Group's financial position and performance.

**Other announcements published by the IASB** The IASB issued the following new/amended standards that the Group generally deems to be relevant from a current perspective. However, as these standards are not yet subject to mandatory adoption or have not yet been endorsed by the EU, they were not adopted in the consolidated financial statements as of 31 December 2015. The new standards/amendments of existing standards are to be adopted for fiscal years beginning on or after their effective dates. Early adoption is generally not performed even if individual standards permit it:

	Mandatory from <sup>1)</sup>	Early adoption	Endorsed by EU
Annual Improvements to International Reporting Standards (2010–2012 cycle)	01/02/2015	No	Yes
Amendment to IAS 19 Employee Benefits	01/07/2015	No	Yes
IFRS 14 Regulatory Deferral Accounts	01/01/2016	No	No
Amendments to IFRS 10, 12; IAS 28 Adoption of exemption provision on consolidation	01/01/2016	No	No
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01/01/2016	No	No
Additions to IFRS 11 Acquisitions of Interests in Joint Operations	01/01/2016	No	No
Amendments to IAS 1 Disclosures	01/01/2016	No	No
Additions to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016	No	No
Additions to IAS 16 and IAS 41 Agriculture: Bearer Plants	01/01/2016	No	No
Additions to IAS 27 Equity Method in Separate Financial Statements	01/01/2016	No	No
Annual Improvements to International Reporting Standards (2012–2014 cycle)	01/01/2016	No	No
IFRS 15 Revenue from Contracts with Customers	01/01/2018	No	No
IFRS 9 Financial Instruments	01/01/2018	No	No
IFRS 16 Leases	01/01/2019	No	No

<sup>1)</sup> Date of first-time adoption in the EU

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measurement. The new IFRS 9 introduces a uniform approach for classifying and measuring financial assets. It also includes a new risk management model that also takes into account expected losses for calculating risk provisions. In addition, the new regulations on hedge accounting issued in November 2013 were incorporated in the final IFRS 9. The standard becomes effective retroactively for fiscal years beginning on or after 1 January 2018. It has yet to be adopted into European law as the EU Commission has only just begun the EU endorsement process. Early adoption is permitted subject to EU endorsement. The Group assumes that the adoption of IFRS 9 will not have any significant effects.

Furthermore, the IASB issued the accounting standard IFRS 15 Revenue from Contracts with Customers in May 2014. IFRS 15 sets out a five-step model according to which revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. In addition, IFRS 15 results in comprehensive, new disclosure requirements. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts as well as all related interpretations and is effective for fiscal years beginning on or after 1 January 2018. Early adoption is permitted subject to the EU endorsement. In fiscal year 2015, the Group carried out a preliminary assessment of IFRS 15 which may change in the course of a more detailed analysis. The Group renders various services generally from current contracts. For these current contracts, the Group has come to the conclusion that the services are rendered over a period of time as the benefit that flows from the Group's services to the customer is simultaneously consumed by it. The new standard is not expected to have any effect with regard to these contracts.

If a contract contains several performance obligations, the Company spreads the transaction price over the performance obligations of the contract. If an individual sale price cannot be observed directly, it must be estimated by the Company. Various methods are suggested in IFRS 15 that can be adopted for this estimate. Unlike previous recognition methods, this estimation method can give rise to deviations. However, the Group assumes that these deviations will not be material.

The IASB published the new standard on leases (IFRS 16 Leases) in January 2016. For most leases this standard requires lessees to recognise a right-of-use asset for the underlying asset and a corresponding lease liability. By comparison, the changes affecting lessors are only minor and pertain to the classification and accounting treatment of leases under IAS 17. IFRS 16 requires extended disclosures in the notes of lessees and of lessors and becomes effective for the first time for fiscal years beginning on or after 1 January 2019. Early adoption is permitted under the condition that IFRS 15 Revenue from Contracts with Customers has already been adopted or is adopted together with IFRS 16 at the same time. The Group aims to apply the new standard as of the date it is due to become effective. Adoption of the new standard will generally not lead to any significant changes as Fair Value REIT-AG does not have any significant lease arrangements in place as lessee. The exact extent of this impact still needs to be determined, however.

All the other new or amended standards to be adopted in the reporting year do not have any impact on the financial position and performance of the Group, as amendments frequently only serve to clarify documentation or reporting issues or do not relate to business transactions within the Group.

**Consolidation principles and basis of consolidation** The consolidated financial statements include the financial statements of Fair Value REIT-AG and its subsidiaries as of 31 December 2015. A group has control when it is exposed, or has rights, to variable returns from its involvement with the investee and can also influence these returns by exercising its power over the investee. In particular, the Group has control over an investee if, and only if, it has all of the following:

- a) Power over the investee (i. e., the Group has the possibility to control any of the investee's activities that have a material impact on returns as a result of its current rights)
- b) Exposure, or rights, to variable returns from its involvement with the investee
- c) The ability to influence the returns by exercising its power over the investee

As of 31 December 2015, the consolidated group comprised the following entities:

Share of voting rights/fixed capital in %	31/12/2015	31/12/2014
GP Value Management GmbH, Munich ("GPVM")	100.00	100.00
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich ("FV 03")	100.00	100.00
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich ("FV 06")	100.00	100.00
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich ("FV 09")	100.00	100.00
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich ("FV 10")	100.00	100.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich ("FV 14")	100.00	100.00
BBV Immobilien-Fonds Nr. 3 GmbH & Co. KG, Munich ("BBV 03")	80.05	80.05
IC Fonds & Co. Büropark Teltow KG, Munich ("IC 07")	78.16	77.99
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich ("BBV 06")	62.22	60.89
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich ("BBV 08")	58.02	–
IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG, Munich ("IC 13")	57.37	51.21
IC Fonds & Co. SchmidtBank-Passage KG, Munich ("IC 12")	53.95	50.36
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich ("BBV 14")	50.78	45.56
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich ("IC 15")	48.17	40.22
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich ("BBV 10")	44.96	41.66
BBV Immobilien-Fonds Erlangen GbR, Munich ("BBV 02")	42.02	42.02
IC Fonds & Co. Forum Neuss KG, Munich i.L. ("IC 03")	–	71.58
Hartmannstraße 1 Chemnitz GmbH & Co. KG, Chemnitz ("H1CH")	–	100.00

A greater number of shares were acquired in the reporting period from the subscribers to the respective funds or via the secondary real estate market. It was largely for these reasons as well as the termination-related withdrawal of non-controlling interests that the relative holdings of individual funds changed by the reporting date, in some cases significantly.

Moreover, effective 30 June 2015, limited partner's interests in BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG ("BBV 08") were acquired totalling 54.06% of the fixed capital and voting rights for a purchase price of €8.6 million. Over the course of the fiscal year, this interest was increased to 58.02% through additional acquisitions.

As part of the first-time consolidation of BBV 08, non-current assets of €36.2 million were acquired, primarily comprising investment property of €35.9 million. Together with current assets of €3.9 million, these assets were counterbalanced by non-current financial liabilities acquired of €18.4 million as well as additional current liabilities of €1.8 million. The fair value of the equity interest came to €10.8 million as of the date of acquisition. With a purchase price of €8.6 million, the first-time consolidation of BBV 08 thus resulted in a credit difference of €2.2 million, which was recognised as other operating income in fiscal year 2015. Non-controlling interests increased by €9.1 million as a result of the acquisition as of 30 June 2015, dropping over the course of the fiscal year due to the additional share purchases.

The total purchase price of the shares amounted to €8.6 million and was settled entirely in cash. As of the date of first-time consolidation, the company BBV 08 had cash and cash equivalents of €3.7 million.

The subsidiary BBV 08 holds, administrates and manages three properties located in Querfurt, Radevormwald and Zittau. Largely due to the limited fungibility of the shares in the company BBV 08 and the properties it holds, it was possible for the Group to acquire the shares in BBV 08 significantly below the pro rata equity value and so to recognise the credit difference of €2.2 million through profit or loss in the course of the first-time consolidation.

At part of the measurement of investment property as of year-end, the properties held by BBV 08 were written up on balance by €0.8 million in total. A write-up of €1.2 million related to the property in Radevormwald which was disclosed under non-current assets held for sale on account of the purchase agreement concluded in 2016.

Since its inclusion in the consolidated financial statements, the company BBV 08 generated revenue of €1.9 million as well as net income for the year of €2.1 million, which was also positively influenced by the measurement result of €0.8 million presented. In the period from 1 January 2015 to 30 June 2015, the company BBV 08 generated revenue of €1.7 million and a net loss of €0.5 million. This means that group revenue would have amounted to €31.5 million and net profit for the Group to €6.2 million had the merger taken place at the beginning of the current fiscal year period.

Hartmannstrasse 1 Chemnitz GmbH & Co. KG was also deconsolidated in the fiscal year as it was merged into Fair Value REIT-AG in the fiscal year.

Furthermore, the additional acquisitions of non-controlling interests in subsidiaries presented in the financial statements resulted in differences from reversed liabilities below their carrying amount of €1.3 million, which were also taken to profit or loss in fiscal year 2015.

In addition, five management partnerships (Geschäftsführungs-GmbH & Co. KG) and one general partner, structured as a limited liability company (GmbH), were consolidated. Their registered business activity is to hold, manage and sell shares in property-holding partnerships.

**Consolidation methods** Subsidiaries are consolidated from the date on which the Group obtains control over them until control is extinguished. Upon acquisition all identifiable assets, liabilities and contingent liabilities of the purchased entity are measured at their fair value on the date of acquisition. Shares held by non-controlling interests are measured at the potential obligation that would arise if they were squeezed out and reported under financial liabilities.

Intercompany receivables and liabilities and intercompany income and expenses are offset against each other. Unrealised profits from transactions between group entities are eliminated in full. The separate financial statements of consolidated entities are adjusted to comply with the Group's GAAP.

**Acquisition of assets and business combinations** Upon assuming control of a subsidiary or acquiring assets, it must be assessed whether these transactions are to be classified as a business combination pursuant to IFRS 3 or as an acquisition of a group of assets or net assets. If business activities within the meaning of an integrated set of activities are also acquired in addition to the assets and liabilities, this constitutes a business combination which must be recognised pursuant to IFRS 3. An integrated set of activities can include for example the business processes from the areas of property management, receivables management and accounting. Furthermore, the fact that personnel are employed at the acquired property companies is also an indication that business activities were acquired.

**Current versus non-current classification** The Group classifies its assets and liabilities in the statement of financial position into current and non-current items. An asset is to be classified as current if:

- The asset is expected to be realised, or intended to be sold or consumed, within the normal operating cycle or
- It is expected to be realised within 12 months of the end of the reporting period or

All other assets are classified as non-current.

A liability is classified as current if:

- The liability is expected to be settled within the normal operating cycle.
- The liability is expected to be realised within 12 months of the end of the reporting period or
- The entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All other liabilities are classified as non-current.

**Fair value measurement** The Group measures financial instruments and property at fair value at each balance sheet date. The fair values of financial instruments measured at amortised cost are listed in Exhibit 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the business transaction in the course of which the asset is sold or the liability is transferred takes place either on the:

- Principal market for the asset or the liability or
- Most advantageous market for the asset or liability if there is no principal market.

The Group must have access to the principal market or the most advantageous market.

The fair value of an asset or liability is measured based on the assumptions that market participants would make when setting the price for the asset or liability. It is assumed here that the market participants are acting in their best economic interest.

Measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate an economic benefit through the highest and best use of the asset or by selling it to another market participant that will find the highest and best use for the asset.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The use of authoritative observable input factors should be as high as possible, while the use of input factors not based on observable data should be as low as possible.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement as a whole is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

With regard to assets or liabilities that are recorded in the financial statements on a recurring basis, the Group determines whether reclassification has taken place between the levels of the hierarchy by examining the classification at the end of each reporting period.

They were measured in accordance with the International Financial Reporting Standards (IFRSs), the International Standards of Valuation of Real Estate for Investment Purposes ("International Valuation Standards") and the RICS Valuation - Professional Standards (January 2014) of the Royal Institution of Chartered Surveyors.

The properties were measured at fair value pursuant to IAS 40 in conjunction with IFRS 13.9. This was issued by the International Accounting Standards Board (IASB) and contains the following definition:

"Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The fair value, for accounting purposes pursuant to IFRSs, is taken to be the same as the market value, which is defined as follows:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

The fair value considers the incidental costs of acquisition (real estate acquisition tax, agent's commission, conveyance costs and legal expenses) and is presented as the net capital value.

The fair value of the individual properties is calculated using the internationally recognised discounted cash flow method. The discounted cash flow method is used as a basis for calculating a dynamic investment and identifies the various future cash flows expected from the investment over the course of time.

In the process, all factors affecting the value of the investment are identified and the future cash flows forecast accurately for each period and aggregated. The resulting cash inflows and outflows are then discounted to a fixed point in time (valuation date) using the discount rate. In contrast to the German capitalised earnings method (“Ertragswertverfahren”) defined in the WertV (“Wertermittlungsverordnung”: Regulation on performing valuations), the cash flows over the observation period are quantified explicitly and not presented as an annuity payment.

Due to the fact that the influence of events in the future on the valuation decreases over time on account of the discounting of future cash flows, coupled with the planning uncertainty, it is customary practice when considering an investment in real estate to calculate the net cash inflows over a ten-year period (detailed planning period) using the minimum interest rate implicit in the investment (discount rate) to discount the resulting value to the valuation date.

The assumptions used in the valuation model reflect the average assumptions made by the dominant investors on the market on the respective valuation date. These valuation inputs reflect the customary expectations of the market and roll forward the past figures identified in the analysis of the property being valued or, alternatively, several comparable properties.

When making a market valuation, the valuation inputs are assessed by the valuer to the best of his or her ability and can be split into two groups:

The specific inputs for the property include, for example, the rental income from first-time leases and renewals, the likelihood of renewals of existing leases, the duration of vacancies and vacancy costs, non-allocable service charges and the expected capital expenditure of the owner, costs of finishings and rental expenses for first-time leases and renewals or the interest on the capital employed for the property as a whole or by specific lease agreement.

Macroeconomic factors primarily include market trends and the development of rents over the detailed planning phase and the inflation rate assumed in the calculation model. In order to meet the disclosure requirements on fair value, the Group has identified groups of assets and liabilities on the basis of their nature, their characteristics and risks as well as the level they occupy in the fair value hierarchy explained above.

The management of the Group is involved in the valuation process of investment property, which is performed at least once annually, and monitors the process accordingly. To do this, it checks the plausibility of the findings provided by the independent valuer during a first inspection and compares them to the values of prior years. In addition, the management makes a critical appraisal of the results of the valuation and compares them to their own assumptions made in the course of the early identification of risk and discusses the deviations and their possible causes with the valuer accordingly. Furthermore, the development of the portfolio is regularly discussed with the Supervisory Board and the development of the investment portfolio is monitored continuously.



**Financial instruments** According to IAS 39, all financial assets and financial liabilities must be classified into categories. The accounting treatment depends on this classification. The Fair Value Group uses the following categories:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise when the Group provides them to a debtor on the basis of an agreement or service rendered.

Available-for-sale financial assets are non-derivative financial assets that are not designated to any other category.

Liabilities measured at amortised cost are all financial liabilities which are initially recognised at fair value less transaction costs. In the following periods these instruments are measured at amortised cost. Differences between the amount paid out and the repayment amount are spread over the life of the held-to-maturity investment using the effective interest rate method.

Financial liabilities measured at fair value through profit or loss consist solely of derivatives with a negative market value that are not part of a designated hedge. Since 2015, there have not been any more such derivative financial instruments within the Group.

Regular way purchases or sales of financial instruments are recognised using trade date accounting.

**Recognition of income** Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or other duties.

The Group has entered into commercial property leases on its investment property portfolio. In view of the contractual terms, such as the fact that the term does not represent substantially all of the remaining economic useful life of the commercial properties, virtually all risks and rewards associated with ownership of the rented properties remain with the Group. For this reason, the Group recognises these agreements as operating leases. Rental income arising from operating leases on investment properties is recognised on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Upon sale of a property, the revenue is recognised when the risks and rewards incidental to ownership are transferred to the buyer (title, benefits and encumbrances).

**Investment property** Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the period in which they arise. Fair values are evaluated by an accredited external, independent valuer, based on a measurement that is performed annually and applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of income in the period of derecognition.

**Intangible assets and property, plant and equipment** Intangible assets and property, plant and equipment are initially recognised at cost. Following initial recognition, they are carried at cost less any accumulated depreciation, amortisation and accumulated impairment losses.

**Non-current assets held for sale** Classification as non-current assets requires the assets to be available for immediate sale in their present condition and that their sale is highly probable. A sale is highly probable if the plan for the sale was concluded, the search for a buyer and execution of the plan was actively begun, the asset was actively offered at an appropriate price and it is sold as expected within a year from the time of classification.

Investment property is accounted for as a non-current assets held for sale if there are notarised agreements or a purchase commitment agreement signed by both parties in place by the time the consolidated financial statements are prepared, but ownership will not be transferred until the subsequent period as per the agreement. It is initially recognised at the contractually agreed sales price and subsequently at the lower of fair value less costs to sell.

