

# Annual Report 2016

fair value  
REIT

## Key figures Fair Value Group

Revenue and earnings		2016	2015
Rental income	in € thousand	22,542	24,291
Net rental result	in € thousand	16,088	17,726
Operating result (EBIT)	in € thousand	15,520	12,282
Group net profit	in € thousand	6,909	6,585
Earnings per share (basic/diluted) <sup>1)</sup>	in €	0.49/0.49	0.53/0.52
Adjusted group net profit (EPRA-Earnings)/FFO	in € thousand	6,313	6,406
EPRA-earnings/FFO per share (basic/diluted) <sup>1)</sup>	in €	0.45/0.45	0.52/0.51

Assets and capital		31/12/2016	31/12/2015
Non-current assets	in € thousand	296,907	296,914
Current assets	in € thousand	21,237	21,702
Non-current assets available for sale	in € thousand	3,600	11,750
Total assets	in € thousand	321,744	330,366
Equity/Net asset value (NAV)	in € thousand	120,590	117,278
Equity ratio	in %	37.5	35.5
Immovable assets	in € thousand	290,542	299,544
Equity within the meaning of Sec. 15 REITG	in € thousand	182,298	178,438
Equity ratio within the meaning of Sec. 15 REITG (minimum 45%)	in %	62.7	59.6

Real estate portfolio		31/12/2016	31/12/2015
Number of properties	amount	33	40
Market value of properties	in € million	291	300
Contractual rent	in € million	21.8	23.1
Potential rent	in € million	24.0	26.0
Occupancy rate	in %	90.6	89.2
Remaining term of rental agreements	years	5.2	4.9
Contractual rental yield before costs	in %	7.5	7.7

<sup>1)</sup> Weighted average number of shares outstanding in 2016: 14,029,013 basic/diluted  
Weighted average number of shares outstanding 2015: 12,379,587 basic/13,265,505 diluted

## Further key figures

		31/12/2016	31/12/2015
Number of shares outstanding	in pieces	14,029,013	14,029,013
Net asset value (NAV) per share	in €	8.60	8.36
EPRA-NAV per share	in €	8.60	8.36
Number of employees (excluding Management Board)		3	3

- 01 Letter to shareholders
- 03 A REIT – higher return for investors
- 04 Focus on secondary locations
- 06 Well positioned portfolio
- 08 The Fair Value REIT-AG on the capital market

## Group management report

- 13 Basic group information
- 19 Economic report
- 31 Forecast report
- 34 Risk report
- 40 Opportunities
- 41 Remuneration report
- 43 Other disclosures pursuant to Sec. 315 (4) HGB  
[“Handelsgesetzbuch”: German Commercial Code]

## Audited Consolidated financial statements

- 46 Consolidated balance sheet
- 47 Consolidated statement of income
- 48 Consolidated statement of comprehensive income and statement of changes in consolidated equity
- 49 Consolidated statement of cash flows
- 51 Notes to the consolidated financial statements
- 97 Declaration by legal representatives
- 98 Audit opinion

## Compliance

- 100 Supervisory Board and Management Board
- 102 Report of the Supervisory Board
- 105 Corporate governance report

- 108 Management Board declaration adhering to the requirements of the REIT Act
- 109 Auditor’s report pursuant to section 1 para. 4 of the REIT Act
- 110 Method of real estate valuation
- 112 Individual property information of Fair Value REIT-AG’s portfolio
- 116 Financial calendar
- 118 Imprint

# Letter to shareholders

Dear shareholders, ladies and gentlemen,

In the past fiscal year 2016, we successfully continued with our strategic portfolio streamlining, saw positive developments in the rental sector and achieved our operating (FFO) targets.



Frank Schaich



Patrick Kaiser

The sale of seven directly and indirectly held properties that no longer belong to our core portfolio generated income before selling costs of €19.8 million, exceeding carrying amounts by 4% overall.

As a result of successful letting activities, the occupancy rate of the portfolio increased to 90.6% of potential rents as of 1 January 2017 compared to 88.5% (like-for-like) of potential rents in the previous year. After including, on a pro forma basis, lease agreements already entered into for space still to be handed over, the occupancy rate again stood at 93.2% of potential rents as of 1 January 2017. This had a positive impact on the measurement result from the properties of the portfolio which, with a measurement gain of €1.7 million in the fiscal year 2016, was up considerably on the previous-year figure. In 2015, a measurement loss of €2.8 million had been recorded.

At €15.5 million, the operating result (EBIT) of the Fair Value Group in 2016 exceeded the previous-year figure of €12.3 million by 26%. The increase in earnings of €3.3 million was achieved despite a fall in net rental income. This resulted from an increase of €2.8 million in the balance of disposal and measurement gains and losses as well as other operating income and expenses in addition to a decrease in general administrative expenses.

Rental income within the Fair Value Group totalling €22.5 million in 2016 fell around 7% short of the previous-year figure of €24.3 million due to sales and vacancies. At €16.1 million, adjusted net rental income was down 9% on the previous-year level of €17.7 million.

At €3.4 million, net interest expenses were 19% below the previous-year figure of €4.2 million, largely due to repayments. Deducting the share of profit/loss attributable to non-controlling interests generated a group net profit of €6.9 million compared to €6.6 million in the previous year. This corresponds to a group net profit of €0.49 per share currently outstanding (previous year basic: €0.53).

At €10.4 million, group net profit adjusted for measurement effects and non-recurring effects (EPRA result or FFO = funds from operations) was up slightly on the previous-year figure of €10.3 million. After non-controlling interests, FFO amounted to €6.3 million (previous year: €6.4 million). This figure is within the expected range of between €6.2 million and €6.5 million and corresponds to an adjusted group net profit of €0.45 per share currently outstanding.

Group equity attributable to the shareholders of Fair Value REIT-AG as of 31 December 2016 increased to €120.6 million and was thus 3% above the previous-year figure of €117.3 million. This corresponds to a net asset value of €8.60 for each share currently outstanding, compared to €8.36 as of the end of the previous year.

As of the reporting date, the REIT equity ratio increased to 62.7% of property assets (previous year: 59.6%) and was therefore considerably above the legally prescribed 45% minimum.

The past fiscal year 2016 was thus highly satisfactory. On account of the increase in net profit for the year according to German GAAP, we will propose to the Annual General Meeting to distribute a dividend of €0.40 per share for fiscal year 2016, that is around €5.6 million. This proposed dividend corresponds to a distribution rate of around 91% of the net profit for the year pursuant to German GAAP.

#### **Outlook 2017**

Based on the existing portfolio, we expect funds from operations (FFO) before non-controlling interests of €9.6 million to €10.2 million for 2017. 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 €6.1 million and €6.4 million in 2017. This corresponds to FFO of between €0.43 and €0.46 per share currently outstanding. The target dividend for 2017 is €0.25 per share for all shares currently outstanding. This corresponds to a distribution rate of 55% to 57% of FFO.

May we take this opportunity to thank you for the trust you have placed in Fair Value REIT-AG and hope we can count on your continuing support.

Graefelfing, 30 March 2017

The Management Board



Frank Schaich



Patrick Kaiser

# 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 2016, the directly and indirectly owned portfolio comprised 33 properties (previous year: 40 properties) with market values totalling around €291 million (previous year: €300 million). The €9 million decrease on the previous year is due to the sale of seven properties for previous year market values totalling €19 million and from valuation gains of the portfolio as of 31 December 2016 totalling €10 million.

<b>Portfolio overview as of 31 December 2016</b>								<b>Share of Fair Value REIT-AG</b>
	Number of properties	Total lettable area [in m <sup>2</sup> ]	Annualised contractual rent [in T€]	Market value as of 31/12/2016 [in T€]	Occupancy rate [in %]	secured remaining term of rental agreements [in yrs]	Contractual rental yield before costs [in %]	Investment [in %]
Direct investments and participations								
Direct investments segment	16	72,615	5,143	64,650	96.3	6.7	8.0	100.0
Subsidiaries segment	17	181,651	16,651	225,892	89.0	4.8	7.4	51.0
<b>Overall portfolio</b>	<b>33</b>	<b>254,266</b>	<b>21,794</b>	<b>290,542</b>	<b>90.6</b>	<b>5.2</b>	<b>7.5</b>	<b>61.9</b>

The market values of the properties as of 31 December 2016 were up by €10 million, or 3.6%, on the like-for-like previous-year figures. After deducting the capitalised investment in improving the value of the properties, the measurement result recognised through profit or loss amounts to €1.8 million.

### Distribution by type of use

Overall portfolio (% of potential rent)



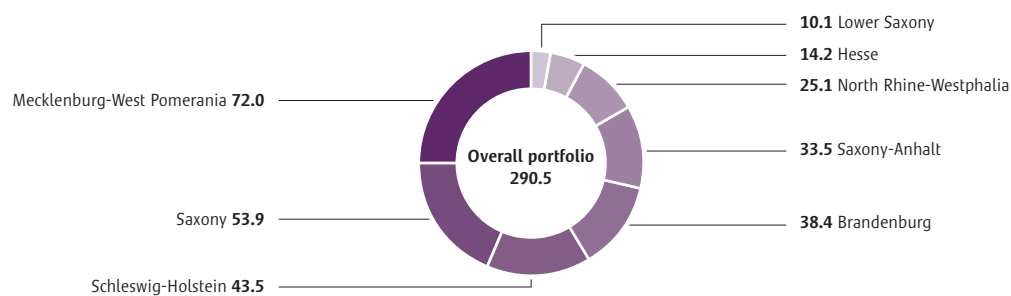
As of 1 January 2017, the overall portfolio generated around 55% of the total potential rents of €24.0 million with properties that are used primarily for retail purposes. Around 37% of potential rents is generated with properties that are used primarily as offices, 8% by other usage.

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.

When investing in the future, the Company will continue to focus on secondary locations in Germany.

### Regional distribution of properties (overall portfolio)

Market values on 31 December 2016 in € million



# Well positioned portfolio

The Fair Value Group continued to benefit from its quality and substance in the fiscal year 2016. The occupancy rate again increased by around 2 percentage points, thus following on from the high figures of previous years. The weighted remaining lease term also increased again to over 5 years.

## Occupancy rate of overall portfolio



At the beginning of the past fiscal year 2016, with an occupancy rate of around 89.2% of potential rents, 275 leases accounting for around 29% of the total contractual rental volume were due for renewal. The occupancy rate was expanded further by extending leases and through new lets despite selling seven buildings during the year, most of which were let in full.

This put the occupancy rate of Fair Value REIT-AG's overall portfolio at 90.6% of the potential rents of €24.0 million as of the beginning of 2017. The weighted remaining lease term, which increased to 5.2 years on the previous year, is a further indication of the portfolio's quality in terms of properties and location.