**Receivables and other assets** Receivables and other assets are initially recognised at fair value and measured using the effective interest method taking into account any impairment. The Group determines whether there are any indications of impairment on each reporting date. Impairment arises when one or more loss events occur since the initial recognition of the receivable which have an impact on the expected future cash flows and these can be reliably estimated. An analysis of impairment losses is performed at each reporting date on an individual basis for major clients.

Impairment losses are recognised in the statement of income under other operating expenses. Receivables are derecognised when the Group becomes aware that they are no longer collectible or collection of the receivable does not make any economic sense, for example, when the amount is trivial.

**Derivative financial instruments** These instruments are used to hedge interest risks for floating-rate interest-bearing loans. They are measured at fair value. Fair value is the net present value of the expected future cash flows, based on the published interest rates. Where the criteria for hedge accounting laid out in IAS 39.88 are met (documentation and designation as well as regular demonstration that the hedge is effective), the changes in fair value are posted to a separate line item in other comprehensive income without affecting income. If the criteria are not met, the changes in fair value are posted through profit or loss. The Group did not apply hedge accounting in the past fiscal year.

**Non-controlling interests** Non-controlling interests comprise the share of capital held by limited partners, most of whom are natural persons, in property funds structured as limited liability partnerships (GmbH & Co. KG). The property-holding partnerships reported in the consolidated financial statements as non-controlling interests have a right to terminate their interest. For this reason, the shares held by these subsidiaries in the capital of the subsidiaries are treated as potential severance payment claims pursuant to IAS 32 and reported as liabilities in the consolidated financial statements. Initial measurement is at fair value, which corresponds to the non-controlling interest in the net assets of the corresponding company. Subsequent measurement of the obligation is at amortised cost. Shares in profit increase the obligation and shares in losses and profit distributions decrease it. The liability presented in the financial statements therefore corresponds to the imputed share held by non-controlling interests in the carrying amount of the net assets of the respective subsidiary reported in the consolidated financial statements.

Due to the fact that the equity investments of the Group are almost all partnerships, there are no non-controlling interests that need reporting under group equity.

**Provisions** Provisions are recognised when there is a legal or constructive obligation towards a third party as the result of past events and settlement of this obligation is likely to lead to an outflow of economic resources which can be reliably measured.

**Liabilities to banks** Liabilities to banks are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. For new liabilities, cost is the amount paid out less any directly allocable transaction costs. Liabilities carried by subsidiaries that are added to the Group upon first-time consolidation are measured at the respective market values of the liabilities on the date of first-time consolidation. Any difference between the historical cost and the settlement amount of the instruments is spread over the term of fixed interest by adjusting the carrying amount on a pro rata basis with the amount posted through profit or loss. If the estimates regarding cash inflows or outflows of a liability due to banks are changed, the carrying amount of the liability is adjusted such that it reflects the actual and amended estimated cash flows.

### (3) Estimates and accounting judgments

**Consolidation of entities over which the Group no longer holds control** The Group assesses control on the basis of whether it holds a majority of the voting rights in the shareholder/partnership meetings of its subsidiaries where decisions are made on the policies of the respective subsidiary. The voting rights in BBV 02, BBV 10 and IC 15 are not in themselves sufficient to assess who has control over the entity. Although the share of voting rights lies below 50%, Fair Value REIT-AG is the largest shareholder/partner in the above entities. An assessment of control was performed within the framework of determining whether the entities should be fully consolidated or not. This led to the conclusion that Fair Value REIT-AG could once again substantially exercise control over the past fiscal year by simple majority on such decisions as ratifying the financial statements, setting the amount of the profit distribution and appointing property and/or fund managers. It can be empirically demonstrated that Fair Value REIT-AG always controlled well above 50% of the votes at all of the shareholder/partnership meetings. Transactions in the course of property sales, on the other hand, require a qualified 66% or 75% majority. However, such transactions do not qualify as significant operating activities. In addition Fair Value REIT-AG receives annual distributions from its equity investments which depend on the result generated for the period.

**Remeasurement of investment property** The Group engaged an independent property valuer to determine the fair values of its investment properties as of 31 December 2015. Due to the distinctive characteristics and features of the investment properties, there were no comparative market values available to use as reference values, apart from the purchase prices paid for the properties sold in Radevormwald and Tornesch. Consequently, fair value was generally measured using the discounted cash flow model. Land and buildings were measured using market data. This involved making reference to comparable properties and specific market factors, such as the nature of the property, its location and condition. The changes in fair value were posted to the measurement result in the consolidated statement of income.

#### (4) Fair value measurement

<b>Fair values of assets and liabilities 2015</b>					
in € thousand	Measurement date	Total	Quoted prices in active markets (level 1)	Significant observable input (level 2)	Significant not observable input (level 3)
Investment Property	31/12/2015	287,794	–	–	287,794
Non-current assets held for sale					
Commercial property in Germany	31/12/2015	11,750	–	–	11,750

<b>Fair values of assets and liabilities 2014</b>					
in € thousand	Measurement date	Total	Quoted prices in active markets (level 1)	Significant observable input (level 2)	Significant not observable Input (level 3)
Investment Property	31/12/2014	267,718	–	–	267,718
Non-current assets held for sale					
Commercial property in Germany	31/12/2014	13,240	–	–	13,240
Derivate financial assets					
Cap premium	31/12/2014	60	–	60	–
Derivate financial liabilities					
Swap	31/12/2014	850	–	850	–
Market valuation Cap	31/12/2014	140	–	140	–

## Notes to the consolidated balance sheet

### (5) Intangible assets and property, plant and equipment

#### Development of intangible assets and property, plant and equipment

in € thousand	Intangible assets	Assets under construction	Property, plant and equipment (office and operating equipment)
<b>Acquisition costs</b>			
<b>As of 1 January 2014</b>	<b>203</b>	<b>92</b>	<b>12</b>
Additions	8	–	–
Disposals	–	(92)	–
<b>As of 31 December 2014</b>	<b>211</b>	<b>–</b>	<b>12</b>
Additions	1	–	26
Disposals	–	–	–
<b>As of 31 December 2015</b>	<b>212</b>	<b>–</b>	<b>38</b>

#### Accumulated depreciation, amortization and impairment loss

<b>As of 1 January 2014</b>	<b>(97)</b>	<b>–</b>	<b>(7)</b>
Additions	(36)	–	(2)
Disposals	–	–	–
<b>As of 31 December 2014</b>	<b>(133)</b>	<b>–</b>	<b>(9)</b>
Additions	(1)	–	(3)
<b>As of 31 December 2015</b>	<b>(134)</b>	<b>–</b>	<b>(12)</b>

#### Carrying amounts

As of 1 January 2014	106	92	5
As of 31 December 2014	78	–	3
<b>As of 31 December 2015</b>	<b>78</b>	<b>–</b>	<b>26</b>

**(6) Investment properties****Development of investment property**

in € thousand	Direct investments	Subsidiaries	Total
<b>Acquisition costs</b>			
<b>As of 1 January 2014</b>	<b>42,338</b>	<b>342,034</b>	<b>384,372</b>
Disposals – sale	(490)	(15,745)	(16,235)
Reclassification to non-current assets held for sale	(3,786)	(611)	(4,397)
<b>As of 31 December 2014</b>	<b>38,062</b>	<b>325,678</b>	<b>363,740</b>
Changes of scope in consolidation	–	36,155	36,155
Additions (subsequent acquisition costs)	1,100	–	1,100
Reclassifications	29,800	(75,919)	(46,119)
Disposals – sale	(3,967)	–	(3,967)
Reclassification to non-current assets held for sale	(721)	(9,875)	(10,596)
<b>As of 31 December 2015</b>	<b>64,274</b>	<b>276,039</b>	<b>340,313</b>
<b>Changes in value</b>			
<b>As of 1 January 2014</b>	<b>(5,059)</b>	<b>(87,016)</b>	<b>(92,075)</b>
Write-ups	–	1,638	1,638
Write-downs	(755)	(8,421)	(9,176)
Disposals – sale	66	540	606
Reclassification to non-current assets held for sale	746	2,239	2,985
<b>As of 31 December 2014</b>	<b>(5,002)</b>	<b>(91,020)</b>	<b>(96,022)</b>
Write-ups	1,230	7,048	8,278
Write-downs	(490)	(9,647)	(10,137)
Reclassifications	2,310	43,809	46,119
Disposals – sale	397	–	397
Reclassification to non-current assets held for sale	71	(1,225)	(1,154)
<b>As of 31 December 2015</b>	<b>(1,484)</b>	<b>(51,035)</b>	<b>(52,519)</b>
<b>Fair values</b>			
As of 1 January 2014	37,279	255,018	292,297
As of 31 December 2014	33,060	234,658	267,718
<b>As of 31 December 2015</b>	<b>62,790</b>	<b>225,004</b>	<b>287,794</b>

As of 31 December 2015, investment property consisted of a total of 38 properties, of which 34 are wholly owned, three are partially owned and one is a leasehold property. Compared to 31 December 2014, the number of properties has fallen on balance by two. In the reporting period, four investment properties were sold from the portfolio held directly by Fair Value REIT-AG. Fair Value REIT-AG also acquired direct ownership of five properties from subsidiaries in fiscal year 2015. For two properties, title, risks and rewards of ownership were not transferred before the end of 2015. Consequently, they were reclassified to non-current assets held for sale.

The property portfolio is primarily encumbered by mortgage rights to secure bank loans. There are no significant restrictions on the sale of property and no contractual obligations to improve the properties. Purchase obligations arising from maintenance contracts amount to €1,300 thousand (2014: €1,300 thousand).

There is a financial obligation of €4 thousand p. a. from a contract for hereditary building rights (remaining term 24 years). The contract contains an index clause.

The fair value of the properties, apart from those in Radevormwald and Tornesch, was measured on a property-by-property basis by CBRE GmbH, using the DCF method. The cash flows were projected in detail for a ten-year period. For the ensuing terminal phase, the net rental income was assessed on the basis of the capital value of the property using the specific capitalisation rates for the property concerned and the estimated cost of sale after ten years. The surplus cash flows over the ten-year period and the resulting capital value at the end of the ten-year period were discounted to the valuation date and reduced by the estimated transaction costs for a potential buyer. The land reference value was used for the land in Chemnitz. The contractually agreed sales price was used for the properties in Radevormwald and Tornesch.

The projected rental income is based on the rental payments contractually agreed with the tenants plus the local rents for any space not rented on the valuation date. The contractually agreed monthly rents per m<sup>2</sup> on the valuation date for the various types of use and compared to the prior year were as follows:

<b>Rental contracts</b>			
in €		31/12/2015	31/12/2014
Office	Min	2.50	1.00
	Max	25.80	35.57
	<b>Average</b>	<b>6.10</b>	<b>6.75</b>
Retail	Min	2.50	2.39
	Max	90.00	117.50
	<b>Average</b>	<b>7.97</b>	<b>9.57</b>
Others	Min	2.00	0.69
	Max	11.60	8.40
	<b>Average</b>	<b>5.46</b>	<b>4.08</b>
<b>Total</b>	Min	<b>2.00</b>	<b>0.69</b>
	Max	<b>90.00</b>	<b>117.50</b>
	<b>Average</b>	<b>6.92</b>	<b>7.31</b>

Compared to the previous year, the following ranges were applied to the capitalisation and discount rates for the various types of use:

<b>Bandwidths for capitalisation and discounting rates</b>				
	Capitalisation rates in %		Discount rates in %	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Source: Property appraisal CBRE 2015, 2014				
Office	6.1–7.8	6.0–7.8	6.6–8.5	6.5–8.3
<b>Weighted average</b>	<b>6.61</b>	<b>6.70</b>	<b>7.15</b>	<b>7.22</b>
Retail	5.7–8.0	5.9–9.6	6.2–8.75	6.25–10.1
<b>Weighted average</b>	<b>6.59</b>	<b>7.02</b>	<b>7.15</b>	<b>7.45</b>
Other	7.3–7.9	7.5–8.1	7.8–8.4	8.0–8.6
<b>Weighted average</b>	<b>7.55</b>	<b>7.73</b>	<b>7.60</b>	<b>8.03</b>

The resulting changes in value (remeasurement gains and losses) result largely from the adjustments to the capitalisation rates and discount rates and the shrinking benefit of some existing lease agreements which were entered into at rents above the current market rates (over-rents).

A general change in the capitalisation rates for property measurement of 25 basis points upward or downward, for example, with unchanged market rents, implicates a fluctuation margin of the market measurement of the entire portfolio of around 2% below to around 2% above the market values as of 31 December 2015. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €6 million.

If market rents of the portfolio moved upward or downward by 5%, with an unchanged capitalisation rate, this would have effects of around 4% below or above the market values as of 31 December 2015. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €10 million.

Of the 27 properties whose value either remained stable or rose, four properties displayed no change in value. Eight of the remaining 23 properties whose market value rose were directly held. Due to the annual automatic adjustment of rents to the consumer price index (CPI) performed at the end of 2015, the rents of directly held property increased by roughly 0.75%.

The minimum non-cancellable rental income from the properties breaks down as follows:

<b>Rental income in future</b>		
in € thousand	31/12/2015	31/12/2014
less than one year	22,583	20,844
Between one to five years	57,097	52,088
After more than five years	32,747	38,114
<b>Total of future rental income</b>	<b>112,427</b>	<b>111,046</b>

This does not include any expected hikes in rents due to the agreed index-related adjustments.

## **(7) Other assets (non-current)**

in € thousand	31/12/2015	31/12/2014
<b>Financial assets</b>		
Receivable settlement credit BBV09	9,018	9,652
<b>Non-financial assets</b>		
Down payment on purchase price for property Hartmannstraße 1 Chemnitz	–	450
Other	(2)	8
<b>Total other assets</b>	<b>9,016</b>	<b>10,110</b>

The settlement balance for the terminated shares in BBV 09 was set at €10.02 million by the appointed arbitrator on 30 November 2015. A specific allowance of €0.7 million was recognised through profit or loss for this asset.



The settlement balance is due on 31 May 2016. However, according to the business plan of BBV 09, it will be paid out in three annual instalments of 10%, 10% and 80%, or at least in instalments of 1%, 1% and 98%, plus a late payment penalty of 4% p.a. from the due date. The amount falls due six months after being agreed. This results in a non-current portion of €9,018 thousand and a current portion of €1,002 thousand (see note 11).

The Company has issued a letter of subordination in favour of the bank financing BBV 09. BBV 09 has waived its right to make distributions to the shareholders until the claims of the departing shareholders are fulfilled.

By contract dated 10 July 2008, a pension commitment carried by IC Fonds GmbH in favour of Mr. Frank Schaich was taken over by Fair Value. This results in a defined benefit obligation for the Company pursuant to IAS 19. Pension insurance has been taken out to cover the commitment. This is pledged to the beneficiary and is therefore offset against the defined benefit obligation (DBO) as plan assets. Actuarial gains or losses are posted directly to other comprehensive income.

The pension obligations and plan assets developed as follows:

in € thousand	2015	2014
<b>Present value of the obligation</b>		
<b>As of the beginning of the year</b>	<b>124</b>	<b>93</b>
Current service cost	5	4
Interest expense	3	3
Actuarial losses/(gains)	(2)	18
Transfer	1	6
<b>As of the end of the year</b>	<b>131</b>	<b>124</b>
<b>Fair value of plan assets</b>		
<b>As of the beginning of the year</b>	<b>117</b>	<b>103</b>
Employer contributions	5	5
Expected income from plan assets	5	3
Transfer	(1)	6
<b>As of the end of the year</b>	<b>126</b>	<b>117</b>
<b>Shortfall (-) / surplus (+) of pension plan</b>	<b>(5)</b>	<b>(7)</b>

It is expected that the employer will contribute €5 thousand to the pension plan for 2015.

The pension expense recorded in the statement of income breaks down as follows:

in € thousand	2015	2014
<b>Current service cost</b>		
recognised under administrative expenses	5	4
<b>Actuarial losses</b>		
recognised under administrative expenses	–	–
Interest expenses	2	3
Expected expenses for plan assets	(2)	4
recognised under financial result	–	7
<b>Total pension expenses</b>	<b>5</b>	<b>11</b>

The actual income from the plan assets is identical to the expected income.

The following actuarial assumptions were made:

in %	2015	2014
Discount rate	2.0	2.0
Expected return on plan assets	2.0	2.0

The Group paid contributions of €12 thousand (2014: €12 thousand) to the statutory pension insurance scheme in the reporting year. Other contributions to defined contribution plans within the Group came to €17 thousand (2014: €17 thousand).