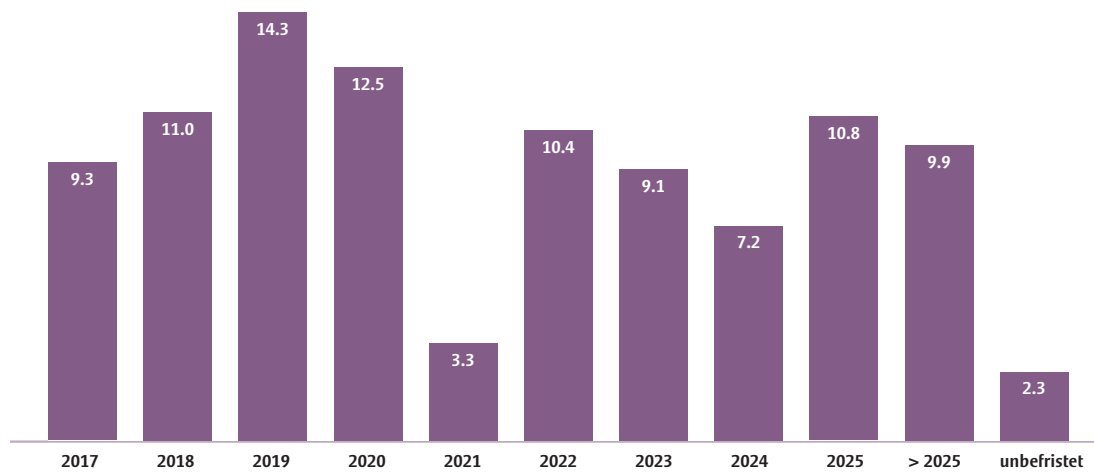
After including, on a pro forma basis, those lease agreements already entered into on 1 January 2017 or vacancies that are yet to be handed over to the tenants, the profit-weighted occupancy rate of the portfolio as of 1 January 2017 stood at €22.4 million or 93% of potential rents.



Of the current 513 leases in the overall portfolio, a total of 62 leases are due for renewal in the current fiscal year 2017. They represent a roughly 9% share of the contractual rents of €21.8 million as of 1 January 2017.

#### Rental expiry by year of expiry

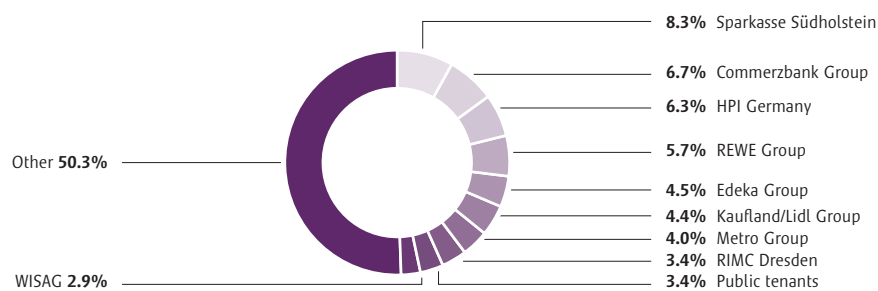
in % of contractual rents, as of 1 January 2017



The ten largest tenants in the portfolio account for around 50% of the Fair Value Group's contractual rents. At around 19%, large retail companies such as REWE, EDEKA, Kaufland and Metro make up the largest share of contractual rents. Bank tenants (Sparkasse Südholstein, Commerzbank Group) come in second, accounting for around 15%.

#### 10 largest tenants as of 1 January 2017

in % of contractual rent



# The Fair Value REIT-AG on the capital market

Share prices on the German stock markets were shaped by stronger fluctuations in 2016, with significant drops recorded in February and June 2016 in particular. Weak economic data from China as well as the UK's decision to leave the EU, among other factors, dampened investor sentiment. Nevertheless, the German indices developed positively for the year as a whole. At year-end 2016, the DAX, Germany's leading share index comprising the 30 largest companies in Germany, was just under 7% above the level seen at the end of December 2015. The MDAX also increased by almost 7%. The SDAX, for smaller stocks, managed an increase of 4.6%.

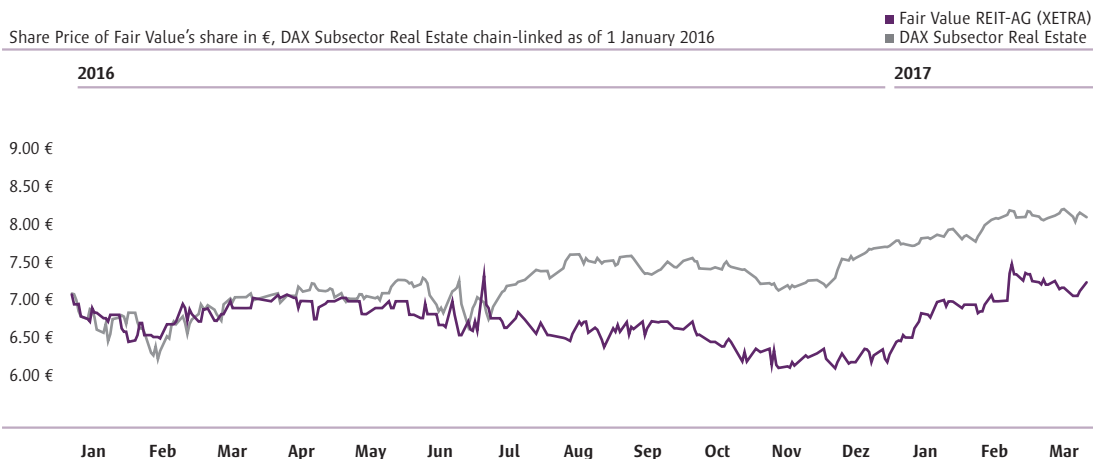
The performance of the Fair Value REIT-AG share was also volatile in 2016. After reaching its high for the year of €7.48 on 4 July 2016, the day of the Annual General Meeting, the Fair Value share came under pressure over the remaining course of the year, recording its low for the year of €6.11 on 6 December 2016. As of year-end 2016, the share price in the electronic trading system Xetra was down 10.5% on the previous year at €6.31. However, the price recovered significantly after the end of the reporting period, hovering around the €7.00 mark from mid-January 2017.

On average, a good 3,400 Fair Value shares were traded per day on all German stock exchanges, of which just under 96% related to the electronic trading system Xetra.

At the Annual General Meeting held in Munich on 4 July 2016, Prof. Andreas Steyer and Markus Drews were appointed as members of the Management Board by the shareholders present with a majority of more than 99%. They had previously been appointed as members of the board by court order effective 1 March 2016 after Prof. Dr. Heinz Rehkugler and Dr. Oscar Kienzle had resigned from their positions on the Supervisory Board. All other points on the agenda were also approved with a majority of more than 99%. This also included the creation of new conditional capital 2016 by up to €14,110,323.00 by issuing up to 7,055,161 new bearer shares. Among the resolutions was also a decision to pay out a dividend of €0.25 per share for the fiscal year 2015.

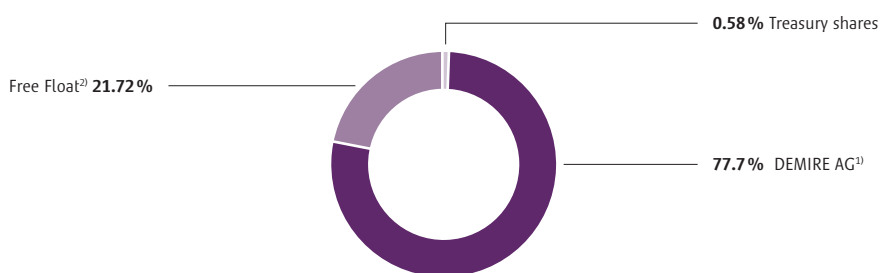
On 31 October 2016, Fair Value REIT-AG announced that the former sole Management Board member, Frank Schaich, would be resigning from the Management Board as of 31 March 2017, leaving the Company on the best of terms with the Supervisory Board. As of 1 November 2016, the Supervisory Board appointed Patrick Kaiser as an additional member of the Management Board for three years. He has since taken over the role of CFO of Fair Value REIT-AG.

### Development of Fair Value's share



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

as of 27 March 2017



<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	2016
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)	14,110,323 pcs.
Proportion per share in the share capital	€2.00
Initial listing	16 November 2007
High/low 2016 (XETRA)	€7.48/€6.11
Market capitalization as of 31 December 2016 (XETRA)	€89 million
Market segment	Prime Standard
Stock exchanges Prime Standard	Frankfurt, XETRA
Stock exchanges OTC	Stuttgart, Berlin-Bremen, Düsseldorf, Munich
Designated sponsor	ODDO SEYDLER Bank
Indices	RX REIT All Shares-Index, RX REIT Index

## Investor relations

Contact with investors, analysts and journalists was again intensively maintained in the past fiscal year 2016. The Management Board of Fair Value REIT-AG was, for instance, represented at important capital market conferences like the German Equity Forum. The business model and perspectives of the Company were also explained in more detail during roadshows.

Fair Value REIT-AG provides information on the Company, the portfolio and business development on its website [www.fvreit.de](http://www.fvreit.de). Moreover, the Company announces details on business development in ad-hoc announcements and press releases and publishes annual and semi-annual reports as well as quarterly statements.

Research reports by analysts can also be accessed on the [www.fvreit.de](http://www.fvreit.de) website in the "Investor relations" section.

## Group management report

Group net profit €6.9 million  
(2015: €6.6 million)

Operating result (FFO)  
€6.3 million  
(2015: €6.4 million)

Balance sheet equity ratio  
37.5%  
(2015: 35.5%)

REIT-equity ratio 62.7%  
(2015: 59.6%)

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# Table of contents

## **13 Basic group information**

- 13 Group structure and business model
- 16 Objectives and strategy
- 16 Governance and control
- 17 Management system
- 18 Research and development

## **19 Economic report**

- 21 Overall statement by the company management on business development
- 24 Financial performance, cash position and financial position

## **31 Forecast report**

- 31 Economic conditions and industry prospects
- 32 Anticipated financial performance of the Group
- 33 Opportunities and overall statement of the management on the expected development of the Group

## **34 Risk report**

- 34 Risk management system
- 36 Individual risks
- 38 Other risks
- 39 Overall statement on the risks faced by the Group

## **40 Opportunities**

## **41 Remuneration report**

- 41 Remuneration of the Management Board
- 42 Remuneration of the Supervisory Board

## **43 Other disclosures pursuant to Sec. 315 (4) HGB [“Handelsgesetzbuch”: German Commercial Code]**

# Basic group information

## Group structure and business model

Fair Value REIT-AG (hereinafter also referred to as Fair Value) is headquartered in Gräfelfing in the Munich district 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 pursuant to German GAAP (HGB). 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 2016.

Requirements of the REIT Act			Actual volume Fair value	
REIT-G	Criterion	Requirement	31/12/2016	31/12/2015
Sec. 11	Free float – separate financial statements <sup>1)</sup>	Min. 15%	21.7 %	21.7 %
Sec. 12, para. 2 a	Capital requirements – Group	Min. 75%	91.9 %	90.7 %
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%	91.0 %	n/a <sup>2)</sup>
Sec. 14	Exclusion of real estate trading – Group	Max. 50%	34.9 %	31.3 %
Sec. 15	Minimum equity – Group	Min. 45%	62.7 %	59.6 %

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

<sup>2)</sup> In 2016 the accumulated profit pursuant to HGB for fiscal year 2015 was fully distributed.

### 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 2016, the directly and indirectly owned portfolio comprised 33 properties (previous year: 40 properties) with market values totalling around €291 million (previous year: €300 million).

The €9 million decrease on the previous year is due to the disposal of seven properties with previous-year market values totalling €19 million and from valuation gains/additions as part of construction measures in the portfolio as of 31 December 2016 totalling €10 million.

The contractual rent volume of the overall portfolio came to €21.8 million as of 1 January 2017 with a weighted remaining lease term of 5.2 years; this corresponds to a profit-weighted occupancy rate of 90.6% of potential rents with full occupancy of €24.0 million (previous year like-for-like: 88.5% of potential rents with full occupancy of €24.4 million).

After including, on a pro forma basis, those lease agreements already entered into on 1 January 2017 for vacancies that are yet to be handed over to the tenants, the profit-weighted occupancy rate of the portfolio as of 1 January 2017 would come to €22.4 million or 93% of potential rents.

**Direct investments** As of the reporting date, the Company directly owns 16 commercial properties (previous year: 17 properties) with a total rentable space of 72,615 m<sup>2</sup> (previous year: 71,251 m<sup>2</sup>). The decrease resulted from the disposal of three properties that were largely used as bank branches in Schleswig-Holstein (Bornhoeved, Neumuenster, Tornesch) and the acquisition of direct ownership of two properties previously held by the subsidiary BBV 06 (Meschede and Waltrop).

The market values of the directly owned properties were determined by an expert at around €64.7 million in total as of the reporting date, slightly below the like-for-like previous-year figure of €65.0 million.

The total contractual rent volume of these properties came to €5.1 million as of 1 January 2017 with a weighted remaining lease term of 6.7 years; this corresponds to a profit-weighted occupancy rate of 96.3% of potential rents with full occupancy of €5.3 million (previous year like-for-like: 95.8% of potential rents with full occupancy of €5.3 million).



**Subsidiaries** Fair Value REIT-AG holds interests in a total of 15 subsidiaries, of which eight companies are property-holding partnerships (previous year: 10), five companies are management partnerships without 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 17 properties as of the reporting date (previous year: 23). The decrease arises from the sale of five properties by the subsidiary BBV 06, in two of which Fair Value REIT-AG acquired direct ownership. The market values of the properties held by the subsidiaries totalling €225.9 million as of 31 December 2016 were up on balance by €10.4 million or 4.8% on the like-for-like previous-year figure of €215.5 million in total.

The increase in value is the balance of measurement losses totalling €1.0 million with six properties and measurement gains totalling €11.3 million with 11 properties. For two of these 11 properties, namely in Eisenhuettenstadt and Zittau, the measurement gains totalling €8.0 million were counterbalanced by costs capitalised in connection with renewals of approximately the same amount, with the recognition of the measurement result through profit or loss being reduced in the consolidated statement of income. The measurement gain of €2.1 million for the property in Quickborn resulted from extending the rental agreement in place with the anchor tenant for a further five years.

The contractual rents of the properties held by the subsidiaries as of 1 January 2017 totalling €16.7 million were up slightly on the like-for-like previous-year figure of €16.5 million. This corresponds to a profit-weighted occupancy rate of 89.0% of potential rents with full occupancy of €18.7 million (previous year like-for-like: 86.4% with full occupancy of €19.1 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 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.

## Governance and control

Fair Value REIT-AG is managed autonomously by the Management Board. The Management Board currently consists of two persons – Frank Schaich and Patrick Kaiser.

Frank Schaich has more than 30 years' experience in the acquisition, portfolio management and sale of commercial properties in Germany, North America and the Netherlands and participations in closed-end real estate funds. On 31 October 2016, Frank Schaich resigned from the Management Board effective 31 March 2017. He is leaving the Company on the best of terms with the Supervisory Board of the Company in order to devote himself to new tasks in future. The resignation is connected with Mr. Schaich resigning from the Management Board of the majority shareholder DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main (DEMIRE), effective 31 October 2016.

Mr. Kaiser was appointed as an additional member of the Management Board of the Company for three years effective 1 November 2016. At the same time, Mr. Kaiser is commercial director and authorised signatory of DEMIRE as well as general manager of DEMIRE Immobilien Management GmbH and DEMIRE Einkauf GmbH. Mr. Kaiser has many years' experience heading the financial departments of listed groups.

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 31) 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

In the past fiscal year, accounting and property management functions were carried out via service agreements by IC Immobilien Service GmbH based in Munich. Since 1 January 2017, the real estate portfolio directly held by the Company has been managed by DEMIRE Immobilien Management GmbH based in Berlin. The indirectly held real estate portfolio as well as the accounting of the Company, the Group and investments continue to be carried out by IC Immobilien Service GmbH.

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.

## 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

The German economy continued its moderate upswing in the fiscal year 2016. At 43.5 million, the number of persons employed again slightly exceeded the record figure of many years since in the previous year. The annual inflation rate increased marginally by 0.5%. In the commercial letting markets, the office segment saw a significant rise in space turnover and rising rents; in the retail segment, there was a sideways movement at a high level. In the investment market, a transaction volume of €53 billion was generated with commercial property in Germany, just short of the revenue record of €55 billion from the previous year.

## Macroeconomic environment

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

In 2016, gross domestic product (GDP) (adjusted for price effects) increased by 1.9% following 1.7% in the previous year. As in the previous year, this development was driven by higher private consumer spending as well as construction output. As in the previous year, foreign trade's share of growth was in decline.

Consumer prices in 2016 increased by an average of 0.5% on the previous year. The price increase was again up on the very low previous-year level of 0.3%, which was largely shaped by falling energy prices. Without taking the development of energy prices into account, the annual inflation rate was 1.2% in 2016 (previous year: 1.1%).

Given the good economic development, the labour market continued to develop very positively. According to preliminary figures, the annual average number of persons in gainful employment increased to 43.5 million, again manifesting the long-standing upward trend. An average of 2.7 million persons were registered as unemployed in 2016, a 3.7% decrease in comparison to the previous year. The unemployment rate thus dropped by 0.3 percentage points to 6.1%.

## Real estate market in Germany

Source: Jones Lang LaSalle

**The rental market Office space** Office space turnover on the seven large German office letting markets<sup>1)</sup> significantly increased to a total volume of 3.9 million m<sup>2</sup> in fiscal year 2016, an increase of around 9% on the previous year. Prime rents in fiscal year 2016 increased in almost every major city, stagnating only in Cologne. The prime rent price index in the "Big 7"<sup>1)</sup> actually rose by 4.6%, the biggest increase since 2007.

The average vacancy rate of the "Big 7"<sup>1)</sup> fell to 5.5% over the course of 2016 compared to 6.4% in the previous year. At the same time, a total of about 1.1 million m<sup>2</sup> new office space was completed during the year, which corresponded to a 28% increase in comparison to the previous year. However, 83% of this space was already let at the time of completion, which is an indicator of just how rigorous demand is in the office segment.

<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 483,300 m<sup>2</sup> on the retail property market in fiscal year 2016. Although this was 7% less than in the previous year, the number of transactions closed (1,070) matched the previous-year level. A trend is thus emerging toward small and medium-sized areas.

Retail textile tenants remained the strongest sector, although its share fell to 33% of total space turnover in 2016 compared to 37% in the previous year and 40% in 2014. The gastronomy/food industry remained steady, settling at around 20% over the past five years. By contrast, the health and beauty retail segment increased its share considerably to 15% of total space turnover in 2016 compared to 10% in the previous year and remained the third-strongest sector. Prime rents in the 1a commercial locations in the 185 locations analysed across Germany lost much of their momentum in the past fiscal year, seeing an increase of a mere 0.1% compared to 1.2% in the previous year.

**The investment market** The German investment market for commercial property recorded a total transaction volume of around €53 billion in 2016, falling only 4% short of the record revenue level of €55 billion seen in the previous year. Around 45% of the transaction volume relates to office property, following 41% in the previous year. Retail property ranked second with a share of 23%, following 31% in the previous year. The remaining shares are largely spread among hotel and warehouse/logistic properties (around 9% each), while mixed-use properties had a share of 6% compared to 10% in the previous year with special-purpose properties, such as care and retirement homes, accounting for the rest.

Reflecting 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

In the past fiscal year 2016, Fair Value REIT-AG successfully continued with its strategic portfolio streamlining, generated positive developments in the rental sector and largely achieved its operating (FFO) targets.

As a result, as of 31 December 2016, the occupancy rate of the portfolio stood at 90.6% of potential rents following 88.5% (like-for-like) at the end of the previous year. The average remaining lease term as of the reporting date increased to 5.2 years compared to 4.9 years at the end of the previous year. After including, on a pro forma basis, lease agreements already entered into for space still to be handed over, the occupancy rate again stood at around 93% of potential rents as of 1 January 2017.

As of 31 December 2016, the directly and indirectly owned portfolio represented 33 properties with an aggregate market value of around €291 million (previous year: 40 properties with market values totalling €300 million). The €9 million decrease in the portfolio volume on the previous year is due to the disposal of seven non-strategic properties for previous-year market values totalling €19 million and from valuation gains of the portfolio as of 31 December 2016 totalling €10 million.

These valuation gains primarily resulted from the successful lets of the properties in Eisenhüttenstadt, Quickborn and Zittau. Deducting the capitalised fit-out costs for the properties in Eisenhüttenstadt and Zittau left a measurement gain of €1.8 million (previous-year loss: €2.8 million).

At €3.4 million, net interest expenses were down €0.8 million (19%) on the previous-year figure of €4.2 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 €6.9 million (previous year: €6.6 million).

As of the reporting date, group equity amounted to €120.6 million (previous year: €117.3 million) or €8.60 for each share currently outstanding (previous year: €8.36). Total assets decreased as of the reporting date 2016 to €321.7 million compared to €330.4 million in the previous year, thus causing the equity ratio as of 31 December 2016 to increase to 37% (previous year: 35%).

Including the shares in non-controlling interests in subsidiaries, as intended when calculating REIT equity, the equity of all shareholders amounted to €182.3 million or 57% of total assets (previous year: 54%).

As of the reporting date, the REIT equity ratio came to 62.7% of the immovable property (previous year: 59.6%) and was therefore considerably over the 45.0% minimum prescribed by Sec. 15 REITG.

**EPRA earnings (FFO) compared to planning** In its forecast report in the 2015 annual report, the Management Board expected group net profit adjusted for measurement effects and non-recurring effects (EPRA result or FFO = funds from operations) before non-controlling interests to amount to between €10.5 million and €10.8 million for the fiscal year 2016. With the share of directly held properties in the overall portfolio not having changed further and thus also the share of non-controlling interests in the Group, the Management Board had forecast FFO after non-controlling interests of between €6.2 million and €6.5 million.

The Management Board has clarified this plan with the publication of the quarterly statement as of 30 September 2016 – and in light of the costs for those lease agreements for vacancies that have already been entered into projected an EPRA result for 2016 at the lower end of the communicated range.

In effect, the FFO before non-controlling interests generated in 2016 at €10.4 million was slightly below the specific figure planned. After deducting the non-controlling interests, the FFO came to around €6.3 million, which was up slightly on the specific figure planned and thus demonstrates the stability and profitability of the portfolio, which has been reduced slightly through disposals.