## (8) Non-current assets held for sale

in € thousand	31/12/2015	31/12/2014
Radevormwald property („BBV 08“)	11,100	–
Tornesch property („Fair Value“)	650	–
Logistics and office property Cologne, Köhlstr. 8 („BBV 06“)	–	8,350
Health centre Pinneberg, Damm 49 („Fair Value“)	–	3,250
Retail property Ahaus, Zum Rotering 5–7 („BBV 10“)	–	1,640
<b>Total non-current assets held for sale</b>	<b>11,750</b>	<b>13,240</b>

The Radevormwald property (BBV 08) was sold by purchase agreement dated 4 March 2016 for a purchase price of €11,100 thousand. The risks and rewards are planned to be transferred to the acquirer of this property on 1 April 2016.

By purchase agreement dated 29 January 2016, the property in Tornesch, Willy-Meyer-Str. 3-5, was sold to a local entrepreneur. The purchase price of €650 thousand is 10% above the market value as of 31 December 2015 of €590 thousand according to the valuation report. Title, risks and rewards were transferred following full payment of the purchase price on 17 March 2016.

The non-current assets held for sale in the previous year, comprising a logistics and office property in Cologne (BBV 06), a health centre in Pinneberg (Fair Value) and a retail property in Ahaus (BBV 10), were all transferred to the purchasers in the first quarter of 2015 once the purchase price had been paid.

## (9) Trade receivables

in € thousand	31/12/2015	31/12/2014
<b>Rent receivables including settlement of incidental costs</b>		
Not due yet	1,224	660
Overdue and not value adjusted		
Due since up to 30 days	20	1,252
Due since up to 30 to 90 days	100	178
Due since up to 30 to 360 days	257	696
Due since more than 360 days	1,156	195
Value-adjusted receivables	509	548
<b>Total rent receivables</b>	<b>3,266</b>	<b>3,529</b>
Value allowances	(509)	(548)
<b>Total trade receivables</b>	<b>2,757</b>	<b>2,981</b>

Receivables from tenants mainly consist of outstanding rent for the past year, the allocation of service charges less prepayments made as well as the allocation of maintenance costs. The ten largest tenants within the Group in terms of amount of receivables are responsible for an outstanding debt totalling €1,834 thousand. Of this amount, €806 thousand relates to receivables from the settlement of service charges due from Metro Tochter real SB – Warenhaus GmbH.

All trade receivables are due in the short-term.

The specific valuation allowances recorded on trade receivables relate to past due items. These developed as follows:

in € thousand	2015	2014
<b>As of the beginning of the year</b>	<b>548</b>	<b>513</b>
Additions	268	193
Utilised	(236)	(78)
Reversal	(71)	(80)
<b>As of the end of the year</b>	<b>509</b>	<b>548</b>

### (10) Income tax receivables

This item consists of withholding tax on interest income that will be reimbursed.

### (11) Other receivables and assets

in € thousand	31/12/2015	31/12/2014
<b>Financial assets</b>		
Receivable settlement credit BBV09	1,002	1,073
Purchase price receivable for commercial property Erlangen, Henkestr. 5 (BBV02)	1,355	1,355
Reversal of down payment on purchase price for property Chemnitz, Hartmannstr. 1 (IC12)	–	500
Settlement balance of holders of non-controlling interests	18	84
Other	451	25
Collateral provided	3	3
<b>Total financial assets</b>	<b>2,829</b>	<b>3,040</b>
<b>Non-financial assets</b>		
VAT	44	45
Other	22	72
<b>Total non-financial assets</b>	<b>66</b>	<b>117</b>
<b>Total assets</b>	<b>2,895</b>	<b>3,157</b>

For information about the receivable for the settlement balance for BBV09, we refer to note 7.

### (12) Cash and cash equivalents

At subsidiary BBV 10, current account balances of €2,140 thousand (2014: €1,000 thousand) are pledged to the financing bank.

All other cash and cash equivalents consist of bank balances and time deposits of not more than three months.

### (13) Equity

**Issued capital** Issued capital consists of 14,110,323 bearer no-par shares. All shares are issued and fully paid up. As of the reporting date 31 December 2015, there were 14,029,013 shares outstanding (2014: 9,325,572 shares).

According to Art. 5 (1) of the articles of incorporation dated 19 May 2015 the share capital of Fair Value amounts to €28,220,646.00 thousand. The share in issued capital amounts to €2.00 per share. The shareholders are entitled to any dividends passed by resolution and to one vote per share at the Annual General Meeting.

In the course of a cash capital increase with shareholder subscription rights, a total of 4,703,441 new bearer shares were issued in May 2015. At a subscription price of €7.90, the Group received a gross amount of around €37 million, increasing the issued capital by €9.4 million.

**Authorised capital** After the authorised capital 2014 had been used in full on 8 May 2015, the Annual General Meeting on 19 May 2015 resolved to create a new authorised capital of up to €14,110,323.00. Moreover, the Management Board was authorised to issue convertible bonds and/or options or profit participating rights with or without conversion rights or subscription rights.

**Contingent capital** The Annual General Meeting dated 27 May 2014 authorised the Management Board to increase the share capital by €9,406,882.00 any time before 26 May 2019 by issuing up to 4,703,441 new bearer shares with a right to participate in profits from the beginning of the year in which they are issued.

**Capital reserve** The capital reserve contains additional paid-in capital from capital increases performed, less the costs of procuring capital. In addition, the shareholder assets of €28,220 thousand freed up in 2014 was also added to the capital reserve.

The costs of the capital increase of €2.3 million were offset against the cash flow from the capital increase. The capital increase increased the capital reserve by a total of €25.3 million in 2015.

Since 19 January 2015, Fair Value REIT-AG has been represented on the stock exchange with a convertible bond. Issuing the convertible bond added €0.09 million to the capital reserve. For the repayment of the bond, we refer to the comments under subsequent events.

**Accumulated loss** The accumulated loss reports the cumulative results generated by the Group (resulting in a net loss).

**Treasury shares** The Management Board was authorised by resolution of the Annual General Meeting dated 27 May 2014 to purchase treasury shares of up to 10% of the share capital at any time prior to 26 May 2019. The treasury shares are intended to be used by management to purchase other companies and equity investments, particularly shares in property funds, as well as property, rapidly, flexibly and at favourable conditions. The treasury shares of €398 thousand have not changed on the previous year.

**(14) Non-controlling interests****Development of minority interests**

in € thousand	IC 03	IC 07	IC 13	BBV 03
<b>As of 1 January 2014</b>	<b>707</b>	<b>1,567</b>	<b>1,372</b>	<b>3,373</b>
Share of profit/loss – expense (-) / income (+)	–	219	345	73
Payments	(671)	–	–	(1,309)
Reclassification (severance payments)	–	(20)	(25)	(1,208)
<b>As of 31 December 2014</b>	<b>36</b>	<b>1,766</b>	<b>1,692</b>	<b>929</b>
Share of profit/loss – expense (-) / income (+)	–	180	(507)	(109)
Additions	–	–	–	–
Payments	–	–	(1,043)	(806)
Reclassifications (severance payments)	(36)	(7)	(114)	–
<b>As of 31 December 2015</b>	<b>–</b>	<b>1,939</b>	<b>28</b>	<b>14</b>

Non-controlling interests in subsidiaries are calculated at their share in the equity of the individual subsidiaries as of 31 December 2015 and constitutes either a profit (–) or a loss (+) attributable to the non-controlling interest.

BBV 06	BBV 08	IC 12	IC 15	BBV 02	BBV 10	BBV 14	Total	
6,477	–	3,193	10,661	192	17,476	20,624	65,642	
53	–	69	257	(17)	(1,975)	1,854	878	
(776)	–	–	(330)	–	–	(929)	(4,015)	
(267)	–	(103)	(165)	–	(530)	(139)	(2,457)	
	5,487	–	3,159	10,423	175	14,971	21,410	60,048
339	897	275	368	(16)	(1,604)	1,709	1,532	
–	8,451	–	–	–	–	–	8,451	
(244)	–	(95)	(251)	–	–	(846)	(3,285)	
(223)	(153)	(233)	(1,399)	(1)	(1,053)	(2,367)	(5,586)	
	5,359	9,195	3,106	9,141	158	12,314	19,906	61,160

**(15) Financial liabilities**

<b>Structure of the financial liabilities</b>		
in € thousand	31/12/2015	31/12/2014
<b>Non-current liabilities</b>		
Floating-rate liabilities to banks	55,924	89,408
Fixed interest liabilities to banks	70,071	21,499
<b>Total non-current liabilities</b>	<b>125,995</b>	<b>110,907</b>
<b>Current liabilities</b>		
Floating-rate liabilities to banks	3,586	27,988
Fixed interest liabilities to banks	6,231	26,187
Convertible bond	8,301	–
<b>Total current liabilities</b>	<b>18,118</b>	<b>54,175</b>
<b>Total financial liabilities</b>	<b>144,113</b>	<b>165,082</b>

Floating-rate interest bank loans are charged interest at a rate based on the EURIBOR plus a margin. The interest rates on the floating-rate interest bank loans carried as of 31 December 2015 averaged 2.05%. In the previous year they averaged 2.23% p.a., including the floating-rate interest loans that were not effectively hedged. The average interest rate on fixed interest bank loans came to 2.51% as of 31 December 2015, 3.74% p.a. in the previous year.

Financial liabilities of €144,133 thousand (2014: €165,082 thousand) were fully secured by mortgages apart from the convertible bond of €8,301 thousand (2014: €7,000 thousand). In addition, rent receivables have been assigned as collateral by all entities.

<b>Rights secured by land charges</b>		
in € thousand	Property liens / other collateral	
		31/12/2015 31/12/2014
IC 07	Land charge Lease/Rental income	– 21,731
IC 12	Land charge Lease/Rental income	2,500 2,500
IC 13	Land charge Lease/Rental income/Comfort letter	– 33,719
IC 15	Land charge Lease/Rental income	8,100 37,754
BBV 02	Land charge Lease/Rental income	6,243 6,243
BBV 06	Land charge Lease/Rental income	– 36,773
BBV 86	Land charge Lease/Rental income	23,008 –
BBV 10	Land charge Lease/Rental income	132,324 132,324
BBV 14	Land charge Lease/Rental income/guarantee	38,649 38,649
Fair Value	Land charge Pledging of fund shares/Lease/Rental income	38,281 35,540

Current liabilities to banks include the current portions of non-current loans.



The terms of non-current liabilities to banks are as follows:

<b>Remaining terms of non-current liabilities</b>		
in € thousand	31/12/2015	31/12/2014
Between 1 and 2 years	6,889	39,144
Between 2 and 5 years	60,952	59,916
More than 5 years	58,154	11,847
<b>Total non-current liabilities</b>	<b>125,995</b>	<b>110,907</b>

Unscheduled repayments of liabilities to banks in fiscal year 2015 came to a total of €11,144 thousand (2014: €19,236 thousand). These mainly relate to Fair Value REIT-AG.

Since December 2009, a loan-to-value test has been performed every two years on the remaining loan from Westdeutsche ImmobilienBank AG. According to this, the value of the loan may not exceed 75% of the market value of the pledged property. Furthermore, the debt service coverage ratio must not fall below 120% in future. If the ratio falls below this threshold, a time deposit must be created to cover the difference and pledged to the bank or, alternatively, a portion of the loan must be repaid to restore the correct ratio. The covenants for the loan were complied with on 31 December 2015.

There are no other agreements regarding compliance with covenants.

Based on the resolution of the Management Board on 14 January 2015, a convertible bond was issued with a total nominal amount of €8.46 million, a term of five years and an interest rate of 4.5%. The bond was listed on the Quotation Board on 19 January 2015. The convertible bond was repaid in 2016. We refer to the comments under subsequent events in these notes to the consolidated financial statements.

## (16) Derivative financial instruments

There were no more derivative financial instruments as of the reporting date 31 December 2015.

<b>Market development of derivative financial instruments</b>					
in € thousand	with a hedge relationship		without a hedge relationship		Total
	Direct-investments	Subsidiaries	Direct-investments	Subsidiaries	
<b>As of 1 January 2014</b>	–	–	<b>1,778</b>	<b>311</b>	<b>2,089</b>
Addition (+) / reversal (-) recognised through profit and loss	–	–	(928)	(171)	(1,099)
Addition at the expense of reversal to other comprehensive income	–	–	–	–	–
<b>As of 31 December 2014</b>	–	–	<b>850</b>	<b>140</b>	<b>990</b>
Addition (+) / reversal (-) recognised through profit and loss	–	–	–	(140)	(140)
Reversal recognised through profit and loss	–	–	(850)	–	(850)
<b>As of 31 December 2015</b>	–	–	–	–	–

**(17) Other liabilities**

in € thousand	31/12/2015	31/12/2014
<b>Non-current</b>		
<b>Financial liabilities</b>		
Former non-controlling interests	1,071	628
Shortfall in pension plan	5	7
<b>Total non-current liabilities</b>	<b>1,076</b>	<b>635</b>
<b>Current</b>		
Former non-controlling interests	1,038	830
Liabilities to non-controlling interests from acquisition of shares	1	1,054
Interest liabilities	355	483
Security deposits received	375	433
Liabilities from the settlement of service charges	396	410
Tax liabilities (VAT)	547	288
Debtors with credit balances	238	208
Liabilities to companies within the IC Group	–	62
Deferred income	69	61
Remuneration of the Supervisory Board	35	32
Other	263	194
<b>Total current liabilities</b>	<b>3,317</b>	<b>4,055</b>
<b>Total other liabilities</b>	<b>4,393</b>	<b>4,690</b>

Liabilities to former non-controlling interests in subsidiaries consist of the obligation to pay out the non-controlling interest in capital on account of the respective partner retiring from the partnership. In some cases, the entity is entitled to pay out the settlement balance in three/five annual instalments. The amount in arrears bears interest of 4% p.a.; in one case at the respective EURIBOR (12 months). It is assumed that the settlement balance of BBV 10 will be paid out in instalments. Non-current liabilities to former non-controlling interests amounted to €1,071 thousand in the past fiscal year (2014: €628 thousand).

**(18) Provisions**

<b>Development of provisions</b>			
in € thousand	Personnel	Audit/ consulting costs	Total
<b>As of 1 January 2015</b>	<b>302</b>	<b>253</b>	<b>555</b>
Additions	255	286	541
Utilised	99	218	317
Reversal	35	1	36
<b>As of 31 December 2015</b>	<b>423</b>	<b>320</b>	<b>743</b>

### (19) Contingent liabilities and pending litigation

The Group is liable in the case of three subsidiaries (BBV 08, BBV 10 and BBV 14) if the limited partners' liability of €2,044 thousand (2014: €0), €1,879 thousand (2014: €1,679 thousand) and €1,825 thousand (2014: €1,687), respectively, revives pursuant to Sec. 172 (4) HGB.

### (20) Leases

There are no finance leases. All rent agreements which the Group has entered into with tenants qualify as operating leases pursuant to IAS 17. The minimum future rental income is presented in note 6.

The offices in Munich and a company car were leased during the reporting period. The lease expense for the company car amounted to €9 thousand (2014: €9 thousand). The minimum lease payments for the non-cancellable period amount to:

<b>Minimum leasing payments</b>		
in € thousand	31/12/2015	31/12/2014
less than 1 year	12	18
between 1 to 5 years	11	11
<b>Total minimum lease payments</b>	<b>23</b>	<b>29</b>

## Notes to the consolidated income statement

### (21) Net rental income

Classification of net rental result	2015			2014		
	Investment property	Non-current assets held for sale	Total	Investment property	Non-current assets held for sale	Total
in € thousand						
Rental income	23,167	1,124	24,291	22,860	1,054	23,914
Service charge income	5,510	46	5,556	5,881	354	6,235
Leasehold payments	(9)	–	(9)	(4)	–	(4)
Property related operating expenses						
Investment property with which rental income was generated	(12,070)	(42)	(12,112)	(11,431)	(1,088)	(12,519)
<b>Total net rental income</b>	<b>16,598</b>	<b>1,128</b>	<b>17,726</b>	<b>17,306</b>	<b>320</b>	<b>17,626</b>

### (22) Property-related operating expenses

in € thousand	2015	2014
Energy costs and water consumption	2,750	3,231
Property tax	865	806
Property management fees	705	779
Servicing and operating technical systems	493	566
Garden maintenance/Cleaning	532	493
Non-deductible VAT	379	379
Security	347	348
Caretaker costs	333	339
Building cleaning	318	303
Insurance	256	149
Street cleaning/rubbish removal	230	183
Management contract costs	206	303
Advertising and promotional costs	180	39
Other property costs	158	148
Maintenance cost payments for partially-owned properties	126	156
Other operating expenses	36	110
Expenses from the settlement of service charges	–	87
Other	6	194
<b>Service charge expenses</b>	<b>7,920</b>	<b>8,613</b>
Repair and maintenance costs	2,940	2,880
Technical building maintenance	744	456
Letting costs	508	570
<b>Other property-related expenses</b>	<b>4,192</b>	<b>3,906</b>
<b>Total property-related operating expenses</b>	<b>12,112</b>	<b>12,519</b>

**(23) General administrative expenses**

in € thousand	2015	2014
Legal and consulting costs	1,880	181
Personnel expenses	740	643
Fund management fees	846	613
Trustee fees	282	256
Non-deductible VAT	445	205
Stock market listing, general meeting and events	334	252
Remuneration (Supervisory Board, Advisory Board and general partner remuneration)	102	92
Accounting	143	143
Appraisals	124	113
Audit fees	215	205
Office expenses	76	55
Travel and vehicle expenses	43	32
Amortisation, depreciation and impairment	–	36
Other	–	94
<b>Total general administrative expenses</b>	<b>5,230</b>	<b>2,920</b>

Legal and consulting fees amounted to €1,880 thousand in fiscal year 2015. These were largely attributable to costs of €983 thousand plus pro rata non-deductible VAT incurred in connection with DEMIRE Deutsche Mittelstand Real Estate AG's takeover bid.