**EPRA earnings (FFO) compared to the previous year** At €16.1 million, the adjusted net rental income for the past fiscal year was around 14% above the previous-year figure of €18.7 million. The decrease on the previous year resulted from the sales-related merger of potential rents as well as from temporary vacancies of the portfolio. Half of this decrease was absorbed by a reduction in general administrative expenses and a positive balance from other operating income and expenses. As a result, the adjusted operating result adjusted for these non-recurring effects came to €13.5 million, still down around 7% on the previous-year figure of €14.5 million.

The 26% decrease in the adjusted net interest expense to €3.1 million (previous year: €4.2 million), which mainly related to repayments, compensated almost entirely for the decrease in the adjusted operating result. Accordingly, FFO before non-controlling interests of €10.4 million was up 1% on the previous-year figure of €10.3 million.

At €4.1 million, the adjusted share of profit/loss attributable to non-controlling interests was up 5% on the previous-year figure of €3.9 million. The adjusted group net profit (EPRA result or FFO) after non-controlling interest of €6.3 million is thus down marginally on the previous-year figure of €6.4 million. This corresponds to €0.45 per share currently outstanding.

The past fiscal year 2016 was thus satisfactory and met our expectations



<b>Adjusted profit/loss of the Group (EPRA earnings) or FFO 2016</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	22,542	–	–	–	22,542
Service charge income	5,080	–	–	–	5,080
Service charge expenses/ground rent	(8,085)	–	–	–	(8,085)
Other property-related expenses	(3,449)	–	–	–	(3,449)
<b>Net rental income</b>	<b>16,088</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>16,088</b>
General administrative expenses	(3,162)	–	–	226	(2,936)
Other operating income and expenses	389	–	–	–	389
Profit/loss from disposal of investment properties	452	(452)	–	–	–
Measurement result	1,753	–	(1,753)	–	–
<b>Operating result</b>	<b>15,520</b>	<b>(452)</b>	<b>(1,753)</b>	<b>226</b>	<b>13,541</b>
Net interest expenses	(3,375)	–	–	254	(3,121)
<b>Result before non-controlling interests</b>	<b>12,145</b>	<b>(452)</b>	<b>(1,753)</b>	<b>480</b>	<b>10,420</b>
Share of profit/loss attributable to non-controlling interests	(5,226)	(95)	1,224	–	(4,097)
Income taxes	(10)	–	–	–	(10)
<b>Group net profit</b>	<b>6,909</b>	<b>(547)</b>	<b>(529)</b>	<b>480</b>	<b>6,313</b>
Profit/loss of the Group per share	0.49 <sup>1)</sup>				0.45 <sup>1)</sup>

<sup>1)</sup> Weighted average number of shares outstanding in 2016: 14,029,013 basic/diluted

<b>Adjusted consolidated net income (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

## Financial performance, cash position and financial position

### Financial performance

in € million	2016	2015	Change	
			[€ million]	[%]
<b>Rental income</b>	<b>22.5</b>	<b>24.3</b>	<b>(1.8)</b>	<b>(7)</b>
Service charge income	5.1	5.6	(0.5)	(9)
Service charge expenses	(8.1)	(7.9)	0.2	3
Other property-related expenses	(3.4)	(4.2)	(0.8)	(19)
<b>Net rental income</b>	<b>16.1</b>	<b>17.7</b>	<b>(1.6)</b>	<b>(9)</b>
General administrative expenses	(3.2)	(5.2)	(2.0)	(38)
Balance of other operating income and expenses, disposal and measurement gains/losses	2.6	(0.2)	2.8	1,400
<b>Operating result</b>	<b>15.5</b>	<b>12.3</b>	<b>3.2</b>	<b>26</b>
Net interest expenses	(3.4)	(4.2)	(0.8)	(19)
Share of profit/loss attributable to non-controlling interests	(5.2)	(1.5)	3.7	247
<b>Group net profit/loss</b>	<b>6.9</b>	<b>6.6</b>	<b>0.3</b>	<b>5</b>
Group net profit/loss per share basic/diluted	0.49 <sup>1)</sup>	0.53/0.52 <sup>2)</sup>		

<sup>1)</sup> Weighted average number of shares outstanding in 2016: basic/diluted 14,029,013

<sup>2)</sup> Weighted average number of shares outstanding in 2015: 12,379,587 basic/13,265,505 diluted

At €22.5 million, rental income was down 7% on the previous-year figure. The decrease was due to sales of non-strategic properties and from temporary vacancies. Service charge income decreased by €0.5 million, or 9%, to €5.1 million (previous year: €5.6 million), while service charge expenses increased marginally by €0.2 million, or 3%, to €8.1 million.

Other property-related expenses amounted to €3.4 million, exceeding the previous-year figure by 19%. At €16.1 million, net rental income was thus down €1.6 million, or 9%, on the previous-year figure of €17.7 million.

At €3.2 million, general administrative expenses were down €2.0 million or 38% on the previous year. This decrease was mainly attributable to the lower legal and consulting fees. The balance from other operating income and expenses including the profit/loss from the disposal of investment property and the measurement result led to net income of €2.6 million, which was up €2.8 million on the previous-year total expense of €0.2 million.

At €15.5 million, the operating result was thus up 26% on the previous-year figure of €12.3 million.

At €3.4 million, net interest expenses were down €0.8 million or 19% on the previous-year figure (€4.2 million) largely due to repayments. However, they also contain a non-recurring expense of €0.3 million in the form of the redemption premium for the premature repayment of the convertible bond placed in the previous year as desired by the creditors as part of the change of control at Fair Value REIT-AG that occurred on 21 December 2015.

Deducting the share of profit/loss attributable to non-controlling interests in the subsidiaries generated a group net profit of €6.9 million (previous year: €6.6 million). This corresponds to earnings per number of shares currently outstanding of €0.49 after €0.53 (basic) 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 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 €120.6 million as of the reporting date (previous-year figure: €117.3 million). Including the shares in non-controlling interests in subsidiaries totalling €61.7 million, the equity of all shareholders amounts to €182.3 million (previous year: €178.4 million). This corresponds to around 57% of consolidated total assets of €321.7 million (previous year: 54% of €330.4 million).

As presented below, the Group's financial liabilities amounted to €131.7 million as of the reporting date (previous year: €144.1 million):

Financial liabilities of the Group		Amount 12/2016 [T€]	Amount 12/2015 [T€]	Interest rate	Bankmargin	Term
Short name	Lender					
FVAG	Convertible bond	–	(8,460)	–	–	–
FV AG	Capital Bank GRAWE Group, Graz	(7,000)	–	floating	4.00%	15.02.2019E
FV AG	WIB Westdeutsche Immobilienbank AG <sup>1)</sup>	(8,800)	(9,300)	2.55%	–	30.06.2019E
FV AG	WIB Westdeutsche Immobilienbank AG <sup>1)</sup>	(5,909)	(7,256)	floating	1.27%	30.06.2019E
FVAG	Stadt-Sparkasse Langenfeld	(2,636)	(2,719)	1.55%	–	30.03.2020
FVAG	Stadt-Sparkasse Langenfeld	(1,943)	–	1.69%	–	30.03.2020
FVAG	Volksbank Mittweida eG <sup>4)</sup>	(3,913)	–	2.25%	–	01.08.2026
IC 12	WIB Westdeutsche Immobilienbank AG <sup>2)</sup>	(1,831)	(1,907)	2.50%	–	31.03.2017
IC 15	Sparkasse Südholstein	(7,269)	(7,490)	2.71%	–	30.01.2018
BBV 02	Bayer. Beamten Lebensvers. a.G. <sup>3)</sup>	(139)	(139)	–	–	–
BBV 02	Bayer. Beamten Lebensvers. a.G. <sup>3)</sup>	(942)	(942)	–	–	–
BBV 08	Unicredit Bank AG	(8,556)	(18,576)	floating	2.60%	30.09.2025E
BBV 10	Bayer. Beamten Lebensvers. a.G.	(20,409)	(20,980)	3.90%	–	30.11.2019
BBV 10	Unicredit Bank AG	(23,257)	(23,670)	floating	2.05%	31.03.2017
BBV 10	Unicredit Bank AG	(7,434)	(9,850)	floating	2.10%	31.03.2017
BBV 14	DG Hypothekenbank AG	(31,642)	(32,824)	1.38%		31.03.2020E
<b>Total</b>		<b>(131,680)</b>	<b>(144,113)</b>			

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

<sup>2)</sup> LTV 50 % // DSCR 120 %

<sup>3)</sup> Interest-free and redemption-free on account of assigning the purchase price deposited to an escrow account for the property sold in Erlangen

<sup>4)</sup> LTV 52 % // minimum annual net rent of €588,000.00

Other than those loans marked with an "E" indicating the date of final maturity, the dates relate to the interest terms agreed as of 31 December 2016. After the terms expire, the lenders have to offer new conditions.

The required debt service coverage ratio for the loans secured by mortgages issued by WIB Westdeutsche Immobilienbank comes to 120% of the sum of interest and repayment. The loan-to-value (LTV) ratio of the properties amounts to a maximum of 50% and 75%, respectively. Both conditions were complied with as of the reporting date.

The LTV ratio for the loan on the mortgaged property in Neubrandenburg from Volksbank Mittweida eG secured by mortgages comes to 52% of the lending value calculated by the bank. In the event that the LTV ratio is exceeded, among other things additional collateral must be provided and special repayments made within six months until the ratio is achieved again. Moreover a minimum annual net rent of €588,000 must be achieved. The conditions were complied with as of the reporting date.

As of the reporting date, there were no financial liabilities at the Group secured using interest rate swaps or interest rate caps. The fixed interest loans amounted to €79.5 million (previous year: €84.8 million).

At €52.2 million, around 40% of financial liabilities with no interest hedges were thus subject to floating-rate interest as of the reporting date (previous year: €59.4 million, or 41%).

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 2.1% p.a. as of the reporting date. This represents a decline of 16% compared with the previous-year figure of 2.5% p.a. The weighted bank margin for the loans with floating-rate interest rates increased from 219 bp in the previous year to 233 bp.

The weighted remaining term of the fixed-interest and bank margin agreements amounted to 16 months as of the reporting date compared to 23 months in the previous year.

**Liquidity** The Group's cash and cash equivalents amounted to €16.8 million as of the reporting date, up €0.8 million, or 5%, on the previous-year figure of €16.0 million.

At €9.5 million, the net cash flow from operating activities was thus up considerably on the previous-year figure of €6.6 million. The lower previous-year figure was largely due to non-cash income from the acquisition of non-controlling interests of €3.6 million as well as a lower cash inflow compensated for non-cash effects from the measurement result.

#### Net cash flow from operating activities

in € thousand	2016	2015
<b>Profit/loss of the Group</b>	<b>6,909</b>	<b>6,585</b>
Measurement and sales result	(2,205)	2,580
Non-controlling interests (shares of gains)	5,226	1,496
Income from the acquisition of non-controlling interests	7	(3,607)
Other adjustments	(454)	(447)
<b>Net cash flow from operating activities</b>	<b>9,483</b>	<b>6,607</b>

**Cash flow from investment activities** Investment activities resulted in a cash inflow of €12.1 million following €11.6 million in the previous year. In 2016, cash inflows resulted from cash received from the disposal of seven properties for a total of €19.8 million (previous year: €17.0 million), which was counter-balanced by cash paid for investments or fit-outs of €7.7 million (previous year: €5.4 million).

in € thousand	2016	2015
<b>Net cash inflow from investment activities</b>	<b>12,066</b>	<b>11,632</b>
<b>Net cash outflow from financing activities</b>	<b>(20,801)</b>	<b>(16,799)</b>
Change to cash and cash equivalents	748	1,440
Cash and cash equivalents at the beginning of the period	16,028	14,588
<b>Cash and cash equivalent at the end of the period</b>	<b>16,776</b>	<b>16,028</b>

**Cash flow from financing activities** The cash outflow from financing activities of €20.8 million (previous year: €16.8 million) consists of a net outflow of €12.5 million from the repayment of and proceeds from financial liabilities (previous year: €40.0 million). Furthermore, the dividend for the fiscal year 2015 amounted to €3.5 million (previous year: €2.3 million) and distributions to non-controlling interests in subsidiaries to €4.4 million (previous year: €3.3 million).

### 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 notes 2 and 6 of the notes to the consolidated financial statements.

Assets	31/12/2016		31/12/2015		Change	
	[€ thousand]	[%]	[€ thousand]	[%]	[€ thousand]	[%]
Total non-current assets	296,907	92	296,914	90	(7)	–
Total current assets	21,237	7	21,702	7	(465)	(2)
Non-current assets available for sale	3,600	1	11,750	3	(8,150)	(69)
<b>Total assets</b>	<b>321,744</b>	<b>100</b>	<b>330,366</b>	<b>100</b>	<b>(8,622)</b>	<b>(3)</b>

Total assets decreased by 3% compared to the previous year to €321.7 million. The decrease resulted from a balance of disposing of seven non-strategic properties and the measurement result.

Non-current assets of €296.9 million accounted for 92% of total assets (previous year: €296.9 million, or 90%). Around 97% or €286.9 million related to investment property (previous year: 97% or €287.8 million).

Current assets of €21.2 million (previous year: €21.7 million) comprised €16.8 million or around 79% of cash and cash equivalents (previous year: €16.0 million). Around €2.6 million (12%) relates to trade receivables following €2.8 million in the previous year. Around €1.9 million (9%) related to other receivables and assets (previous year: €2.9 million).

Non-current assets held for sale relate to one property in Krefeld which was sold at its carrying amount after the reporting date. In February 2017, title, risks and rewards were transferred once the usual prerequisites for payment have been met in return for payment of the purchase price.

Equity and liabilities	31/12/2016		31/12/2015		Change	
	[€ thousand]	[%]	[€ thousand]	[%]	[€ thousand]	[%]
<b>Equity of parent company</b>	<b>120,590</b>	<b>37</b>	<b>117,278</b>	<b>35</b>	<b>3,312</b>	<b>3</b>
Non-controlling interests	61,708	19	61,160	19	548	1
Financial liabilities, derivatives, other liabilities	123,289	38	127,071	36	(4,647)	–
<b>Total non-current liabilities</b>	<b>184,997</b>	<b>57</b>	<b>188,231</b>	<b>54</b>	<b>(4,099)</b>	<b>2</b>
Total current liabilities	16,157	5	24,857	10	(7,835)	(32)
<b>Total liabilities</b>	<b>201,154</b>	<b>63</b>	<b>213,088</b>	<b>65</b>	<b>(11,934)</b>	<b>(6)</b>
<i>Thereof financial liabilities</i>	<i>131,680</i>	<i>65</i>	<i>144,113</i>	<i>68</i>	<i>(12,433)</i>	<i>(9)</i>
<b>Total equity and liabilities</b>	<b>321,744</b>	<b>100</b>	<b>330,366</b>	<b>100</b>	<b>(8,622)</b>	<b>(3)</b>

On the reporting date, a total of 37% of assets (previous year: 35%) was financed by equity attributable to shareholders of the parent company and 63% (previous year: 65%) by liabilities. Here it must be taken into account that the non-controlling interests in subsidiaries of €61.7 million (previous year: €61.2 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 €182.3 million or 57% of the total equity and liabilities (adjusted previous-year figure: €178.4 million or 54%).

The financial liabilities of the Group amounted to €131.7 million or 41% of total assets (previous year: €144.1 million or 44%). The decrease in financial liabilities by €12.4 million or 9% on the previous year is due to the premature repayment of the convertible bond as well as sales-related unscheduled repayments, less new loans taken out. Of the financial liabilities, €9.3 million (previous year: €18.1 million) is due in less than one year.

**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 2016 immovable assets totalled €290.5 million. Nominal REIT equity amounted to €182.3 million. This resulted in a REIT equity ratio of 62.7%, thus above the legally required minimum ratio of 45.0% of immovable assets.

Calculation of equity ratio pursuant to Sec. 15 REITG	31/12/2016		31/12/2015	
	[€ thousand]	[%]	[€ thousand]	[%]
Investment properties incl. assets under construction	286,942	–	287,794	–
Non-current assets held for sale	3,600	–	11,750	–
<b>Immovable assets</b>	<b>290,542</b>	<b>100.0</b>	<b>299,544</b>	<b>100.0</b>
Equity	120,590	–	117,278	–
Non-controlling interests	61,708	–	61,160	–
<b>Equity pursuant to Sec. 15 REITG</b>	<b>182,298</b>	<b>62.7</b>	<b>178,438</b>	<b>59.6</b>

**Equity/net asset value (NAV) per share** As of 31 December 2016, the net asset value amounted to €120.6 million (previous year: €117.3 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 €8.60 per share following €8.36 in the previous year.

NAV in the consolidated statement of financial position		
in € thousand	31/12/2016	31/12/2015
Market value of properties (incl. held for sale)	290,542	299,544
Other assets less other liabilities	27,322	27,400
Non-controlling interests	(61,708)	(61,160)
Financial liabilities	(131,678)	(144,113)
Other liabilities	(3,888)	(4,393)
<b>Net asset value</b>	<b>120,590</b>	<b>117,278</b>
Net asset value per share	8.60	8.36

**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 net asset value. The EPRA-NAV indicator shown below is based on this guideline. As deferred taxes are not relevant for 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.

EPRA-NAV		
in € thousand	31/12/2016	31/12/2015
NAV pursuant to consolidated statement of financial position	120,590	117,278
Market value of derivative financial instruments	–	–
Thereof attributable to non-controlling interests	–	–
<b>EPRA-NAV</b>	<b>120,590</b>	<b>117,278</b>
EPRA-NAV per share (in €)	8.60	8.36



# Forecast report

## Economic conditions and industry prospects

The German economy will also maintain its essentially healthy constitution in 2017. The office markets will continue to grow, while the 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 attractive at a high level.

### Macroeconomic situation

In its annual economic report for 2017, the forecast issued by the German federal government expects the German economy to grow by 1.4% in 2017; however, the slight decrease on 2016 is largely attributable to the lower number of working days. 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 only slightly. The low external value of the euro against the US dollar should provide impetus for growth in foreign trade. Development of prices for private consumption is forecast at 1.6%.

### Letting markets

According to analysts' estimates, the office letting market will experience high demand in 2017 as well. The volume of new construction is anticipated at around 1.1 million m<sup>2</sup>, 83% 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 2017. This should have a positive impact on prime rents; an increase of 3% is expected. An anticipated increase for average rents is expected to exceed this.

Positive consumer sentiment owing to the good labour market conditions should bolster retail revenue in 2017 as well. However, the Management Board expects the letting dynamics to wane in the retail segment.

### Investment market

The investment market for commercial property in Germany will stay attractive for investors in 2017 and will therefore continue to exhibit a high transaction volume, albeit below that of the last two years in an estimated range of €45 billion to €50 billion. Investor demand will lead to further yield compression and increasing net present values, even in secondary locations.

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

## Anticipated financial performance of the Group

### Forecast of consolidated earnings for 2017

The earnings forecast 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 specific 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 price indexed figures of the previous year.

Any non-recurring 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 2016, it is assumed that the real estate portfolio will remain unchanged.

The Management Board plans to continue expanding Fair Value REIT-AG's stake in selected subsidiaries and to acquire further previously indirectly owned properties.

As these investments will not have an impact on the amount of investment income and net rental income that can be precisely planned, the Management Board has not provided a concrete forecast for the income statement pursuant to IFRS. As a result of acquiring direct ownership of properties previously held indirectly, rental income from direct ownership is expected to increase. However, the Management Board prefers not to allocate these investment projects to specific companies and properties in the forecast report.

Based on the existing portfolio without any changes in the share of directly owned properties, the Management Board expects funds from operations (FFO) to amount to between €9.6 million and €10.2 million at group level in 2017 before non-controlling interests. After non-controlling interest, the Management Board expects FFO of around €6.1 million to €6.4 million. This corresponds to FFO of between €0.43 and €0.46 per share currently outstanding. The target dividend for 2017 is €0.25 per share for all outstanding shares. This corresponds to a distribution rate of 55% 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 2017. The Management Board is confident that it can further develop the existing direct and investment portfolio in the current market environment in a way that adds value.

# 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 the external service providers IC Immobilien Service GmbH (ICIS) and DEMIRE Immobilien Management GmbH.

The service providers support 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, as it performs the function of general partner in the property-holding participations via its subsidiary GP Value Management GmbH and, in the case of the subsidiary BBV 08, participates in the budget meetings of the business agency of the ICIS investments as the largest shareholder and without power of representation.

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 €1.1 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 2.2% below to around 2.4% above the market values as of 31 December 2016. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €6.2 million or €6.8 million, respectively.

If market rents of the portfolio moved upward or downward by 5%, with an unchanged capitalisation rate, this would have effects of around 3.7% below or above the market values as of 31 December 2016. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €10.4 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 is currently one legal dispute pending, which involves an office tenant in the Bad Segeberg property concerning parking space issues with a disputed amount of €5 thousand.

**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 DEMIRE Immobilien Management GmbH and 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 2017 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 2016, for example, of one percentage point, would involve a reduction in the FFO before non-controlling interests of around €1.3 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 exemption of the REIT-AG 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).

To calculate rental risks, the planned income from properties for each company was reduced by a further 1.5% or 3% concerning the direct portfolio and 2.5% or by 5% with regard to the properties held in subsidiaries.

To assess the measurement risks, the market values calculated by the valuers as of 31 December 2016 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, 81% (€16.4 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 2017, 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 Fair Value's share in the overall portfolio in a value-adding manner and to further and sustainably improve the Company's financial position and performance.

The good condition of the German economy has created increased demand for space, which should have a positive impact on the occupancy rate of the portfolio. The Management Board expects rents to increase further, in particular in the office segment, and is confident in light of the current maintenance expenses that the value of the portfolio will develop positively.

# Remuneration report

## Remuneration of the Management Board

Until 29 February 2016, the remuneration of the member of the Management Board, Frank Schaich, was composed of 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 variable components.