**(24) Total other operating income and expenses**

in € thousand	2015	2014
<b>Income</b>		
Income from the bargain purchase of BBV 08	2,310	–
Income from the redemption of liabilities from non-controlling interests	1,298	273
Cost refunds	179	293
Other	460	225
<b>Total income</b>	<b>4,246</b>	<b>791</b>
<b>Expenses</b>		
Allocation of specific valuation allowances on trade receivables	(268)	(193)
Allocation of specific valuation allowances on other receivables	(700)	(903)
Repayment claims from settlement of service charges 2009 to 2012	–	(300)
Reversal/utilization of specific valuation allowances on trade receivables	71	80
Other write-offs of receivables	(621)	(58)
Other	(121)	(16)
<b>Total expenses</b>	<b>(1,639)</b>	<b>(1,390)</b>
<b>Total other operating income (+) and expenses (-)</b>	<b>2,607</b>	<b>(599)</b>

In fiscal year 2015, income from the credit difference of €2,310 thousand was generated from the acquisition of BBV 08. Furthermore, it was possible to redeem shares of non-controlling interests accounted for as liabilities at amounts below the carrying amount (€1,298 thousand).

#### (25) Net result from the disposal of investment property and non-current assets held for sale

in € thousand	2015	2014
<b>Net income from the disposal of investment property and non-current assets held for sale (purchase price)</b>	<b>17,022</b>	<b>22,906</b>
Expenses in connection with the disposal of investment property and non-current assets held for sale	(231)	(611)
Carrying amounts	(16,820)	(22,987)
<b>Total expenses in connection with the disposal of investment property and non-current assets held for sale</b>	<b>(17,051)</b>	<b>(23,598)</b>
<b>Profit/loss from the disposal of investment property and non-current assets held for sale</b>	<b>(29)</b>	<b>(692)</b>

These items consist of five properties directly held by the company and two properties held by subsidiaries for which both title and the risks and rewards incidental to ownership were transferred in 2015.

#### (26) Measurement result

in € thousand	2015	2014
Measurement gains	9,655	1,638
Measurement losses	(12,447)	(9,176)
<b>Total measurement gains/losses</b>	<b>(2,792)</b>	<b>(7,538)</b>

The measurement losses in the reporting period arise from fair value measurement on the reporting date. This concerns five properties directly held by the Company and seven properties held by its investments. There were measurement gains for eight of the properties directly held by the Company and for 15 properties held by its investments.

#### (27) Interest expenses

in € thousand	2015	2014
Loans and swaps interest	4,201	4,919
Compensation payment for swap	–	919
Changes in value for derivative financial instruments (if recognised through profit or loss)	–	(1,099)
Other	–	386
<b>Total interest expenses</b>	<b>4,201</b>	<b>5,125</b>

**(28) Additional notes on the consolidated statement of income****Personnel expenses**

in € thousand	2015	2014
Salaries	706	594
Social security contribution	34	49
<b>Total personnel expenses</b>	<b>740</b>	<b>643</b>
thereof expenses for pension obligations	15	17

Including the Management Board, the Company had three employees as an annual average (2014: 3). As of 31 December 2015, the number of employees came to four, including the Management Board.

**Fees and services provided by the group auditors** In 2015 the Group's auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, charged the following fees:

in € thousand	2015	2014
Audits of financial statements	215	199
Other attestation services	286	6
Other services	22	
<b>Total fees</b>	<b>523</b>	<b>205</b>

**(29) Earnings per share**

Basic earnings per share can be calculated as follows:

		2015	2014
Group net profit/loss (for the calculation of the basic earnings)	in € thousand	6,585	(47)
Interest convertible bond	in € thousand	359	–
Net profit adjusted for the effect of dilution	in € thousand	6,944	(47)
Weighted average number of shares for the calculation of the basic earnings	in pieces	12,379,587	9,325,572
Convertible shares	in pieces	885,918	–
Weighted average number of shares for the calculation of the diluted earnings	in pieces	13,265,505	9,325,572
<b>Earnings per share (basic/diluted)</b>	in €	<b>0.53/0.52</b>	<b>(0.01)/(0.01)</b>

Basic earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to equity holders of the parent (after adjusting for interest on the convertible bond) by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would result from the conversion of the convertible bond.

## Other notes to the consolidated financial statements

### (30) Financial instruments and financial risk management

**Fair values** The following table presents the fair values of all financial instruments as compared to their carrying amounts:

Fair values of financial instruments	31/12/2015		31/12/2014	
	Carrying amounts	Fair values	Carrying amounts	Fair values
in € thousand				
<b>Assets</b>				
Trade receivables	2,757	2,757	2,981	2,981
Other receivables	11,911	11,911	12,817	12,817
Cash and cash equivalent	16,028	16,028	14,588	14,588
<b>Total assets</b>	<b>30,696</b>	<b>30,696</b>	<b>30,386</b>	<b>30,386</b>
<b>Equity and liabilities</b>				
Liabilities measured at amortized cost				
Non-controlling interests	61,160	61,160	60,048	60,048
Financial liabilities	144,113	143,620	165,082	165,599
Trade payables	2,679	2,679	2,256	2,256
Other liabilities	4,393	4,393	4,055	4,055
Liabilities measured at fair value through profit and loss				
Derivative financial instruments that do not qualify for hedge accounting	–	–	990	990
<b>Total equity and liabilities</b>	<b>212,345</b>	<b>211,852</b>	<b>232,431</b>	<b>232,948</b>

Cash and cash equivalents, trade receivables and trade payables as well as other receivables and liabilities generally have short terms. As a result their carrying amounts correspond to their fair values. Financial liabilities at fair value through profit or loss are measured on the basis of the underlying cash flows using the interest curves applying on the reporting date.

**Net gains or losses from financial instruments** These can be presented as follows:

in € thousand	2015	2014
<b>Loans and receivables</b>		
Other operating income	23	80
Other operating expenses	(1,209)	(173)
<b>Total loans and receivables</b>	<b>(1,186)</b>	<b>(93)</b>
<b>Financial liabilities at fair value through profit and loss, addition (+) / reversal (-)</b>		
Interest rate swaps that do not qualify for hedge accounting	–	(1,099)
<b>Net gains (losses)</b>	<b>(1,186)</b>	<b>(1,192)</b>

The net result contains all other income and expenses related to financial instruments in the respective measurement category. These generally consist of the results from subsequent measurement and gains and losses upon disposal. Consequently, the net result does not contain any interest expense. This is presented in note 27.



**Financial risks** The Group is exposed to the following financial risks as a result of its activities: market risks, interest rate risk, credit risks and liquidity risks. There are no foreign exchange risks. The risk management of the Group concentrates on the risks associated with the financial markets and is geared towards keeping the impact of such risks on its financial position and performance as low as possible.

Risk management is performed centrally at Group level based on the guidelines issued by the Management Board and in close cooperation with the central finance department of the IC Immobilien Group. This department acts as a service provider and assists the subsidiaries of the Group with the calculation, measurement and hedging of financial risks.

a) **Market risks** The Group has entered into commercial property leases on its investment property portfolio. These lease agreements have a direct influence on the measurement of the fair value of investment property via their amount and term. If the rental income diminishes and the vacancies increase, this would have a negative impact on the fair value of investment property. All other assumptions being the same, a 5% change in the market rents would cause the measurement of financial assets to change by €–10,930 thousand/€10,218 thousand.

b) **Interest rate risk** The Group holds overnight and time deposits with floating-rate interest rates depending on the market.

Most of the Group's interest rate risks arise from its financial liabilities. The Group is exposed to the risk of higher interest rates on its floating-rate liabilities and when fixed-interest loans are rearranged at higher rates when they expire (cash flow risks). To hedge these risks, interest swaps and interest caps were entered into in some cases in previous years. There were no more interest caps as of the reporting date 31 December 2015.

If the interest rates had been one percentage point higher or lower in the period, the net income of the Group and its equity would have been €638 thousand lower (2014: €936 thousand lower) or higher respectively. This effect stems from interest expenses for floating-rate loans less the interest on bank deposits.

An increase in the discount and cap rates would lead to a reduction in the fair value of investment property. An increase in these rates would lead to a corresponding increase in the fair value of investment property.

Fixed interest liabilities have an inherent risk of their fair value increasing. However, this risk does not affect either the statement of financial position or the statement of income as financial liabilities are not measured at fair value but at amortised cost. The risk does have significance though if the liability is repaid prematurely (e.g. upon sale of the property for which the loan was taken out). The Group has decided not to hedge against this risk.

The Group regularly reviews to what extent it is exposed to interest rate risks. To do this, various scenarios are modelled in which the possibilities of refinancing, renewing existing arrangements or hedging the interest risk are considered.

- c) **Credit risks** Credit risks arise from receivables from tenants, respites granted on purchase price receivables and investments of free cash. The Group has guidelines under which lease agreements may only be entered into with parties who can demonstrate immaculate credit ratings. The credit ratings are monitored continuously. The Group has a wide tenant base. In fiscal year 2015 rental losses, calculated on the basis of additions to specific bad debt allowances, amounted to 0.90% (2014: 0.64%) of rental income and service charge income.

Respites of purchase price receivables are generally only issued in return for security. Legal title is not transferred until the full payment is received.

Derivative financial instruments and cash investments are only entered into with financial institutions with top ratings.

The maximum credit risk for each category of financial instrument is limited to the carrying amount of the financial assets recognised in the statement of financial position.

d) **Liquidity risks**

**Liquidity management** Liquidity is managed responsibly and this includes maintaining a base level of cash and cash equivalents. Effort is made to be as flexible as possible when procuring liquidity. The Management Board monitors liquidity and discusses the situation with the Supervisory Board at regular intervals.

The following presentation, which is used by the Management Board when managing liquidity, shows the due dates of the liabilities carried on the reporting date:

in € thousand	31/12/2015				31/12/2014			
	due within 1 year	due between 1 and 2 years	due between 3 and 5 years	due after 5 years	due within 1 year	due between 1 and 2 years	due between 3 and 5 years	due after 5 years
Non-controlling interests	–	–	–	61,249	–	–	–	60,048
Financial liabilities	18,118	6,889	60,952	58,154	68,449	61,015	54,404	16,149
Derivative financial instruments	–	–	–	–	961	29	–	–
Provisions	743	–	–	–	555	–	–	–
Trade payables	2,679	–	–	–	2,256	–	–	–
Other liabilities	3,317	1,076	–	–	4,055	169	459	7
<b>Total maturities</b>	<b>24,857</b>	<b>7,965</b>	<b>60,952</b>	<b>119,403</b>	<b>76,276</b>	<b>61,213</b>	<b>54,863</b>	<b>76,215</b>

The amounts listed refer solely to the required debt servicing (repayments and interest).

**Capital management** The Group pursues a number of objectives within the framework of its capital management: First and foremost, the financial base should be retained, the ability to meet debt servicing requirements ensured and a profit generated under German GAAP, from which dividends can be paid.

There were no changes to the Group's approach to capital management during the reporting period.

The financial position of the Group is measured on the level of cash and cash equivalents and the Group's equity ratio. The equity ratio indicates the ratio between the equity and the total equity and liabilities reported in the consolidated statement of financial position.

<b>Consolidated equity ratio</b>			
		<b>31/12/2015</b>	<b>31/12/2014</b>
Equity	in € thousand	117,278	78,273
Total assets	in € thousand	330,366	311,894
Equity ratio	in %	35.5	25.1

The Group's ability to steer its capital structures is limited, apart from the possibility of retaining profits at its subsidiaries, as 90% of the net profit of Fair Value REIT-AG pursuant to German GAAP must be distributed. Thus, the available instruments for improving the capital structure are to issue new shares (capital increase) and to sell assets in order to reduce the Group's debt.

Another significant goal of capital management is to meet the capital adequacy requirements of the REITG as this is a prerequisite for exemption from corporate income tax and trade tax for the long term. According to Sec. 15 REITG, equity must amount to at least 45% of the immovable property as defined by the REITG.

in € thousand	<b>31/12/2015</b>	<b>31/12/2014</b>
Equity acc. to consolidated statement of financial position	117,278	78,273
Non-controlling interests	61,160	60,048
<b>Equity pursuant to Sec. 15 REITG</b>	<b>178,438</b>	<b>138,321</b>
<b>Immovable assets</b>		
Investment property	287,794	267,718
Non-current assets held for sale	11,750	13,240
<b>Total immovable assets</b>	<b>299,544</b>	<b>280,958</b>
Equity ratio pursuant to Sec. 15 REITG	59.6 %	49.2 %

### (31) Segment reporting

The Group holds property in Fair Value REIT-AG and its subsidiaries. The organisational and management structure of the Group corresponds to these two investment forms. Consequently, there are two divisions, "direct investment" and "subsidiaries", with each subsidiary reporting separately. In addition, investments are held in five Geschäftsführungs-GmbH & KGs (limited management partnerships) which are not allocated to these two segments on grounds of immateriality. The only active territory of the Group is "Germany". To improve the clarity of the presentation, segment reporting is presented in both aggregate form ("subsidiaries") and individual at the level of the individual funds.

Segment sales (rental income plus income from service charges) and the segment results can be presented as follows:

in € thousand	2015		2014	
	Segment revenues	Segment results	Segment revenues	Segment results
Direct investments	4,434	2,369	3,075	497
Subsidiaries	25,413	7,436	27,074	6,577
<b>Total segment revenue and profit/loss</b>	<b>29,847</b>	<b>9,805</b>	<b>30,149</b>	<b>7,074</b>
Other effects with an impact on income		3,692		–
Central administrative expenses and other		(1,215)		(1,197)
Net interest expenses		(4,201)		(5,046)
Share of profit/loss attributable to non-controlling interests		(1,496)		–878
<b>Group net profit/loss</b>		<b>6,585</b>		<b>(47)</b>

Other effects with an impact on income of €3,692 thousand arise primarily from income from the favourable acquisition of BBV 08 and the settlement of liabilities from non-controlling interests.

**Segment revenue** is generated solely with tenants external to the Group. There is no inter-segment revenue.

Rental income accounting for more than 10% of total revenue was generated with the following tenants:

in € thousand	2015	2014
Main tenant 1 (Direct investments segment)	3,976	2,478
Main tenant 2 (Subsidiaries segment)	–	–
Other between 5 % and 10 %	5,720	5,072
Other under 5 % each	20,151	22,599
<b>Total rental revenue</b>	<b>29,847</b>	<b>30,149</b>

Segment revenue breaks down by property and main use as follows:

in € thousand	2015		2014	
	Direct investments	Subsidiaries	Direct investments	Subsidiaries
Office	3,050	6,086	3,075	7,632
Retail	30	18,507	–	15,450
Other	1,354	820	–	3,992
<b>Total revenue</b>	<b>4,434</b>	<b>25,413</b>	<b>3,075</b>	<b>27,074</b>

The **segment results** of the two segments are calculated prior to central administrative expenses, net interest expenses and the profit allocable to non-controlling interests. This indicator is reported to the chief operating decision maker of the Group to assist in the allocation of resources to the particular segment and to measure its profitability.

The following results from the measurement of investment property and the sale of such property have been included in the segment results:

in € thousand	2015		2014	
	Direct investments	Subsidiaries	Direct investments	Subsidiaries
Measurement gains	2,607	7,048	102	1,536
Measurement losses	(490)	(11,957)	(755)	(8,421)
	<b>2,117</b>	<b>(4,909)</b>	<b>(653)</b>	<b>(6,885)</b>
Gains (losses) on disposal	9	(38)	(101)	(591)
	<b>2,126</b>	<b>(4,947)</b>	<b>(754)</b>	<b>(7,476)</b>

The following table shows the profit and loss account of the segments in more detail. The “subsidiaries” segment is broken down into the individual entities. In the reconciliation column, intragroup effects are offset and immaterial general partners presented.