The variable remuneration components mainly comprise variable remuneration pegged at 4% of the dividends distributed by the Company. In previous years, this variable remuneration was partly settled 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; this was settled in cash at the prevailing price of the shares on the XETRA exchange over the vesting period of two to four years.

A long-term remuneration concept was also agreed that contained a cash payment of 0.2% of the positive change in the market capitalisation of the Company by comparing the market capitalisation of the Company on 1 October 2012 and as of the original end of the agreement on 30 September 2016 or the date upon leaving prematurely.

The employment contract with Fair Value REIT-AG was rescinded by mutual agreement in light of Mr. Schaich's appointment as an additional member of the management board of DEMIRE effective 29 February 2016. The corresponding agreement stipulates that the phantom stock granted in previous years at the value as of 31 December 2015 would be paid out on 31 March 2016. The same applies for the long-term remuneration components of 0.2% of the change in the market capitalisation of the Company in the period from 1 October 2012 to 31 December 2015.

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 management board service agreement concluded between DEMIRE and Mr. Schaich effective 1 March 2016, 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 for serving on the management board of DEMIRE based on conditions related to success and performance. As a long-term remuneration component, Mr. Schaich had been granted 400,000 phantom stock options of DEMIRE by DEMIRE, which after a vesting period of four years under the conditions of the stock option programme 2015 at DEMIRE entitle the holder to a cash pay-out less taxes by DEMIRE.

According to the cost allocation agreement between the Company and DEMIRE Deutsche Mittelstand Real Estate AG dated 1/14 March 2016, 70% of the short-term remuneration components and fringe benefits and expense refunds agreed therein are borne by the Company and 30% by DEMIRE effective 1 March 2016.

The same applies for the settlement amounts for the short-term contractual and post-contractual remuneration components and fringe benefits agreed in the termination agreement between Frank Schaich and DEMIRE dated 31 October 2016.

No remuneration structure has been set yet for the new member of the Management Board Patrick Kaiser for fiscal year 2016. The Supervisory Board and Mr. Kaiser are currently negotiating the contractual arrangements.

Shortly, the Supervisory Board will set a level of remuneration for Mr. Kaiser that is appropriate and thus in line with the AktG and the GCG code. It will apply retroactively from date of appointment and the Supervisory Board will report on it.

## 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. 31.

# Other disclosures pursuant to Sec. 315 (4) HGB [“Handelsgesetzbuch”: German Commercial Code]

## Composition of share capital, voting rights and special rights

The Company's share capital consists of 14,110,323 no-par value bearer shares of the same class. 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 their 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 indirectly held a total of 77.70% of the voting rights via eight subsidiaries. Seven companies each had 9.93% of the voting rights in Fair Value REIT-AG; one company had 8.17% of the voting rights in Fair Value REIT-AG. 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 4 July 2016, with the approval of the Supervisory Board, to issue once or several times until 3 July 2021 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 €250,000,000.00 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 €14,110,323.00 in accordance with the Convertible and Warrant Bond Terms.

By resolution of the Annual General Meeting on 4 July 2016, contingent capital 2014 of €9,406,882.00 was cancelled. At the same time, the share capital of the Company was contingently increased by up to €14,110,323.00 by issuing up to 7,055,161 new bearer shares with a right to participate in profits from the beginning of the fiscal year in which they are issued (contingent capital 2016). The contingent capital

increase was performed to serve bonds issued on the basis of the authorisation resolved by the Annual General Meeting on 4 July 2016.

**Repurchasing treasury shares** The Annual General Meeting on 4 July 2016 authorised the Company to acquire treasury shares until 23 July 2021 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.

Graefelfing, 27 March 2017

Fair Value REIT-AG



Frank Schaich



Patrick Kaiser

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# Audited Consolidated financial statements

46	Consolidated balance sheet
47	Consolidated statement of income
48	Consolidated statement of comprehensive income and statement of changes in consolidated equity
49	Consolidated statement of cash flows
51	Notes to the consolidated financial statements
97	Declaration by legal representatives
98	Audit opinion

# Consolidated balance sheet

<b>Consolidated balance sheet</b>			
in € thousand	Note no.	31/12/2016	31/12/2015
<b>Assets</b>			
<b>Non-current Assets</b>			
Intangible assets	(5)	75	78
Property, plant and equipment	(5)	62	26
Investment property	(6)	286,942	287,794
Other receivables and assets	(7)	9,828	9,016
<b>Total non-current assets</b>		<b>296,907</b>	<b>296,914</b>
<b>Current assets</b>			
Trade receivables	(9)	2,578	2,757
Income Tax receivables	(10)	5	22
Other receivables and assets	(11)	1,878	2,895
Cash and cash equivalent	(12)	16,776	16,028
<b>Total current assets</b>		<b>21,237</b>	<b>21,702</b>
Non-current asset held for sale	(8)	3,600	11,750
<b>Total assets</b>		<b>321,744</b>	<b>330,366</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
	(13)		
Issued capital		28,221	28,221
Capital reserves		99,645	99,729
Revaluation reserve		(22)	(16)
Accumulated loss		(6,856)	(10,258)
Treasury shares		(398)	(398)
<b>Total equity attributable to the shareholders of the parent company</b>		<b>120,590</b>	<b>117,278</b>
<b>Non-current liabilities</b>			
Non-controlling interests	(14)	61,708	61,160
Financial liabilities	(15)	122,405	125,995
Other liabilities	(16)	884	1,076
<b>Total non-current liabilities</b>		<b>184,997</b>	<b>188,231</b>
<b>Current liabilities</b>			
Provisions	(17)	645	743
Financial liabilities	(15)	9,275	18,118
Trade payables	(16)	3,233	2,679
Other liabilities	(16)	3,004	3,317
<b>Total current liabilities</b>		<b>16,157</b>	<b>24,857</b>
<b>Total equity and liabilities</b>		<b>321,744</b>	<b>330,366</b>



# Consolidated statement of income

<b>Consolidated statement of income</b>			
in € thousand	Note no.	2016	2015
Rental income		22,542	24,291
Service charge income		5,080	5,556
Ground rent		(6)	(9)
Service charge expenses	(21)	(8,079)	(7,920)
Other property operating expenses	(21)	(3,449)	(4,192)
<b>Net rental income</b>	(20)	<b>16,088</b>	<b>17,726</b>
<b>General administrative expenses</b>	(22)	<b>(3,162)</b>	<b>(5,230)</b>
Other operating income		597	4,246
Other operating expenses		(208)	(1,639)
<b>Total other operating income and expenses</b>	(23)	<b>389</b>	<b>2,607</b>
Income from the disposal of investment property and non-current assets held for sale		19,780	17,022
Expenses in connection with the disposal of investment property and non-current assets held for sale		(19,328)	(17,051)
<b>Profit/loss from the disposal of investment properties and non-current assets held for sale</b>	(24)	<b>452</b>	<b>(29)</b>
Measurement gains from investment property and non-current assets held for sale		4,293	9,655
Measurement losses from investment property and non-current assets held for sale		(2,540)	(12,447)
<b>Measurement result</b>	(25)	<b>1,753</b>	<b>(2,792)</b>
<b>Operating result</b>		<b>15,520</b>	<b>12,282</b>
Interest income		–	11
Interest expenses	(26)	(3,375)	(4,212)
Share of profit/loss attributable to non-controlling interests	(14)	(5,226)	(1,496)
<b>Financial result</b>		<b>(8,601)</b>	<b>(5,697)</b>
Income taxes		(10)	–
<b>Net profit/loss of the Group</b>		<b>6,909</b>	<b>6,585</b>
Earnings per share in € (basic/diluted)	(28)	0.49/0.49	0.53/0.52

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

<b>Consolidated statement of comprehensive income</b>			
in € thousand	Note no.	2016	2015
<b>Profit/loss of the Group</b>		<b>6,909</b>	<b>6,585</b>
Other comprehensive income			
Gains (+)/losses (–) from changes of actuarial assumptions	(7)	(6)	2
<b>Total other comprehensive income</b>		<b>(6)</b>	<b>2</b>
<b>Total Comprehensive income</b>		<b>6,903</b>	<b>6,587</b>

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

<b>Consolidated statement of changes in 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 2015</b>	(13)	<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 issued capital		4,703,441	9,407	25,342	–	–	–	34,749
Distribution		–	–	–	–	(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>
Distributions		–	–	–	–	(3,507)	–	(3,507)
Repayment of convertible bond		–	–	(84)	–	–	–	(84)
Total comprehensive income		–	–	–	(6)	6,909	–	6,903
Profit/loss of the Group		–	–	–	–	6,909	–	6,909
Other comprehensive income		–	–	–	(6)	–	–	(6)
<b>As of 31 December 2016</b>		<b>14,029,013</b>	<b>28,221</b>	<b>99,645</b>	<b>(22)</b>	<b>(6,856)</b>	<b>(398)</b>	<b>120,590</b>

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

# Consolidated statement of cash flows

<b>Consolidated statement of cash flows</b>			
in € thousand	Note no.	2016	2015
<b>Profit/loss of the Group</b>		<b>6,909</b>	<b>6,585</b>
Adjustments to consolidated earnings for reconciliation to cash flow from operating activities			
Interest expenses		3,611	4,212
Interest income		(236)	(11)
Depreciation of property, plant and equipment and amortisation of intangible assets	(5)	3	4
Gains (-)/losses (+) on disposal of investment properties	(24)	(452)	(212)
Measurement result	(25)	(1,753)	2,792
Cash paid in connection with intercompany transactions		(23)	(208)
Non-cash income from the acquisition of non-controlling interests		7	(3,607)
Other non-cash relevant expenses and income		(848)	(730)
Shares of losses (+) / gains (-) attributable to non-controlling interests	(14)	5,226	1,496
Interest paid	(26)	(3,897)	(4,672)
Interest received	(26)	322	11
Changes in assets, equity and liabilities			
(Increase)/decrease in trade receivables	(9)	171	465
(Increase)/decrease in other receivables	(7)	133	906
(Decrease)/increase in provisions	(17)	(98)	173
(Decrease)/increase in trade payables		554	364
(Decrease)/increase in other liabilities	(16)	(146)	(961)
<b>Net cash flow from operating activities</b>		<b>9,483</b>	<b>6,607</b>
Cash paid for the purchase of interests in BBV08		–	(4,713)
Purchase of investment properties	(6)	(7,678)	(650)
Net income from the disposal of investment property	(6)	19,780	17,022
Purchase of property, plant and equipment and intangible assets		(36)	(27)
<b>Net cash flow from investing activities</b>		<b>12,066</b>	<b>11,632</b>
Severance payments to former non-controlling interests	(14)	(400)	(4,988)
Distributions to non-controlling interests	(14)	(4,358)	(3,284)
Proceeds from borrowings	(15)	13,671	44,876
Repayment of borrowings	(15)	(26,123)	(84,831)
Redemption of swaps/caps		–	(990)
Cash received from capital increases		–	37,157
Costs of the capital increase		(84)	(2,408)
Dividend payments	(13)	(3,507)	(2,331)
<b>Net cash flow from financing activities</b>		<b>(20,801)</b>	<b>(16,799)</b>
<b>Change in cash and cash equivalents</b>	(12)	<b>748</b>	<b>1,440</b>
Cash and cash equivalents at the beginning of the period	(12)	16,028	14,588
<b>Cash and cash equivalents at the end of the period</b>		<b>16,776</b>	<b>16,028</b>