<b>Income statement by segments 2015</b>				
	<b>Direct investments</b>			
in € thousand	FV AG	IC 07	IC 12	IC 13
Rental income	3,797	716	670	939
Service charge income	637	322	338	324
<b>Segment revenue</b>	<b>4,434</b>	<b>1,038</b>	<b>1,008</b>	<b>1,236</b>
Leasehold payments	–	–	(1)	–
Service charge expenses	(1,031)	(386)	(410)	(418)
Other property operating expenses	(189)	(175)	(156)	(260)
Segment-related administrative expenses	(2,239)	(68)	(39)	(306)
Other operating expenses and income (net)	(732)	(40)	(16)	(10)
Gain from disposal of investment properties	9	–	–	– 950
Measurement gains	2,607	470	310	–
Measurement losses	(490)	–	–	–
<b>Segment profit</b>	<b>2,369</b>	<b>839</b>	<b>696</b>	<b>(681)</b>
Central administrative expenses	(1,215)	–	–	–
Other expenses	–	–	–	–
Profit/loss of investment accounted for using the equity method	–	–	–	–
Other income from participations	3,110	–	–	–
Net interest expense	(970)	(21)	(99)	(293)
Share of profit/loss attributable to non-controlling interests	–	–	–	–
Income taxes	–	–	–	–
<b>Net income for 2015</b>	<b>3,294</b>	<b>818</b>	<b>597</b>	<b>(974)</b>

							Subsidiaries		
IC 15	BBV 02	BBV 03	BBV 06	BBV 08	BBV 10	BBV 14	Total	Reconciliation	Group
2,320	(1)	91	1,384	1,851	7,497	5,027	20,494	–	24,291
224	–	14	291	74	2,322	1,010	4,919	–	5,556
<b>2,524</b>	<b>(1)</b>	<b>105</b>	<b>1,675</b>	<b>1,925</b>	<b>9,819</b>	<b>6,037</b>	<b>25,413</b>	<b>–</b>	<b>29,847</b>
(4)	–	–	(4)	–	–	–	(9)	–	(9)
(406)	16	(77)	(497)	(50)	(2,983)	(1,677)	(6,888)	(1)	(7,920)
(315)	–	(56)	(265)	(138)	(1,446)	(1,196)	(4,007)	4	(4,192)
(123)	(21)	(135)	(232)	(217)	(391)	(313)	(1,845)	69	(4,015)
52	–	16	140	36	(112)	(229)	(163)	3,502	2,607
(1,080)	(20)	(398)	(5)	–	(13)	–	(2,466)	2,428	(29)
510	–	–	193	1,745	1,720	2,100	7,048	–	9,655
–	–	–	(80)	(900)	(7,847)	(820)	(9,647)	(2,310)	(12,447)
<b>1,178</b>	<b>(26)</b>	<b>(545)</b>	<b>925</b>	<b>2,401</b>	<b>(1,253)</b>	<b>3,902</b>	<b>7,436</b>	<b>3,692</b>	<b>13,497</b>
–	–	–	–	–	–	–	–	–	(1,215)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	(3,110)	–
(381)	(1)	–	(38)	(289)	(1,633)	(477)	(3,232)	1	(4,201)
–	–	–	–	–	–	–	–	(1,496)	(1,496)
–	–	–	–	–	–	–	–	–	–
<b>797</b>	<b>(27)</b>	<b>(545)</b>	<b>887</b>	<b>2,112</b>	<b>(2,886)</b>	<b>3,425</b>	<b>4,204</b>	<b>(913)</b>	<b>6,585</b>

**Income statement by segments 2014**

in € thousand	Direct investments			
	FV AG	IC03	IC07	IC12
Rental income	2,606	–	632	517
Service charge income	469	1	286	328
<b>Segment revenue</b>	<b>3,075</b>	<b>1</b>	<b>918</b>	<b>845</b>
Leasehold payments	–	–	–	–
Service charge expenses	(801)	–	(419)	(405)
Other property operating expenses	(42)	–	(218)	(227)
Segment-related administrative expenses	(154)	–	(62)	(72)
Other operating expenses and income (net)	(827)	–	33	(19)
Gain from disposal of investment properties	1	–	–	–
Measurement gains	–	–	770	90
Measurement losses	(755)	–	–	–
<b>Segment profit/loss</b>	<b>497</b>	<b>1</b>	<b>1,022</b>	<b>212</b>
Central administrative costs	(1,434)	–	–	–
Other expenses	–	–	–	–
Other income from investments	(94)	–	–	–
Net interest expenses	(1,099)	–	(37)	(77)
Share of profit/loss attributable to non-controlling interests	–	–	–	–
Income tax	–	–	–	–
<b>Net income for 2014</b>	<b>(2,130)</b>	<b>1</b>	<b>985</b>	<b>135</b>

**Assets and liabilities of the segments:**

in € thousand	31/12/2015		31/12/2014	
	Assets	Liabilities	Assets	Liabilities
Direct investments	76,095	2,900	49,713	1,981
Subsidiaries	254,660	5,177	261,912	5,489
<b>Total segment assets / segment liabilities</b>	<b>330,755</b>	<b>8,077</b>	<b>311,625</b>	<b>7,470</b>
Non-allocated assets/liabilities consolidation	(389)	322,289	269	226,151
<b>Total Group assets/group liabilities</b>	<b>330,366</b>	<b>330,366</b>	<b>311,894</b>	<b>233,621</b>

The assets of the segments consist primarily of investment property, receivables and cash and cash equivalents. The assets of the “subsidiaries” segment also include non-current assets held for sale (note 8). The assets not allocated to segments in the reporting period consist of intangible assets and the cash and cash equivalents carried by the Geschäftsführungs-GmbH Co. KGs and the Komplementär-GmbH. Segment liabilities consist of the operating liabilities. Financial liabilities, derivative financial instruments and non-controlling interests are presented under the liabilities not allocated to any particular segment.



							Subsidiaries		
IC13	IC15	BBV02	BBV03	BBV06	BBV10	BBV14	Total	Reconciliation	Group
1,917	2,906	2	454	2,240	7,387	5,253	21,308	–	23,914
559	288	6	52	383	2,404	1,459	5,766	–	6,235
<b>2,476</b>	<b>3,194</b>	<b>8</b>	<b>506</b>	<b>2,623</b>	<b>9,791</b>	<b>6,712</b>	<b>27,074</b>	<b>–</b>	<b>30,149</b>
–	–	–	–	(4)	–	–	(4)	–	(4)
(695)	(444)	(30)	(117)	(746)	(3,219)	(1,737)	(7,812)	–	(8,613)
(369)	(291)	–	(59)	(479)	(1,656)	(565)	(3,864)	–	(3,906)
(112)	(141)	(27)	(94)	(187)	(359)	(316)	(1,370)	(21)	(1,545)
45	(133)	44	7	31	91	(143)	(44)	94	(777)
–	–	(22)	(86)	(437)	(148)	–	(693)	–	(692)
60	–	–	–	18	200	500	1,638	–	1,638
(190)	(1,193)	–	–	(286)	(6,192)	(560)	(8,421)	–	(9,176)
<b>1,215</b>	<b>992</b>	<b>(27)</b>	<b>157</b>	<b>533</b>	<b>(1,492)</b>	<b>3,891</b>	<b>6,504</b>	<b>73</b>	<b>7,074</b>
–	–	–	–	–	–	–	–	59	(1,375)
–	–	–	–	–	–	–	–	178	178
–	–	–	–	–	–	–	–	94	–
(517)	(568)	–	1	(401)	(1,843)	(507)	(3,949)	2	(5,046)
–	–	–	–	–	–	–	–	(878)	(878)
–	–	–	–	–	–	–	–	–	–
<b>698</b>	<b>424</b>	<b>(27)</b>	<b>158</b>	<b>132</b>	<b>(3,335)</b>	<b>3,384</b>	<b>2,555</b>	<b>(472)</b>	<b>(47)</b>

The following table shows all assets and liabilities allocated and not allocated to the segments in more detail. The “Subsidiaries” segment has been broken down by fund company.

<b>Assets and liabilities by segments 2015</b>					
	Direct investments				
in € thousand	FV AG	IC 07	IC 12	IC 13	IC 15
Property, plant and equipment and in intangible assets	10	–	24	–	–
Investment property	62,790	9,100	7,880	–	23,350
Non-current assets held for sale	650	–	–	–	–
Trade receivables	331	229	52	112	80
Income tax receivables	22	–	–	–	–
Other receivables and assets	10,541	–	13	49	114
Cash and cash equivalent	1,751	107	806	109	1,850
<b>Subtotal segment assets</b>	<b>76,095</b>	<b>9,436</b>	<b>8,775</b>	<b>270</b>	<b>25,394</b>
Shares in subsidiaries	68,754	–	–	–	–
Investments accounted for using the equity method	–	–	–	–	–
<b>Total assets</b>	<b>144,849</b>	<b>9,436</b>	<b>8,775</b>	<b>270</b>	<b>25,394</b>
Provisions	(516)	(9)	(6)	(13)	(15)
Trade payables	(1,128)	(66)	(71)	(66)	(123)
Other liabilities	(1,256)	(77)	(43)	(126)	(90)
<b>Subtotal segment liabilities</b>	<b>(2,900)</b>	<b>(152)</b>	<b>(120)</b>	<b>(205)</b>	<b>(228)</b>
Non-controlling interests	–	–	–	–	–
Financial liabilities	(27,735)	(450)	(1,907)	–	(7,490)
Derivative financial instruments	–	–	–	–	–
<b>Total liabilities</b>	<b>(30,635)</b>	<b>(602)</b>	<b>(2,207)</b>	<b>(205)</b>	<b>(7,718)</b>
<b>Net assets as of 31 December 2015</b>	<b>114,214</b>	<b>8,834</b>	<b>6,748</b>	<b>65</b>	<b>17,676</b>
<b>Overview of maturities of financial liabilities</b>					
Non-current	(18,529)	(450)	–	–	(7,269)
Current	(9,206)	–	(1,907)	–	(221)
<b>Financial liabilities</b>	<b>(27,735)</b>	<b>(450)</b>	<b>(1,907)</b>	<b>–</b>	<b>(7,490)</b>

Subsidiaries							Reconciliation	Group
BBV 02	BBV 03	BBV 06	BBV 08	BBV 10	BBV 14	Total		
–	–	–	–	–	–	24	70	104
–	–	13,151	25,900	74,523	71,100	225,004	–	287,794
–	–	–	11,100	–	–	11,100	–	11,750
–	–	136	134	1,459	210	2,412	14	2,757
–	–	–	–	–	–	–	–	22
1,361	–	84	287	10	3	1,921	(551)	11,911
43	192	1,041	3,619	3,262	3,170	14,199	78	16,028
<b>1,404</b>	<b>192</b>	<b>14,412</b>	<b>41,040</b>	<b>79,254</b>	<b>74,483</b>	<b>254,600</b>	<b>(389)</b>	<b>330,366</b>
–	–	–	–	–	–	–	(68,754)	–
–	–	–	–	–	–	–	–	–
<b>1,404</b>	<b>192</b>	<b>14,412</b>	<b>41,040</b>	<b>79,254</b>	<b>74,483</b>	<b>254,600</b>	<b>(69,143)</b>	<b>330,366</b>
(5)	(66)	(44)	(14)	(21)	(28)	(221)	(6)	(743)
(8)	(14)	(74)	(114)	(829)	(222)	(1,587)	36	(2,679)
(36)	(40)	(117)	(480)	(1,448)	(912)	(3,369)	232	(4,393)
<b>(49)</b>	<b>(120)</b>	<b>(235)</b>	<b>(608)</b>	<b>(2,298)</b>	<b>(1,162)</b>	<b>(5,177)</b>	<b>262</b>	<b>(7,815)</b>
–	–	–	–	–	–	–	(61,160)	(61,160)
(1,081)	–	–	(18,576)	(54,500)	(32,824)	(116,828)	450	(144,113)
–	–	–	–	–	–	–	–	–
<b>(1,130)</b>	<b>(120)</b>	<b>(235)</b>	<b>(19,184)</b>	<b>(56,798)</b>	<b>(33,986)</b>	<b>(122,005)</b>	<b>(60,448)</b>	<b>(213,088)</b>
<b>274</b>	<b>72</b>	<b>14,177</b>	<b>21,856</b>	<b>22,456</b>	<b>40,497</b>	<b>110,799</b>	<b>(129,591)</b>	<b>117,278</b>
–	–	–	(16,999)	(51,674)	(31,524)	(107,916)	450	(117,694)
(1,081)	–	–	(1,577)	(2,826)	(1,300)	(8,912)	–	(26,419)
<b>(1,081)</b>	<b>–</b>	<b>–</b>	<b>(18,756)</b>	<b>(54,500)</b>	<b>(32,824)</b>	<b>(16,828)</b>	<b>450</b>	<b>(144,113)</b>

**Assets and liabilities by segments 2014**

	<b>Direct investments</b>				
in € thousand	FV AG	IC03	IC07	IC12	H1 CH
Property, plant and equipment and intangible assets	11	–	–	–	–
Investment property	33,060	–	8,630	7,570	–
Non-current assets held for sale	3,250	–	–	–	–
Trade receivables	290	20	271	73	–
Income tax receivables	19	–	–	–	–
Other receivables and assets	10,805	8	–	505	450
Cash and cash equivalent	2,278	343	51	352	50
<b>Segment assets subtotal</b>	<b>49,713</b>	<b>371</b>	<b>8,952</b>	<b>8,500</b>	<b>500</b>
Shares in subsidiaries	60,308	–	–	–	–
<b>Total assets</b>	<b>110,021</b>	<b>371</b>	<b>8,952</b>	<b>8,500</b>	<b>500</b>
Provisions	(383)	(16)	(11)	(10)	–
Trade payables	(107)	(216)	(52)	(100)	–
Other liabilities	(1,491)	(12)	(50)	(42)	–
<b>Subtotal segment liabilities</b>	<b>(1,981)</b>	<b>(244)</b>	<b>(113)</b>	<b>(152)</b>	<b>–</b>
Non-controlling interests	–	–	–	–	–
Financial liabilities	(28,691)	–	(816)	(1,984)	–
Derivative financial instruments	(850)	–	–	–	–
<b>Total liabilities</b>	<b>(31,522)</b>	<b>(244)</b>	<b>(929)</b>	<b>(2,136)</b>	<b>–</b>
<b>Net assets as of 31 December 2014</b>	<b>78,499</b>	<b>127</b>	<b>8,023</b>	<b>6,364</b>	<b>500</b>
<b>Overview of maturities of financial liabilities</b>					
Non-current	(18,782)	–	–	(1,880)	–
Current	(9,909)	–	(816)	(104)	–
<b>Financial liabilities</b>	<b>(28,691)</b>	<b>–</b>	<b>(816)</b>	<b>(1,984)</b>	<b>–</b>

**Investments and depreciation and amortisation** are presented below:

	<b>2015</b>		<b>2014</b>	
in € thousand	Investments	Amortisation, depreciation and impairment	Investments	Amortisation, depreciation and impairment
<b>Direct investments</b>				
Investment property	1,100	–	–	–
Property, plant and equipment and intangible assets	1	(3)	8	(38)
<b>Total direct investments</b>	<b>1,101</b>	<b>(3)</b>	<b>8</b>	<b>(38)</b>
<b>Subsidiaries</b>				
Investment property	–	–	–	–
<b>Total subsidiaries</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total investments and amortisation, depreciation and impairment</b>	<b>1,101</b>	<b>(3)</b>	<b>8</b>	<b>(38)</b>

Subsidiaries								Reconciliation	Group
IC13	IC15	BBV02	BBV03	BBV06	BBV10	BBV14	Total		
—	—	—	—	—	—	—	—	70	81
18,450	32,830	—	3,670	13,038	80,650	69,820	234,658	—	267,718
—	—	—	—	8,350	1,640	—	9,990	—	13,240
127	149	2	18	200	1,145	671	2,676	15	2,981
—	—	—	—	—	—	—	—	—	19
—	2	1,390	—	96	9	—	2,460	2	13,267
792	1,769	51	1,028	1,232	2,433	4,027	12,128	182	14,588
19,369	34,750	1,443	4,716	22,916	85,877	74,518	261,912	269	311,894
—	—	—	—	—	—	—	—	(60,308)	—
19,369	34,750	1,443	4,716	22,916	85,877	74,518	261,912	(60,039)	311,894
(13)	(15)	(9)	(8)	(22)	(22)	(41)	(167)	(5)	(555)
(112)	(104)	(17)	(7)	(405)	(879)	(257)	(2,149)	—	(2,256)
(275)	(237)	(4)	(46)	(388)	(1,517)	(602)	(3,173)	(26)	(4,690)
(400)	(356)	(30)	(61)	(815)	(2,418)	(900)	(5,489)	(31)	(7,501)
—	—	—	—	—	—	—	—	(60,048)	(60,048)
(15,501)	(16,958)	(1,112)	—	(8,072)	(57,798)	(34,150)	(136,391)	—	(165,082)
—	—	—	—	—	—	(140)	(140)	—	(990)
(15,901)	(17,314)	(1,142)	(61)	(8,887)	(60,216)	(35,190)	(142,020)	(60,079)	(233,621)
3,468	17,436	301	4,655	14,029	25,661	39,328	119,392	-120,118	78,273
(14,736)	(7,494)	(1,033)	—	—	(34,020)	(32,962)	(92,125)	—	(110,907)
(765)	(9,464)	(79)	—	(8,072)	(23,778)	(1,188)	(44,266)	—	(54,175)
(15,501)	(16,958)	(1,112)	—	(8,072)	(57,798)	(34,150)	(136,391)	—	(165,082)

### (32) Related parties

**Related parties** Related parties of the Group are DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, Germany ("DEMIRE"), with 77.70% of the voting rights (10,963,878 voting rights as of 21 December 2015).

#### Remuneration of the Management Board

in €	2015	2014
Fixed remuneration		
Fixed salary	220,000	220,000
Payments in kind and other	12,178	12,329
Performance-based remuneration	214,362	140,000
<b>Remuneration as defined by Sec. 285 No. 9 HGB</b>	<b>446,540</b>	<b>372,329</b>
Expenses pension obligations	12,533	12,680
<b>Total</b>	<b>459,073</b>	<b>385,009</b>

Remuneration in the previous year relates exclusively to the CEO Frank Schaich and breaks down as follows:

in € thousand	2015	2014
Short-term benefits	459	306
Post employment benefits	–	45
Share appreciation rights	–	34
<b>Total remuneration of the Management Board</b>	<b>459</b>	<b>385</b>

The remuneration paid to the CEO for the term of his service agreement (October 2012 to September 2016) comprises a basic salary of €220,000.00 p.a. plus fringe benefits. The fringe benefits mainly relate to contributions to a pension fund capped at 10% of his basic salary and the provision of a company car in the price category of up to €50,000.00 net for both work and private use as well as three variable compensation components.

The variable compensation components comprise

- a) variable remuneration pegged at 4% of the dividends distributed by the Company. This variable compensation is paid out either in cash or in phantom stock in Fair Value REIT AG depending on the discount of the share price on the Xetra exchange of the Frankfurt Stock Exchange compared to the NAV as reported in the consolidated financial statements. The variable remuneration is settled in phantom stock at the amount of the percentage discount and not in cash, in this case. The phantom stock entitles the holder to a cash pay-out at the prevailing price of the shares on the XETRA exchange on the date of pay-out, which shall not however be within two years of the grant date. The phantom stock is measured at the share price on the reporting date.

	2015	2014
	Number	Number
<b>Development of dividend-based remuneration</b>		
Outstanding at the beginning of the period	19,065	14,170
Granted during the year	2,120	4,895
Exercised during the year	(1,892)	–
Lapsed during the year	–	–
<b>Outstanding at the end of the period</b>	<b>19,293</b>	<b>19,065</b>

The number of phantom shares earned in the reporting period was measured at the share price on the reporting date of €7.06 (2014: €6.77).

The phantom stock does not entitle the holder to subscribe to shares, but instead represents a mathematical factor that determines the amount of this variable bonus paid out as of the date of maturity.

The provision for phantom stock is disclosed under the provision for management bonuses and breaks down as follows:

<b>Virtual shares</b>			
in €	historical provision	accrued valuations	valued provisions
<b>As of 1 January 2014</b>	<b>69,849.24</b>	<b>2,931.45</b>	<b>72,780.69</b>
Additions	33,331.40	24,788.68	58,120.08
Disposals	–	–	–
<b>As of 31 December 2014</b>	<b>103,180.64</b>	<b>27,720.13</b>	<b>130,900.77</b>
Additions	14,694.96	625.24	15,320.20
Disposals	12,383.55	(2,369.18)	10,014.37
<b>As of 31 December 2015</b>	<b>105,492.05</b>	<b>30,714.55</b>	<b>136,206.60</b>

- b) an additional cash bonus of 10% of the annual savings in the administrative expenses of the Company. The calculation for the first year of the contract is indexed to the administrative expenses in fiscal year 2011. In following years, the base amount is adjusted by the percentage change in NAV, although
- c) the maximum bonus permitted under a) and b) is 100% of the annual salary plus certain fringe benefits (use of a company car and contributions to the pension fund).
- d) bonus of 0.2% of any gain in the market capitalisation of the Company. The bonus to be granted under these long-term components will be calculated at the end of the lease term by comparing the market capitalisation of the Company on 1 October 2012 and 30 September 2016. If the CEO leaves the company prematurely, the bonuses will be calculated and paid out at the end of his service agreement. Until it is paid out, the bonus is capped at the amount of the basic salary exclusive of any fringe benefits plus the average annual compensation pursuant to a) and b).

On 1 March 2016, the Supervisory Board of the Company extended the current management board appointment of Mr. Schaich until 31 January 2019 and the existing service agreement was mutually terminated as of 29 February 2016. In this context, the phantom stock outstanding as of the reporting date and the variable remuneration due upon termination of this contract of 0.2% of the gain in the market capitalisation of the Company since 1 October 2012 as per the figure reported in the statement of financial position as of 31 December 2015 were settled, although actual payment will be made on 31 March 2016.

It was also agreed that the dividend-based variable remuneration for 2015 and the pro rata temporis component for 2016 would be fully paid out in cash when due. In the event that the Annual General Meeting does not pass any resolutions on dividends in 2016 and 2017, payment is effected on the basis of a notional dividend of €0.25 per participating share.

**Loans and advances** No loans or advances were granted to the CEO. Likewise, no contingent liabilities were entered into on behalf of the CEO. There is also no pension commitment or share-based payment different to that described above.

**Remuneration of the Supervisory Board** The members of the Supervisory Board were granted short-term benefits totalling €35 thousand (2014: €33 thousand). No loans or advances were granted to members of the Supervisory Board. Likewise, no contingent liabilities were entered into on behalf of members of the Supervisory Board.

**Supervisory Board and Management Board** The members of the Supervisory Board of Fair Value REIT-AG, their activities outside the company and their appointments to the boards of other companies over the last five years are listed in the following summary.

<b>Supervisory Board</b>			
Name Function on the Supervisory Board	Member since	Main activity outside the Company as well as additional activities as governing body in comparable domestic and foreign entities	
<b>Rolf Elgeti</b> Chairman of the Supervisory Board (from 02/02/2015)	from 01/02/2015	since 07/2011 until 10/2014 since 11/2014 since 11/2014 since 07/2015	Member of the Supervisory Board of Sirius Real Estate Limited, Guernsey CEO of TAG Immobilien AG, Hamburg Chairman of the Supervisory Board of TAG Immobilien AG, Hamburg Founder and general partner of Obotritia Capital KGaA, Potsdam Chairman of the Supervisory Board of 1801 Deutsche Leibreiten AG
<b>Prof. Dr. Heinz Rehkugler</b> Chairman of the Supervisory Board (until 02/02/2015) Member from 02/02/2015	from 10/2007	seit 1997 seit 2002	University professor (emeritus 2009) Deputy Chairman of the Supervisory Board of DIA Consulting AG, Freiburg
<b>Dr. Oscar Kienzle</b> Deputy Chairman of the Supervisory Board	from 07/2007	since 07/2009 until 08/2011 from 08/2011 until 04/2013 since 05/2013	CEO of Günther Graf von Hardenberg Stiftung, Karlsruhe CEO of IC Immobilien Holding AG Chairman of the Supervisory Board of IC Immobilien Holding AG Chairman of the Supervisory Board of GIEAG Immobilien AG
<b>Wolfgang Sauerborn</b> Member	from 27/05/2014	since 02/2009	Managing Director of WISAG Aviation Service Holding GmbH



**Management Board**

Name	Age	Appointed as first time as of	Currently appointed until
Frank Schaich	56	17/09/2007	31/01/2019

**(33) Events occurring after the balance sheet date**

By purchase agreement dated 29 January 2016, the property in Tornesch, Willy-Meyer-Str. 3-5, was sold to a local entrepreneur. The purchase price of €650 thousand is 10% higher than the market value as of 31 December 2015 of €590 thousand according to the valuation report. Title, risks and rewards were transferred following full payment of the purchase price on 17 March 2016.

As a result of the change of control at Fair Value REIT-AG that occurred on 21 December 2015, the creditors of the convertible bond, issued on 19 January 2015 bearing an interest rate of 4.5% p.a. with a total nominal value of €8.46 million and with a term until 19 January 2020, demanded in their declaration on 9 February 2016 early repayment at 103% of the nominal amount plus accrued interest under the terms of the bond as of 19 February 2016, the date on which the contract took effect.

The corresponding amount of around €8.75 million was duly paid on 19 February 2016. The repayment amount was refinanced by taking out two loans at CapitalBank – GRAWE Gruppe AG, Graz, and at Stadt-Sparkasse Langenfeld.

At CapitalBank – GRAWE Gruppe AG, Graz, the Company took out a bullet loan with a term of three years until 15 February 2019 for €7.0 million less a processing fee of 1% at a variable 3-month EURIBOR interest rate plus a margin of 400 basis points but at least at an interest of 4.0% p.a., which is partially secured by mortgages and partially by pledges of company shares as well as other assets.

At Stadt-Sparkasse Langenfeld, the Company took out a loan secured by a mortgage for €2.0 million with a term until 30 March 2020, which is subject to interest at 1.69% p.a. and with principal repayment at 3.0% p.a. plus interest saved.

In light of the successful takeover bid by DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, ("DEMIRE"), announced to the shareholders of Fair Value REIT-AG, the Supervisory Board members Dr. Oscar Kienzle and Professor Heinz Rehkugler resigned from the Supervisory Board at the end of February 2016. The Munich local court appointed Honorary Professor Andreas Steyer and Markus Drews as their successors. Both management board members at DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main ("DEMIRE"), took office on 1 March 2016. At the constitutive meeting of the Supervisory Board, Mr. Rolf Elgeti was elected chairman and Mr. Markus Drews deputy chairman of the Supervisory Board.

The supervisory board of DEMIRE appointed Mr. Frank Schaich, the sole Management Board member of the Company, as an additional member of the management board of DEMIRE as of 1 February 2016 for three years until 31 January 2019 and endorsed the extension of his board appointment at Fair Value REIT-AG. For the term of the appointment, a management board service agreement was concluded with Mr. Schaich subject to the condition precedent for the termination of the existing service agreement with Fair Value REIT-AG.

On 1 March 2016, the Supervisory Board of the Company extended the current management board appointment of Mr. Schaich until 31 January 2019 and the existing service agreement was mutually terminated by agreement dated 9/14 March 2016. Please refer to note 32 for information on the remuneration-related agreements with regard to the terminated employment contract. In addition, Mr. Schaich's additional membership on the management board at DEMIRE was approved and the proposal by the Management Board for the basic remuneration component and the annual bonus to be borne by DEMIRE in the form of pro rata group allocations/holding fees liable to VAT was accepted effective upon termination of his service contract. The share in the costs for the Company was set at 70%, until further notice, based on the anticipated time required for his work for Fair Value REIT-AG taking into account the fact that the long-term remuneration component is borne in full by DEMIRE in the form of DEMIRE phantom stock options.

**(34) Declaration regarding german corporate governance code pursuant to section 161 of the AktG (German Public Limited Companies Act)**

On 26 January 2016 the Management Board and the Supervisory Board issued a declaration of compliance pursuant to Sec. 161 AktG. The declaration was made permanently available to the shareholders on the Company's website (<http://www.fvreit.de/en/investor-relations/corporate-governance/declaration-of-conformity/declaration-of-conformity.html>).

Munich, 21 March 2016

Fair Value REIT-AG

A handwritten signature in black ink, appearing to read 'Frank Schaich', written in a cursive style.

Frank Schaich

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# Declaration by legal representative

To the best of my knowledge, I declare that, according to the principles of proper consolidated reporting applied, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations, that the Group management interim report presents the Group's business including the results and the Group's position such as to provide a true and fair view and that the major opportunities and risks of the Group's anticipated growth for the remaining fiscal year are described.

Munich, 21 March 2016

Fair Value REIT-AG

A handwritten signature in black ink, appearing to read 'Frank Schaich', written in a cursive style.

Frank Schaich

# Audit opinion

We have audited the consolidated financial statements for Fair Value REIT-AG, Munich, comprising the balance sheet, statement of comprehensive income, income statement, statement of changes in shareholders' equity, cash flow statement and notes to the financial statements as well as the Group management report for the fiscal year from 1 January 2014 to 31 December 31. The preparation of the consolidated financial statements and the consolidated management report in accordance with IFRSs, as they are to be applied in the EU, and the supplementary provisions of Section 315 a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) are the responsibility of the company's legal representatives. Our responsibility is to express an opinion, based on our audit, on the annual consolidated financial statements and on the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservation.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315 a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 21 March 2016

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Horbach  
Auditor

Sporbeck  
Auditor

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# Compliance

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# Supervisory Board and Management Board

## Supervisory Board

**Rolf Elgeti** (Chairman of the Supervisory Board)

Member of the Supervisory Board since 02/2015

Term of appointment until the General Meeting in 2020

Principal activity outside the company, also serving as a director in similar domestic and foreign businesses:

- since 11/2014 Founder and general partner of Obotritia Capital KGaA, Potsdam
- since 11/2014 Chairman of the supervisory board of TAG Immobilien AG, Hamburg
- since 07/2011 Member of the supervisory board of Sirius Real Estate Limited, Guernsey
- since 07/2015 Chairman of the supervisory board of 1801 Deutsche Leibrenten AG

Rolf Elgeti, born in Rostock in 1976, is a business studies graduate and began his career in London where he worked for many years as an analyst and equity strategist, including a period as chief strategist for ABM AMRO. In the period from 2003, he also founded and managed various German real estate investment companies. In July 2009, he took over as CEO of TAG Immobilien AG, an MDAX-listed real estate company after having served on the company's supervisory board from October 2008. In November 2014, Mr. Elgeti transferred to the supervisory board, took the chair of that board and founded Obotritia Capital KGAA, an investment company in the real estate sector specialised in the German commercial property market.

**Markus Drews** (Deputy Chairman of the Supervisory Board)

Member of the Supervisory Board since 03/2016

Term of appointment due to run until the General Meeting in 2021

Principal activity outside the company, also serving as a director in similar domestic and foreign businesses:

- since 12/2014 Member of the executive board of DEMIRE Deutsche Mittelstand Real Estate AG

Markus Drews (born 1975) is a member of the executive board (COO) of DEMIRE Deutsche Mittelstand Real Estate AG. He has a degree in German business administration and has decades of experience in positions of high responsibility in the real estate sector. Markus Drews made significant contribution in establishing, managing and selling of a listed real estate company with a market capitalisation of €1.5 billion. He has gained experience in dealing with distressed and non-core assets for example Haniel and RWE systems. Markus Drews has as a Real Estate M & A Advisor (Remi) extensive experience with listed real estate companies, particularly with regard to timing capital measures with real estate transactions.

**Hon.-Prof. Andreas Steyer** (Member of the Supervisory Board)

Member of the Supervisory Board since 3/2016

Term of appointment due to run until the General Meeting in 2021

Principal activity outside the company, also serving as a director in similar domestic and foreign businesses:

since 04/2013 Member of the executive board of DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer (born 1965) is the speaker of the executive board (CEO) of DEMIRE Deutsche Mittelstand Real Estate AG. He has a Degree in business economics and real estate economics (ebs business school). Andreas Steyer is a member of the Royal Institution of Chartered Surveyors (MRICS). As from 1992 to 2007 he held several management positions in the companies KPMG Wirtschaftsprüfungsgesellschaft, Arthur Andersen Real Estate GmbH, Ernst & Young Real Estate GmbH and Deka Immobilien Investment GmbH. Furthermore he held executive positions at Global Gate Investment GmbH and at VB Real Estate Services GmbH in the years 2007 to 2012. Andreas Steyer is honorary professor for real estate economics at the Jade University of Oldenburg.

**Prof. Dr. Heinz Rehkugler** (Member of the Supervisory Board until 29 February 2016)

**Dr. Oscar Kienzle** (Deputy Chairman of the Supervisory Board until 29 February 2016)

## Management Board

### Frank Schaich

CEO since 17 September 2007

Term of appointment due to run until 31 January 2019

Frank Schaich (born 1959) has been the CEO of Fair Value REIT-AG since 17 September 2007 and has in addition been appointed to the management board of DEMIRE Deutsche Mittelstand Real Estate AG as of 1 February 2016. Mr. Schaich's professional base is a classic apprenticeship in banking. He was previously a member of the IC Immobilien Holding AG's management board, where he was responsible for the fund business. He has held executive positions in various departments of IC real estate group since 1988. From 1993 onwards he served as managing director for several IC Real Estate Group companies and the funds under management by IC. In total, he has more than 30 years' experience in international real estate markets. Frank Schaich has gained extensive experience in syndicating, financing, and placing closed-end real estate funds, in investor relations and in asset and portfolio management of commercial real estate.

# Report of the Supervisory Board

## Dear Shareholders,

Once again, Fair Value REIT-AG developed positively in the past fiscal year, and as a result, we are able to propose to you a dividend distribution of €0.25 per share at the upcoming Annual General Meeting. The Company invested the cash received from the convertible bond and the capital increase in further shares in existing and newly acquired subsidiaries as well as in the direct acquisition of previously indirectly owned properties, increasing share value and earnings power in the process.

The Management Board plans to actively continue this strategy in the current fiscal year as well to thus further reduce non-controlling interests within the Group and strengthen the equity base and profitability for the shareholders. The Supervisory Board expressly supports the Management Board in this strategy.