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# Table of contents

51	(1)	General corporate information
		<b>Accounting and valuation methods</b>
51	(2)	Significant accounting, valuation and consolidation methods
60	(3)	Estimates and accounting judgments
61	(4)	Fair value measurement
		<b>Notes to the consolidated balance sheet</b>
62	(5)	Intangible assets and property, plant and equipment
63	(6)	Investment properties
66	(7)	Other assets (non-current)
66	(8)	Non-current assets held for sale
67	(9)	Trade receivables
67	(10)	Income tax receivables
68	(11)	Other receivables and assets
68	(12)	Cash and cash equivalents
69	(13)	Equity
70	(14)	Non-controlling interests
72	(15)	Financial Liabilities
74	(16)	Liabilities
75	(17)	Provisions
75	(18)	Contingent liabilities and pending litigation
75	(19)	Leases
		<b>Notes to the consolidated income statement</b>
76	(20)	Net rental income
76	(21)	Property-related operating expenses
77	(22)	General administrative expenses
77	(23)	Total other operating income and expenses
78	(24)	Net result from the disposal of investment property and non-current assets held for sale
78	(25)	Measurement result
78	(26)	Interest expenses
79	(27)	Additional notes on the consolidated statement of income
79	(28)	Earnings per share
		<b>Other notes to the consolidated financial statements</b>
80	(29)	Financial instruments and financial risk management
84	(30)	Segment reporting
94	(31)	Related parties
96	(32)	Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG

# 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 2016 were authorised for issue by a resolution of management on 27 March 2017. 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 Wuermstr. 13a in 82166 Graefelfing. 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 31.

## 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.

In fiscal year 2016, the following standards and interpretations were subject to mandatory adoption for the first time in accordance with the provisions of the European Union:

Standards and interpretations	Title	Effective as of
IAS 19	Defined Benefit Plans: Employee Contributions	reporting years beginning on or after 1 February 2015
Various	Improvements to IFRSs (2010 to 2012)	reporting years beginning on or after 1 February 2015
IFRS 10, IFRS 12 and IAS 28	Investment Entities – Applying the Consolidation Exception	reporting years beginning on or after 1 January 2016
IAS 27	Equity Method in Separate Financial Statements	reporting years beginning on or after 1 January 2016
IAS 1	Disclosure Initiative	reporting years beginning on or after 1 January 2016
Various	Improvements to IFRSs (2012 to 2014)	reporting years beginning on or after 1 January 2016
IAS 16	Clarification of Acceptable Methods of Depreciation and Amortisation	reporting years beginning on or after 1 January 2016
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	reporting years beginning on or after 1 January 2016
IAS 16 and 41	Bearer Plants	reporting years beginning on or after 1 January 2016

The standards and interpretations subject to mandatory adoption for the first time in fiscal year 2016 in accordance with the provisions of the European Union did not have any material effect on the Group's financial position and performance.

The IASB has published the standards and interpretations listed below, the adoption of which was voluntary and not yet mandatory for the reporting year 2016.

Standards and interpretations	Title	Effective as of
IFRS 9	Financial instruments	reporting years beginning on or after 1 January 2018
IFRS 15	Revenue from Contracts with Customers	reporting years beginning on or after 1 January 2018
IFRS 16	Leases	reporting years beginning on or after 1 January 2019
IAS 12	Recognition of Deferred Taxes for Unrealised Losses	reporting years beginning on or after 1 January 2017
IAS 7	Statement of Cash Flows (part of the Disclosure Initiative)	reporting years beginning on or after 1 January 2017
IFRS 15	Clarification of Revenue from Contracts with Customers	reporting years beginning on or after 1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions	reporting years beginning on or after 1 January 2018
IFRS 4 and IFRS 9	Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	reporting years beginning on or after 1 January 2018

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 2016, the Group carried out an assessment of IFRS 15. 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. 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 2016. 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 2016, the basis of consolidation was as follows:

Share of voting rights/fixed capital in %	31/12/2016	31/12/2015
GP Value Management GmbH, Munich ("GPVM")	100.00	100.00
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich ("FV03")	100.00	100.00
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich ("FV06")	100.00	100.00
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich ("FV09")	100.00	100.00
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich ("FV10")	100.00	100.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich ("FV14")	100.00	100.00
IC Fonds & Co. Büropark Teltow KG, Munich ("IC07")	78.16	78.16
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich ("BBV06")	62.23	62.22
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich ("BBV08")	58.22	58.02
IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG, Munich ("IC13")	57.37	57.37
IC Fonds & Co. SchmidtBank-Passage KG, Munich ("IC12")	53.95	53.95
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich ("BBV14")	51.01	50.78
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich ("IC15")	48.17	48.17
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich ("BBV10")	45.16	44.96
BBV Immobilien-Fonds Erlangen GbR, Munich ("BBV02")	42.02	42.02
IC Fonds & Co. Forum Neuss KG, Munich i.L. ("IC03")	–	71.58
BBV Immobilien-Fonds Nr. 3 GmbH & Co. KG, Munich ("BBV03")	–	80.05

**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 note 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 by the International Valuation Standards Council (IVSC) 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 [“Wertermittlungsverord-

nung": 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 previous 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.

**Revenue recognition** 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 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 Group holds less than 50% of the voting rights in BBV 02, BBV 10 and IC 15. Nevertheless, 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, and thus, despite voting rights of less than 50%, can direct the relevant activities of these entities. 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** As in the previous year, the Group engaged an independent property valuer to determine the fair values of its investment properties as of 31 December 2016. Due to the distinctive characteristics and features of the investment properties, there were no market values available to use as reference values, apart from the purchase price paid for the property sold in Krefeld. 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

Fair values of assets and liabilities 2016					
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	31/12/2016	286,942	–	–	286,942
Non-current assets held for sale					
Commercial property in Germany	31/12/2016	3,600	–	–	3,600

Fair values of assets and liabilities 2015					
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

## 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	Property, plant and equipment (office and operating equipment)
<b>Acquisition costs</b>		
As of 1 January 2015	211	12
Additions	1	26
As of 31 December 2015	212	38
Additions	–	37
As of 31 December 2016	212	75
<b>Accumulated depreciation, amortization and impairment loss</b>		
As of 1 January 2015	(133)	(9)
Additions	(1)	(3)
As of 31 December 2015	(134)	(12)
Additions	(3)	(1)
As of 31 December 2016	(137)	(13)
<b>Carrying amounts</b>		
As of 1 January 2015	78	3
As of 31 December 2015	78	26
As of 31 December 2016	75	62



## (6) Investment properties

### Development of investment property

in € thousand	Direct investments	Subsidiaries	Total
<b>Cost of the business combination</b>			
<b>As of 1 January 2015</b>	<b>38,062</b>	<b>325,678</b>	<b>363,740</b>
Additions (change in basis of consolidation)	–	36,155	36,155
Additions (subsequent acquisition costs)	1,100	–	1,100
Disposals – sales	(3,967)	–	(3,967)
Reclassifications	29,800	(75,919)	(46,119)
Reclassification to 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>
Additions (subsequent acquisition costs)	86	8,165	8,251
Reclassifications	2,300	–	2,300
Disposals – sale	(1,052)	(8,903)	(9,955)
Reclassification to non-current assets held for sale	–	(5,843)	(5,843)
<b>As of 31 December 2016</b>	<b>65,608</b>	<b>269,458</b>	<b>335,066</b>

### Changes in value

<b>As of 1 January 2015</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>
Write-ups	1,070	3,904	4,974
Write-downs	(840)	(1,700)	(2,540)
Reclassifications	681	(2,981)	(2,300)
Disposals – sale	(385)	2,403	2,018
Reclassification to non-current assets held for sale	–	2,243	2,243
<b>As of 31 December 2016</b>	<b>(958)</b>	<b>(47,166)</b>	<b>(48,124)</b>

### Fair values

As of 1 January 2015	33,060	234,658	267,718
As of 31 December 2015	62,790	225,004	287,794
<b>As of 31 December 2016</b>	<b>64,650</b>	<b>222,292</b>	<b>286,942</b>

As of 31 December 2016, investment property consisted of a total of 32 properties, of which 29 are wholly owned and three are partially owned. Compared to 31 December 2015, the number of properties has fallen on balance by six. In the past fiscal year, two investment properties were sold from the portfolio held directly by Fair Value REIT-AG and three properties held by subsidiaries for which both title and the risks and rewards incidental to ownership were transferred. Fair Value REIT-AG also acquired direct ownership of two properties from subsidiaries in fiscal year 2016. For the Krefeld property sold in December, title, risks and rewards of ownership were not transferred before the end of 2016. 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 €655 thousand (2015: €1,500 thousand).

Apart from the sold Krefeld property, for which the contractually agreed sales price was used as management was of the opinion that this was the best evidence of the fair value as of 31 December 2016, the fair value of the properties was measured on a property-by-property basis by CBRE GmbH, Frankfurt, 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 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 previous year were as follows:

<b>Rental contracts</b>			
in €		31/12/2016	31/12/2015
Office	Min	2.02	2.50
	Max	25.80	25.80
	<b>Average</b>	<b>7.34</b>	<b>6.10</b>
Retail	Min	2.50	2.50
	Max	90.00	90.00
	<b>Average</b>	<b>9.65</b>	<b>7.97</b>
Other	Min	2.00	2.00
	Max	11.60	11.60
	<b>Average</b>	<b>4.80</b>	<b>5.46</b>
<b>Total</b>	Min	<b>2.00</b>	<b>2.00</b>
	Max	<b>90.00</b>	<b>90.00</b>
	<b>Average</b>	<b>8.04</b>	<b>6.92</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<sup>1)</sup></b>				
	Capitalisation rates in %		Discount rates in %	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Office	6.0–7.5	6.1–7.8	6.5–8.1	6.6–8.5
<b>Weighted average</b>	<b>6.49</b>	<b>6.61</b>	<b>7.04</b>	<b>7.15</b>
Retail	5.6–7.9	5.7–8.0	6.1–8.5	6.2–8.75
<b>Weighted average</b>	<b>6.37</b>	<b>6.59</b>	<b>6.93</b>	<b>7.15</b>
Other	7.3–7.8	7.3–7.9	7.8–8.3	7.8–8.4
<b>Weighted average</b>	<b>7.51</b>	<b>7.55</b>	<b>8.00</b>	<b>8.03</b>

<sup>1)</sup> Source: Property appraisal CBRE 2016, 2015

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 2016. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €6 million (2015: €6 million) or around €7 million (2015: €6 million), respectively.

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 2016. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €10 million (2015: €10 million).

Of the 16 (2015: 27) properties whose value either remained stable or rose, two properties displayed no change in value. Two (2015: 8) of the remaining 14 (2015: 23) properties whose market value rose were directly held.