## Supervising management and cooperation with the Management Board

In addition to supervising and managing the economic development of the Company and its strategic orientation, the Supervisory Board focused its activity on preparing and implementing the issue of the convertible bond in January 2015 and the capital increase in May 2015. The announcement and execution of the takeover bid of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt, to the shareholders of Fair Value REIT-AG and the substantiated opinion of the Management Board and the Supervisory Board regarding the takeover bid demanded considerable attention as well in the second half of 2015.

The Supervisory Board was involved in all decisions of fundamental importance. In compliance with Sec. 90(2) AktG [“Aktiengesetz”: German Stock Corporations Act], the Management Board informed the Supervisory Board of the general business development and situation of the Company and of the Group promptly and in detail. All business transactions subject to the approval of the Supervisory Board as prescribed by legal or statutory provisions were discussed in the Supervisory Board meetings.

In light of this, nineteen Supervisory Board meetings took place in fiscal year 2015. The Supervisory Board thoroughly discussed and adopted the budgets and the planning for the Company and approved the planning for the Group. Discussion of the development of revenue and earnings of the Group as well as its financial position and net assets with special regard to the risk situation, and of the interim reports took place at regular intervals at the Supervisory Board meetings.



### Corporate governance

Adhering to corporate governance principles is of great importance for the Supervisory Board and the Management Board. Correspondingly, the corporate governance report has a dedicated section in the annual report.

The recommendation issued by the government commission on the German Corporate Governance Code most recently updated in May 2015 was discussed in depth with the Management Board. In this context, the efficiency of the work of the Supervisory Board was reviewed. The current declaration of compliance pursuant to Sec. 161 AktG was issued on 25 January 2016 together with the Management Board and is published on the Company's website.

The corporate governance statement pursuant to Sec. 289a HGB ["Handelsgesetzbuch": German Commercial Code] was issued by the Management Board and published on the Company's website on 25 January 2016.

### Audit and ratification of the separate and consolidated financial statements

The consolidated financial statements prepared by the Management Board in accordance with International Financial Reporting Standards (IFRSs) and the separate financial statements of Fair Value REIT-AG prepared in accordance with the requirements of the HGB were both audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Munich, appointed as auditor by the Annual General Meeting on 19 May 2015. The auditor issued an unqualified audit opinion on both the separate and consolidated financial statements including the respective management reports.

The Supervisory Board dealt with the financial statements for fiscal year 2015 including the respective management reports as well as the audit reports which were submitted on time for its own review at its meeting on 21 March 2016. The auditors attesting the separate financial statements reported on the audit findings and were available to respond to any questions posed by the Supervisory Board.

As there was no cause for objection, the Supervisory Board ratified the separate financial statements and approved the consolidated financial statements on 21 March 2016.

Audit in compliance with REITG ["Gesetz über deutsche Immobilienaktiengesellschaften mit börsennotierten Anteilen": German Real Estate Investment Trust Act].

The auditor confirmed the declaration made by the Management Board on compliance with the requirements for spread of shares and minimum distribution as well as on compliance with the net asset and earnings ratios.

### Changes in the Supervisory Board

The Supervisory Board member Wolfgang Sauerborn resigned from his office for personal reasons effective as of 31 January 2015. The Munich local court appointed Rolf Elgeti member of the Supervisory Board effective as of 1 February 2015. In the constitutive meeting of the Supervisory Board on 2 February 2015, Mr. Elgeti was elected Chairman of the Supervisory Board. Dr. Oscar Kienzle was elected Deputy Chairman of the Supervisory Board.

The Annual General Meeting on 19 May 2015 elected Mr. Elgeti member of the Supervisory Board until the end of the Annual General Meeting that passes the resolution on exoneration for fiscal year 2019. In the constitutive meeting of the Supervisory Board on 19 May 2015, Mr. Elgeti was elected Chairman of the Supervisory Board and Dr. Oscar Kienzle was elected Deputy Chairman of the Supervisory Board.

In light of the change in the shareholder structure in the Company, Dr. Oscar Kienzle and Professor Heinz Rehkugler resigned from their offices as members of the Supervisory Board effective as of the end of February 2016. The Munich local court appointed Honorary Professor Andreas Steyer and Markus Drews members of the Supervisory Board effective as of 1 March 2016.

In the constitutive meeting of the Supervisory Board on 1 March 2016, Mr. Elgeti was confirmed as Chairman of the Supervisory Board. Mr. Drews was elected Deputy Chairman of the Supervisory Board.

The Supervisory Board would like to warmly thank all its former members for their effective cooperation based on mutual trust.

Finally, the Supervisory Board would like to thank the Management Board and the employees for their dedication and valuable contribution to the annual result.

Munich, 21 March 2016

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to be 'R. Elgeti', written in a cursive style.

Rolf Elgeti

(Chairman of the Supervisory Board)

# Corporate governance report

The Management and Supervisory Boards of Fair Value REIT-AG attach great importance to the application of clear and efficient rules for the management and control of the business and to the recommendations of the German Corporate Governance Code. Both boards of Fair Value REIT-AG again have dealt with the latest version of the code during the 2015 fiscal year.

Corporate governance refers to good and responsible corporate management and control, with the ultimate aim of creating long-term added value. Guidelines have been drawn up for this and are summarized for German companies in the German Corporate Governance Code (GCGC), which was updated on 5 May 2015.

## **Management and control structure**

The Management Board of Fair Value REIT-AG currently consists of only one person. He manages the company and acts exclusively in the interests of Fair Value REIT-AG. The Management Board is committed to sustainable growth in the value of the company. It confers with the Supervisory Board regarding the company's strategy and its implementation. It reports regularly, comprehensively and in a timely fashion to the Supervisory Board regarding corporate planning and strategic developments as well as about the current situation regarding business performance and risk.

The Supervisory Board of Fair Value REIT-AG currently has three members. It provides advice and monitors the management of the company by the Management Board. In addition, the Supervisory Board discusses interim reports, checks and adopts Fair Value REIT-AG annual reports pursuant to HGB (German Commercial Code) and approves consolidated financial statements in accordance with IFRS. Important strategic decisions made by the company management require the endorsement of the Supervisory Board.

## **Management Board compensation**

During the duration of the applicable employment contract (October 2012 until September 2016) the compensation of the Management Board consists of a base salary of €220,000 per annum plus additional benefits (primarily pension benefits equivalent to 10 % of the base salary, and provision of a passenger vehicle for business and personal use up to a purchase price of €50,000 net), and three variable compensation components.

## **The variable compensation components consist**

- a) of a dividend-based compensation equivalent to 4 % of the dividend that the Company pays out. Such variable compensation shall be paid out either in cash or in virtual shares of Fair Value REIT-AG, depending on the discount of the share price in XETRA trading on the Frankfurt Stock Exchange to the balance-sheet NAV. The variable compensation shall be paid in virtual shares equivalent to the level of the percentage discount. In other words, it shall not be paid in cash. Not before two years after granting, the virtual shares are entitled to a cash payout at the then prevailing share price in XETRA trading.

- b) of an additional cash bonus equivalent to 10 % of the administration cost savings which the Company achieves in a given year. For the first contractual year (October 2012 until October 2013), the basis for this calculation shall be the level of administration costs in the 2011 fiscal year. For the following years, the initial amount shall be in each case adjusted by the percentage change in the NAV, whereby
- c) the maximum total amount of bonuses pursuant to a) and b) shall amount to 100 % of the annual base salary including certain additional benefits (company car and pension contributions).
- d) also of a bonus equivalent to 0.2 % of the positive change in the Company's market capitalisation. The calculation of the compensation attributable from this long-term component shall be performed after four years by comparing the Company's market capitalisations on 1 October 2012 and on 30 September 2016. If the Management Board leaves the Company earlier, such calculations and payments shall be performed at the end of the contract. The level of the bonus component shall be limited to one year's basic salary excluding additional benefits, plus the annual average of the variable compensation pursuant to a) and b) until the calculation.

### Remuneration for the Supervisory Board

Remuneration paid to the members of the Supervisory Board consists of fixed remuneration of € 5,000 per annum and on a pro rata temporis basis, and a performance related remuneration of € 1 per € 1,000 of distributed dividends. This variable part of the remuneration is limited to a maximum sum of € 25,000. The chairperson receives double and the vice- chairperson receives one and a half times the fixed and variable remuneration of a normal member of the Supervisory Board.

### Directors' dealings

With regard to the 2015 fiscal year, Fair Value REIT-AG received reports regarding securities transactions on the part of members of the Management and the Supervisory Board or persons with a close relationship to these members as defined in § 15 WpHG (German Securities Trading Act).

Person oblig. to report	Date of transfer	Transfer Type	Number	Price per share in €
Prof. Dr. Heinz Rehkugler	02/01/2015	Purchase shares	2,000	6.92
Frank Schaich, Vorstand	08/05/2015	Purchase shares	2,264	7.90
Dr. Oscar Kienzle	07/05/2015	Purchase shares	4,000	7.90
Rolf Elgeti/Jägersteig Bet. GmbH	12/05/2015	Purchase shares	700,840	7.90
Jägersteig Beteiligungs GmbH	08/06/2015	Purchase shares	28,000	7.93
Jägersteig Beteiligungs GmbH	11/06/2015	Purchase shares	10,000	7.92
Jägersteig Beteiligungs GmbH	23/06/2015	Purchase shares	10,000	7.90
Jägersteig Beteiligungs GmbH	24/06/2015	Purchase shares	10,000	7.89
Frank Schaich	21/12/2015	Exchange in DEMIRE-shares	6,792	8.48
Dr. Oscar Kienzle	23/12/2015	Exchange in DEMIRE-shares	157,200	8.10
Prof. Dr. Heinz Rehkugler	21/12/2015	Exchange in DEMIRE-shares	2,000	8.48
Rolf Elgeti/Jägersteig Bet. GmbH/ Försterweg Bet. GmbH/Obotritia Bet. GmbH	23/12/2015	Exchange in DEMIRE-shares	3,118,870	8.10

### Share ownership

The shares in Fair Value REIT-AG held directly and indirectly by the members of the Management and Supervisory Boards amounts in total to less than 1 % of the share capital of Fair Value REIT-AG. When determining the indirectly held shares, holdings without a direct influence are not taken into account.

### Transparency and disclosure of information

The shareholders of Fair Value REIT-AG realize their rights as shareholders at the Annual General Meeting and exercise their voting rights there. All shareholders are invited to the Annual General Meeting and can address the agenda there and ask questions. Resolutions regarding the following points are among those passed at the Annual General Meeting:

Discharge of the Management and Supervisory Boards and selection of the auditor and the Supervisory Board, the appropriation of the balance sheet profit, amendments to the articles of association and measures leading to changes in capital.

The company reports on a quarterly basis regarding business performance as well as about the financial status and earnings position. The general public is informed about the company's activities via the media. Information that could have a significant effect on the company's share price is released in the form of ad-hoc disclosures in accordance with legal provisions. Fair Value REIT-AG uses its website at [www.fvreit.de](http://www.fvreit.de) to provide shareholders, investors and the general public with information.

### Accounting and auditing

Fair Value REIT-AG issues its consolidated financial statements in line with International Financial Reporting Standards (IFRS) and its single entity accounts are prepared in accordance with the provisions of the HGB. The Supervisory Board proposes an auditor for election by the Annual General Meeting. The increased requirements with regard to auditor independence are met.

### Declaration concerning the German Corporate Governance Code (GCGC)

The Management and Supervisory Boards of Fair Value REIT-AG issued the following declaration of conformity with the German Corporate Governance Code (Version dated 5 May 2015) within the meaning of section 161 of the AktG on 25 January 2016:

Fair Value REIT-AG's Management and Supervisory Boards welcome and support the German Corporate Governance Code and the objectives it pursues. Fair Value REIT-AG follows the recommendations of the German Corporate Governance Code in the version dated 5 May 2015 and will continue to do so in future with the following exceptions:

- **D & O insurance** The D & O insurance concluded for the Management and Supervisory Boards does not include a deductible for members of the Supervisory Board (Item 3.8 GCGC). The Company is of the opinion that the inclusion of a deductible is not necessary to urge the members of the supervisory board to a responsible behaviour as they are already obliged to a responsible behaviour in the best interest of the company qua their office and that an inclusion of a deductible may prevent potential suitable candidates from assuming the office as members of the supervisory board.

- **Number of Management Board Members** The Management Board currently only comprises one member (Item 4.2.1 GCGC). The Management and Supervisory Boards find this acceptable given the comparably low amount of investments under management.
- **Age limit for members of the Management and Supervisory Boards** There is no age limit for members of the Managing and Supervisory Boards (Items 5.1.2 and 5.4.1 GCGC). The Company is of the opinion that the determination of an age limit is not appropriate as the Company shall also benefit from the knowledge and experience of older persons in the work of the Managing and Supervisory Boards.
- **Committees** In view of its low number of members, the Supervisory Board has not formed any committees (Item 5.3 GCGC).

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## Management Board declaration adhering to the requirements of the REIT Act

In connection with the financial statements pursuant to Section 264 HGB as well as the consolidated financial statements pursuant to Section 315a HGB as of 31 December 2015, the Management Board declares the following with regards to adhering to the requirements of Sections 11 to 15 of the REIT Act (REITG) as well as the composition of income with regards to possible advanced taxation pursuant to Section 19 para. 3 in connection with Section 19a REITG as of 31 December 2015:

### **Section 11 – Shares in free float (min. 15 %)**

As of December 31, 2015, DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main (DEMIRE) directly held more than 10 % of the voting rights in contradiction to Section 11(4) REITG, consequently DEMIRE had over 10 % of the voting rights. On 29 February 2016, and thus within the period given, the Company received evidence proving that the shares directly held by DEMIRE had been transferred to eight of its subsidiaries (FVR Beteiligungsgesellschaft Erste mbH through to ... Achte mbH). As of 23 February 2016, the first seven companies each had 9.93 % of the voting rights in Fair Value REIT-AG; FVR Beteiligungsgesellschaft Achte mbH had 8.17 % of the voting rights in Fair Value REIT-AG as of 23 February 2016. Thus, in compliance with Section 11(4) REITG, to our knowledge no single shareholder directly holds 10 % or more of the shares in the company or shares in an amount which would result in a shareholder directly holding 10 % or more of the voting rights.

### **Section 12 – Asset and income requirements (min. 75 % of assets and net sales respectively)**

As of 31 December 2015, immovable assets were calculated at €299,544 thousand in line with Section 12 para. 1 and 2 REITG. This represents 90.7% of assets totalling €330,366 thousand calculated pursuant to Section 12 para. 2. Net sales plus other income from immovable assets pursuant to Section 12 no. 4 REITG stem exclusively (100 %) from rent, leasing and leases including property-related activities or sales of immovable assets. The asset and income requirements pursuant to Section 12 para. 2b and 3b REITG were not applicable as no REIT service companies are part of the Group.

### **Section 13 – Dividend requirements (min. 90 % of net income pursuant to HGB)**

Following a resolution of the Annual General Meeting on 19 May 2015, a dividend of €0.25 per share in circulation was distributed in 2015, which corresponds to €2,331,393.00 or 100% of the accumulated profit 2014. For the financial year 2015, the Management Board is proposing a dividend of €0.25 per share in circulation, which corresponds to 100 % of the accumulated profit 2015.

### **Section 14 – Exclusion of real estate trading (max. 50 % in five years)**

Pursuant to Section 14 para. 2, the proceeds from the sale of immovable assets within the last five financial years (2011 to 2015) totalled €78.2million and therefore accounted for 31.3% of the average portfolio of immovable assets of €249,836 thousand during this period. The Group did not qualify as a real estate trader during the financial year 2015.

### **Section 15 – Equity (min. 45 % of immovable assets)**

Equity pursuant to Section 15 REITG totalled €178,438 thousand as of 31 December 2015. This represents 59.6% of Group immovable assets totalling €299,544 thousand calculated pursuant to section 12 (1) REITG.

### **Section 19 – Advanced taxation of dividends**

The dividends of Fair Value REIT-AG do not stem from parts of profit subject to advanced taxation.



## Auditor's report pursuant to section 1 para. 4 of the REIT Act

### For the attention of Fair Value REIT-AG

As auditor of the financial statements and the consolidated financial statements of Fair Value REIT-AG, Munich, for the financial year 1 January to 31 December 2015, we checked the information in the corresponding attached disclosures of the Management Board for adherence to the requirements of Sections 11–15 of the REIT Act as well as the composition of income with regards to pre-taxed and untaxed income pursuant to Section 19 para. 3 in connection with Section 19a of the REIT Act as of 31 December 2015 (referred to as the "REIT declaration" in the following). The disclosures in the REIT declaration are the responsibility of the company's Management Board. Our task is to express an opinion on these disclosures based on our audit.

We carried out our audit taking into account the IDW audit instructions published by the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany, Incorporated Association – IDW): Special requirements in the auditing of a REIT stock company pursuant to Section 1 para. 4 of the REIT Act, for a pre-REIT stock company pursuant to Section 2 clause 3 of the REIT Act and auditing pursuant to Section 21 para. 3 clause 3 of the REIT Act (IDW PH 9.950.2). We planned and carried out audit activities for producing our opinion of the disclosures in the REIT declaration in line with these, in order to provide an opinion with sufficient certainty of whether the disclosures on the free float ratio and the maximum interest ownership per shareholder pursuant to Section 11 para. 1 and 4 of the REIT Act corresponds with the disclosures pursuant to Section 11 para. 5 of the REIT Act as of 31 December 2015, and whether the disclosures on the requirements of Sections 12–15 of the REIT Act as well as the composition of income with regards to pre-taxed and untaxed income pursuant to Section 19a of the REIT Act are correct. Our task was not to fully trace or examine the tax assessment of the relevant companies. As part of our audit we compared the disclosures on the free float ratio and the maximum interest ownership per shareholder pursuant to Section 11 para. 1 and 4 of the REIT Act with the information pursuant to Section 11 para. 5 of the REIT Act as of 31 December 2015 and matched the disclosures in the REIT declaration relating to Sections 12–15 of the REIT Act with the corresponding disclosures of the annual financial statements and consolidated financial statements of the company. We are confident that our audit provides a sufficiently sound basis on which to make an assessment.

According to our opinion based on the insights gained as part of the audit, the disclosures in the REIT declaration on the free float ratio and the maximum interest ownership per shareholder pursuant to Section 11 para. 1 and 4 REIT Act correspond with the disclosures pursuant to Section 11 para. 5 of the REIT Act as of 31 December 2015, and the disclosures in the REIT declaration on the requirements of Sections 12–15 of the REIT Act as well as the composition of income with regards to pre-taxed and untaxed income pursuant to Section 19a of the REIT Act are correct.

This report is intended exclusively for submission to the financial authorities in Munich as part of the tax assessment pursuant to Section 21 para. 2 of the REIT Act and may not be used for other purposes.

Munich, 21 March 2016

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Horbach	Sporbeck
Wirtschaftsprüfer	Wirtschaftsprüfer

## Method of real estate valuation

### Proceedings and assumptions

As in the previous years, Frankfurt-based CB Richard Ellis GmbH (CBRE) was engaged to value Fair Value's directly and indirectly held properties as of 31 December 2015. CBRE is not a company regulated by a supervisory body, however it does employ publicly appointed, sworn experts, members of the Royal Institution of Chartered Surveyors (RICS) and real estate experts certified by HypZert GmbH in its Valuation division.

The valuation has been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the International Standards for the Valuation of Real Estate for Investment Purposes ("International Valuation-Standards") and the RICS Valuation – Professional Standards (January 2014) (Red Book) of the Royal Institution of Chartered Surveyors.

The properties have been valued to fair value according to IAS 40 combined with IFRS 13.9 which has been published and defined by the International Accounting Standards Board (IASB) as follows:

"Fair value is the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction in the principal (or most advantageous) market at the measurement date."

For the purpose of financial reporting under International Financial Reporting Standards, fair value is effectively the same as market value, which is defined as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion".

The fair value was identified in each case by subtracting incidental acquisition costs (land transfer tax, estate agents' fees and notary's and attorney's fees) and was presented as the net capital value.

The fair values of the individual properties were determined using the internationally recognized discounted cash flow method. Only the directly owned land at Hartmannstrasse 1, Chemnitz, was measured at land value. The discounted cash flow method forms the basis for many dynamic investment appraisal models and is used to calculate the value of cash flows anticipated in future on various dates and in differing amounts.

In so doing, after identifying all of the factors relevant for the valuation, the future cash flows, some of which are linked to forecasts, are aggregated on an accrual basis. The balance of the receipts and payments recorded is then discounted to a fixed point in time (valuation date) using the discount rate. In contrast to the German Ertragswertverfahren (income-based approach) according to the Immobilienwertermittlungsverordnung (ImmoWertV – German Real Estate Appraisal Directive), the cash flows are explicitly quantified during the observed period and are not shown as annuity payments.

As the impact of future cash flows falls as a result of the discounting, and as the forecasting insecurity increases over the observed period, as a rule in the case of real estate investments the stabilized net investment income is capitalized after a ten-year period (detailed observation period) using a growth-implicit minimum interest rate (capitalization rate) and discounted to the valuation date.

The assumptions used in the valuation model reflect the average assumptions of the dominant investors on the market on the respective valuation date. These valuation parameters reflect the standard market expectations and the extrapolation of the analyzed past figures for the property to be valued or for one or several comparable properties.

CBRE estimated the valuation parameters, which can be broken down into two groups, using its best judgement.

The property-specific valuation parameters include, for example, rent for initial term renewals, the probability of existing rental agreements being extended, vacancy periods and vacancy costs, non reimbursable incidental costs and capital expenditure expected by the owner, fitting and rental costs of initial and renewals as well as property and lease specific returns on the capital tied up in the investment.

The general economic factors include, in particular, changes to market prices and rent during the detailed observation period and the inflation assumed in the calculation model.

### **Volatile markets**

According to Guidance Note 1 of the RICS Valuation-Professional Standards CBRE points out explicitly in its valuation reports as of 25 and 26 January 2016 as well as of 7 March 2016 that against the background of the currently rapidly changing environment on global financial and national real estate markets the fair value is a "snapshot" as of the balance sheet date, which reflects the market conditions valid on the reporting day. CBRE furthermore states that the fair value should not be understood as a figure valid for a longer period of time but is subject to market related fluctuations.

## Individual property information of Fair Value REIT-AG's portfolio

### Portfolio as of 31 December 2015

Address	Fund	Primary use	Year of construction	Last renovation/modernization	Plot size [m²]	Market value 31/12/2014 [€ thousand]	Market value 31/12/2015 [€ thousand]	Change [€ thousand]	Change [%]
<b>Direct investments</b>									
Appen Hauptstraße 56e/56d	n/a	Office	1975	1995	4,320	180	170	(10)	(5.6)
Bad Bramstedt Bleeck 1	n/a	Office	1973	2006	3,873	1,130	1,120	(10)	(0.9)
Bad Segeberg Oldesloer Straße 24	n/a	Office	1982	2007	5,152	8,760	8,800	40	0.5
Barmstedt Königstr. 19–21	n/a	Office	1911	laufend	2,842	1,370	1,410	40	2.9
Bornhöved Am alten Markt 9a	n/a	Office	1991	2005	873	560	560	–	–
Geschendorf Dorfstraße 29	n/a	Office	1985	2006	1,154	210	210	–	–
Neumünster Kuhberg 11–13	n/a	Office	1989	2005	5,286	15,000	15,200	200	1.3
Neumünster Röntgenstraße 118, 120	n/a	Office	1972	1998	2,481	180	180	–	–
Tornesch Willy-Meyer-Straße 3–5	n/a	Office	1977	2003	970	590	650	60	10.2
Trappenkamp Am Markt 1	n/a	Office	1985	2005	1,190	610	610	–	–
Wahlstedt Markt 1	n/a	Office	1975	2005	1,848	900	890	(10)	(1.1)
Chemnitz Hartmannstraße 1	n/a	Other	2000	–	3,520	1,690	1,690	–	–
Dresden Königsbrücker Str. 121 a	n/a	Other	1997	–	8,574	9,990	9,710	(280)	(2.8)
Köln Marconistr. 4–8	n/a	Other	1990	–	13,924	3,670	3,750	80	2.2
Langenfeld Max-Planck-Ring 26/28	n/a	Other	1996	–	14,727	7,520	7,570	50	0.7
Neubrandenburg Friedrich-Engels-Ring 52	n/a	Office	1996	–	4,705	7,370	7,190	(180)	(2.4)
Potsdam Großbeerenstr. 231	n/a	Office	1995	–	2,925	3,560	3,730	170	4.8
<b>Subtotal direct investments</b>					<b>78,364</b>	<b>63,290</b>	<b>63,440</b>	<b>150</b>	<b>0.2</b>

Discount rate 31/12/2015 [%]	Capitalization rate 31/12/2015 [%]	Lettable space [m²]	Vacancies [m²]	Secured remaining term of rental agreements [years]	Income based occupancy rate [%]	Annualized contractual rent [€ thousand]	Annualized potential rent [€ thousand]	Contractual rental yield before costs [%]	Potential rental yield before costs [%]	Participating interest [%]
6.70	6.20	212	–	2.0	100.0	21	21	12.4	12.4	100.00
6.90	6.40	997	40	9.8	95.7	80	83	7.1	7.4	100.00
6.90	6.40	9,184	358	7.8	96.0	640	667	7.3	7.6	100.00
6.90	6.40	1,257	–	8.7	100.0	101	101	7.2	7.2	100.00
6.75	6.25	664	–	1.8	100.0	55	55	9.9	9.9	100.00
6.75	6.25	316	–	1.6	100.0	21	21	10.2	10.2	100.00
7.10	6.50	11,808	–	9.6	100.0	1,038	1,038	6.8	6.8	100.00
7.50	7.00	534	52	2.0	86.7	26	30	14.7	16.9	100.00
6.50	6.00	657	–	2.4	100.0	59	59	9.1	9.1	100.00
6.60	6.10	787	–	1.6	100.0	58	58	9.5	9.5	100.00
6.70	6.20	1,346	–	1.6	100.0	89	89	10.0	10.0	100.00
–	–	300	–	0.9	100.0	41	41	2.4	2.4	100.00
7.80	7.30	11,554	–	13.5	100.0	761	761	7.8	7.8	100.00
7.90	7.50	9,640	–	7.1	100.0	334	334	8.9	8.9	100.00
8.40	7.90	10,940	–	4.1	100.0	773	773	10.2	10.2	100.00
7.55	7.10	7,228	1,832	4.0	77.9	564	724	7.8	10.1	100.00
7.00	6.50	3,828	91	2.4	96.5	306	317	8.2	8.5	100.00
		<b>71,251</b>	<b>2,372</b>	<b>7.3</b>	<b>96.0</b>	<b>4,968</b>	<b>5,173</b>	<b>7.8</b>	<b>8.2</b>	

## Portfolio as of 31 December 2015

Address	Fund	Primary use	Year of construction	Last renovation/modernization	Plot size [m²]	Market value 31/12/2014 [€ thousand]	Market value 31/12/2015 [€ thousand]	Change [€ thousand]	Change [%]
<b>Subsidiaries</b>									
Teltow Rheinstr. 8	IC07	Office	1995	–	5,324	8,630	9,100	470	5.4
Ahaus-Wüllen Andreasstr. 1	BBV06	Retail	1990	–	5,513	958	1,090	132	13.8
Ahaus-Wüllen Andreasstr. 3–7	BBV06	Retail	1973	–	13,036	3,560	3,580	20	0.6
Krefeld Gutenbergstr. 152/ St.Töniser Str. 12	BBV06	Retail	1990	–	8,417	3,730	3,670	(60)	(1.6)
Lippetal-Herzfeld Lippestr. 2	BBV06	Reail	1990	–	3,155	1,790	1,830	40	2.2
Meschede Zeughausstr. 13	BBV06	Retail	1989	–	1,673	430	431	1	0.2
Waltrop Bahnhofstraße 20a–e	BBV06	Retail	1989	–	1,742	2,570	2,550	(20)	(0.8)
Chemnitz Hartmannstr. 3a–7	IC12	Office	1997	–	4,226	7,570	7,880	310	4.1
Dresden Nossener Brücke 8–12	BBV14	Office	1997	–	4,134	6,920	6,100	(820)	(11.8)
Rostock Kröpeliner Str. 26–28	BBV14	Retail	1995	–	7,479	62,900	65,000	2,100	3.3
Querfurt Nebraer Tor 5	BBV08	Retail	1992	–	32,020	10,580	11,100	520	4.9
Radevormwald Uelfestraße 24	BBV08	Other	1991	–	8,774	9,875	11,100	1,225	12.4
Zittau Hochwaldstraße/Mittelweg	BBV08	Retail	1992	–	48,840	15,700	14,800	(900)	(5.7)
Celle Vor den Fuhren 2	BBV10	Retail	1992	–	21,076	6,900	7,200	300	4.3
Eisenhüttenstadt Nordpassage 1	BBV10	Retail	1993	–	96,822	28,500	20,900	(7,600)	(26.7)
Genthin Altmärker Str. 5	BBV10	Retail	1998	–	3,153	630	473	(157)	(24.9)
Langen Robert-Bosch-Str. 11	BBV10	Office	1994	–	6,003	13,000	13,800	800	6.2
Münster Hammer Str. 455–459	BBV10	Retail	1991	–	15,854	7,400	7,310	(90)	(1.2)
Osnabrück Hannoversche Str. 39	BBV10	Retail	1989	–	7,502	3,120	3,140	20	0.6
Lutherstadt Wittenberg Lerchenberg- str.112/113, Annendorfer Str. 15/16	BBV10	Retail	1994	–	20,482	21,100	21,700	600	2.8
Chemnitz Heinrich-Lorenz-Str. 35	IC15	Office	1998	–	4,718	3,820	3,960	140	3.7
Chemnitz Am alten Bad 1–7, Theaterstr. 34a	IC15	Office	1997	–	3,246	5,720	5,890	170	3.0
Quickborn Pascallehre 15/15a	IC15	Office	1997	–	33,255	13,300	13,500	200	1.5
<b>Subtotal subsidiaries</b>					<b>356,444</b>	<b>238,703</b>	<b>236,104</b>	<b>(2,599)</b>	<b>(1.1)</b>
<b>Total Group</b>					<b>434,808</b>	<b>301,993</b>	<b>299,544</b>	<b>(2,449)</b>	<b>(0.8)</b>

Discount rate 31/12//2015 [%]	Capitalization rate 31/12//2015 [%]	Lettable space [m²]	Vacancies [m²]	Secured remaining term of rental agreements [years]	Income based occupancy rate [%]	Annualized contractual rent [€ thousand]	Annualized potential rent [€ thousand]	Contractual rental yield before costs [%]	Potential rental yield before costs [%]	Participating interest [%]
6.75	6.25	9,742	333	3.2	96.4	732	759	8.0	8.3	78.16
8.00	7.50	1,496	–	4.0	100.0	112	112	10.3	10.3	62.21
7.90	7.30	3,915	–	2.0	100.0	329	329	9.2	9.2	62.21
7.60	7.10	4,575	723	6.3	86.5	285	329	7.8	9.0	62.21
7.10	6.50	1,452	–	9.1	100.0	150	150	8.2	8.2	62.21
7.70	7.00	1,095	–	1.5	100.0	42	42	9.8	9.8	62.21
7.50	7.00	2,124	250	2.0	92.0	224	244	8.8	9.6	62.21
6.70	6.20	8,380	827	2.7	93.6	589	629	7.5	8.0	53.88
8.50	7.80	8,791	5,583	2.6	36.0	261	723	4.3	11.9	50.71
6.20	5.70	19,307	415	5.8	98.0	4,373	4,463	6.7	6.9	50.71
7.80	7.10	9,331	–	6.7	100.0	981	981	8.8	8.8	58.02
6.50	6.50	7,966	–	2.0	100.0	780	780	7.0	7.0	58.02
8.00	7.50	18,515	181	2.1	97.9	1,400	1,430	9.5	9.7	58.02
7.60	7.10	10,611	–	6.6	100.0	594	594	8.3	8.3	44.95
8.75	8.71	30,543	18,318	4.1	59.9	1,793	2,994	8.6	14.3	44.95
8.10	7.60	1,275	320	2.8	95.4	62	65	13.0	13.6	44.95
7.70	7.10	13,650	5,430	1.9	62.0	851	1,373	6.2	10.0	44.95
7.70	7.00	7,353	–	3.1	100.0	716	716	9.8	9.8	44.95
8.40	7.90	4,207	–	2.8	100.0	302	302	9.6	9.6	44.95
6.70	6.20	14,710	581	6.8	97.8	1,646	1,683	7.6	7.8	44.95
7.70	7.20	5,845	–	1.4	100.0	462	462	11.7	11.7	48.17
6.70	6.20	5,110	1,450	1.8	73.6	354	480	6.0	8.2	48.17
6.70	6.20	10,570	–	1.5	99.8	1,144	1,146	8.5	8.5	48.17
		<b>200,565</b>	<b>34,410</b>	<b>4.2</b>	<b>87.5</b>	<b>18,181</b>	<b>20,788</b>	<b>7.7</b>	<b>8.8</b>	
		<b>271,816</b>	<b>36,783</b>	<b>4.9</b>	<b>89.2</b>	<b>23,148</b>	<b>25,962</b>	<b>7.7</b>	<b>8.7</b>	

## Financial calendar

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### Financial calendar

Fair Value REIT-AG

10 May 2016	Interim Report 1st Quarter 2016
4 July 2016	Annual General Meeting, Munich/Germany
4 August 2016	Semi-Annual Report 2016
10 November 2016	Interim Report 1st to 3rd Quarter 2016
21–23 November 2016	Presentation, German Equity Forum, Frankfurt am Main/Germany



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Markus Drews, Vice Chairman  
Hon.-Prof. Andreas Steyer

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DEMIRE Deutsche Mittelstand Real Estate AG

## **Concept, Design and Realization**

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