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

<b>Future rental income</b>		
in € thousand	31/12/2016	31/12/2015
Less than one year	21,031	22,583
Between one to five years	58,235	57,097
After more than five years	34,740	32,747
<b>Total of future rental income</b>	<b>114,006</b>	<b>112,427</b>

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

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

in € thousand	31/12/2016	31/12/2015
<b>Financial assets</b>		
Receivable settlement balance BBV 09	9,822	9,018
<b>Non-financial assets</b>		
Other	6	(2)
<b>Total other assets</b>	<b>9,828</b>	<b>9,016</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.

The settlement balance was due on 31 May 2016. However, according to the business plan of BBV 09, it will be paid out in three annual 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 €9,822 thousand and a current portion of €332 thousand (see note 11). The outstanding receivable is subject to interest at 4% p.a. as of 1 June 2016.

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 of BBV 09 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.

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

in € thousand	31/12/2016	31/12/2015
Radevormwald property ("BBV 08")	–	11,100
Tornesch property ("Fair Value")	–	650
Krefeld property ("BBV 06")	3,600	–
<b>Total non-current assets held for sale</b>	<b>3,600</b>	<b>11,750</b>

The Krefeld property (BBV 06) was sold by purchase agreement from 22 December 2016. Risks and rewards were transferred following full payment of the purchase price on 6 February 2017 as of 7 February 2017.

**(9) Trade receivables**

in € thousand	31/12/2016	31/12/2015
<b>Rent receivables including settlement of incidental costs</b>		
Not yet due	1,296	1,224
Past due and not impaired		
Due for up to 30 days	585	20
Due for between 30 and 90 days	82	100
Due for between 90 and 360 days	304	257
Due for more than 360 days	311	1,156
Bad debt allowances	287	509
<b>Total rent receivables</b>	<b>2,865</b>	<b>3,266</b>
Valuation allowances	(287)	(509)
<b>Total trade receivables</b>	<b>2,578</b>	<b>2,757</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 €1,182 thousand (2015: €1,834 thousand).

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	2016	2015
<b>As of the beginning of the year</b>	<b>509</b>	<b>548</b>
Additions	–	268
Utilised	(168)	(236)
Reversal	(54)	(71)
<b>As of the end of the year</b>	<b>287</b>	<b>509</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	31/12/2016	31/12/2015
<b>Financial assets</b>		
Purchase price receivable for commercial property Erlangen, Henkestr. 5 (BBV 02)	1,361	1,355
Receivable settlement balance BBV 09	332	1,002
Other	136	451
Collateral provided	7	3
Settlement balance of holders of non-controlling interests	–	18
<b>Total financial assets</b>	<b>1,836</b>	<b>2,829</b>
<b>Non-financial assets</b>		
VAT	42	44
Other	–	22
<b>Total non-financial assets</b>	<b>42</b>	<b>66</b>
<b>Total assets</b>	<b>1,878</b>	<b>2,895</b>

For information about the receivable for the settlement balance for BBV 09, we refer to note 7.

The payment of the purchase price for the commercial property is subject to the condition that the entries in the land register be made in full. This is expected to be concluded mid-2017.

**(12) Cash and cash equivalents**

At subsidiary BBV 10, current account balances of €1,000 thousand (2015: €2,140 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 2016, there were 14,029,013 shares outstanding (2015: 14,029,013 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. 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.

**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 2015 of up to €14,110,323.00. Furthermore, the Management Board was authorised in the Annual General Meeting on 4 July 2016 to issue convertible bonds and/or warrant bonds or profit participating rights with or without conversion or subscription rights in bearer shares of up to €14,110,323.00 until 3 July 2021.

**Contingent capital** By resolution of the Annual General Meeting on 4 July 2016, the share capital of the Company was contingently increased by up to €14,110,322.00 by issuing up to 7,055,161 new bearer shares with a right to participate in profits from the beginning of the fiscal year in which they are issued (contingent capital 2016).

**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.

**Accumulated profit according to German GAAP** In 2017, based on a proposal of the Management Board, the Annual General Meeting will propose that a dividend of €0.40 (2015: €0.25) per share currently outstanding be distributed and the remaining accumulated profit of €556,619.32 be carried forward to new account. The amount to be distributed of €5,611,605.20 is around 91.0% of the net profit for the year of Fair Value REIT-AG according to German GAAP and therefore complies with Sec. 1 REITG [“Gesetz über deutsche Immobilienaktiengesellschaften mit börsennotierten Anteilen”: German REIT Act], which stipulates that at least 90% of the net profit for the year measured under German GAAP be distributed to shareholders.

**Treasury shares** The Management Board was authorised by resolution of the Annual General Meeting dated 4 July 2016 to purchase treasury shares of up to 10% of the share capital at any time prior to 3 July 2021. 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 non-controlling interests**

in € thousand	IC 03	IC 07	IC 13	BBV 03
<b>As of 1 January 2015</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)
Reclassification (severance payments)	(36)	(7)	(114)	–
<b>As of 31 December 2015</b>	<b>–</b>	<b>1,939</b>	<b>28</b>	<b>14</b>
Share of profit/loss – expense (-) / income (+)	–	80	28	–
Payments	–	–	–	(14)
Reclassifications (severance payments)	–	–	–	–
<b>As of 31 December 2016</b>	<b>–</b>	<b>2,019</b>	<b>56</b>	<b>–</b>

Non-controlling interests in subsidiaries are calculated at their share in the equity of the individual subsidiaries as of 31 December 2016 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
	<b>5,487</b>	–	<b>3,159</b>	<b>10,423</b>	<b>175</b>	<b>14,971</b>	<b>21,410</b>	<b>60,048</b>
	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)
	<b>5,359</b>	<b>9,195</b>	<b>3,106</b>	<b>9,141</b>	<b>158</b>	<b>12,314</b>	<b>19,906</b>	<b>61,160</b>
	153	153	(42)	1,562	(8)	1,607	1,693	5,226
	(2,953)	–	–	(561)	–	–	(823)	(4,351)
	(2)	(61)	–	–	–	(113)	(151)	(327)
	<b>2,557</b>	<b>9,287</b>	<b>3,064</b>	<b>10,142</b>	<b>150</b>	<b>13,808</b>	<b>20,625</b>	<b>61,708</b>

**(15) Financial Liabilities**

<b>Structure of the financial liabilities</b>		
in € thousand	31/12/2016	31/12/2015
<b>Non-current liabilities</b>		
Floating-rate liabilities to banks	49,284	55,924
Fixed interest liabilities to banks	73,121	70,071
<b>Total non-current liabilities</b>	<b>122,405</b>	<b>125,995</b>
<b>Current liabilities</b>		
Floating-rate liabilities to banks	2,871	3,586
Fixed interest liabilities to banks	6,404	6,231
Convertible bond	–	8,301
<b>Total current liabilities</b>	<b>9,275</b>	<b>18,118</b>
<b>Total financial liabilities</b>	<b>131,680</b>	<b>144,113</b>

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

<b>Remaining terms of non-current liabilities</b>		
in € thousand	31/12/2016	31/12/2015
Between 1 and 2 years	6,287	6,889
Between 2 and 5 years	63,762	60,952
More than 5 years	52,356	58,154
<b>Total non-current liabilities</b>	<b>122,405</b>	<b>125,995</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 2016 averaged 1.74%. In the previous year they averaged 2.05% p.a., including the floating-rate interest loans that were not effectively hedged. The average interest rate on fixed interest bank loans came to 2.48% as of 31 December 2016, 2.51% p.a. in the previous year.

Financial liabilities of €131,680 thousand (2015: €144,133 thousand) were fully secured by mortgages. In addition, rent receivables have been assigned as collateral by all entities.

Since December 2009, a loan-to-value test has been performed every two years on the loans from Westdeutsche ImmobilienBank AG to Fair Value and IC 12. According to this, the value of the loan may not exceed 75% (Fair Value) or 50% (IC 12) 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 loan covenants had been observed as of 31 December 2016, which the bank confirmed by email on 10 March 2017.

The LTV ratio for the loan from Volksbank Mittweida eG comes to 52% of the lending value calculated by the bank. In the event that the LTV ratio is exceeded, among other things additional collateral must be provided and special repayments made within six months until the ratio is achieved again. Moreover a minimum annual net rent of €588,000 must be achieved. The conditions were complied with as of the reporting date. There are no other agreements regarding compliance with covenants.

The financial liabilities are fully secured by mortgages. In addition, rent receivables have been assigned as collateral by all entities.

<b>Rights secured by land charges</b>				
in € thousand	<b>Property liens/other collateral</b>		<b>31/12/2016</b>	<b>31/12/2015</b>
IC 12	Land charge	Lease/Rental income	2,500	2,500
IC 15	Land charge	Lease/Rental income	8,100	8,100
BBV 02	Land charge	Lease/Rental income	6,243	6,243
BBV 08	Land charge	Lease/Rental income	23,008	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	51,453	38,291

## (16) Liabilities

The trade payables are current liabilities which were incurred in connection with facility management and the maintenance and repair of the properties. All liabilities are due in up to one year.

in € thousand	31/12/2016	31/12/2015
<b>Non-current</b>		
<b>Financial liabilities</b>		
Former non-controlling interests	865	1,071
Shortfall in pension plan	19	5
<b>Total non-current liabilities</b>	<b>884</b>	<b>1,076</b>
<b>Current</b>		
Former non-controlling interests	1,171	1,038
Liabilities from the settlement of service charges	693	396
Other	493	638
Debtors with credit balances	312	238
Tax liabilities (VAT)	153	547
Interest liabilities	69	355
Deferred income	66	69
Remuneration of the Supervisory Board	47	35
Liabilities to non-controlling interests from acquisition of shares	–	1
<b>Total current liabilities</b>	<b>3,004</b>	<b>3,317</b>
<b>Total other liabilities</b>	<b>3,888</b>	<b>4,393</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.

## (17) Provisions

<b>Development of provisions</b>			
in € thousand	Personnel	Audit/ consulting costs	<b>Total</b>
<b>As of 1 January 2016</b>	<b>423</b>	<b>320</b>	<b>743</b>
Additions	371	65	436
Utilised	(423)	(111)	(534)
<b>As of 31 December 2016</b>	<b>371</b>	<b>274</b>	<b>645</b>

## (18) 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 €2,801 thousand (2015: €2,044 thousand), €1,104 thousand (2015: €1,879 thousand) and €1,882 thousand (2015: €1,825 thousand), respectively, revives pursuant to Sec. 172 (4) HGB.

## (19) 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 Gräfelfing and a company car (until 28 February 2016) were leased during the reporting period. The lease expense for the company car amounted to €1 thousand (2015: €9 thousand).

## Notes to the consolidated income statement

### (20) Net rental income

Classification of net rental result	2016			2015		
	Investment property	Non-current assets held for sale	Total	Investment property	Non-current assets held for sale	Total
in € thousand						
Rental income	22,257	285	22,542	23,167	1,124	24,291
Service charge income	5,034	46	5,080	5,510	46	5,556
Ground rent	(6)	–	(6)	(9)	–	(9)
Property related operating expenses						
Investment property with which rental income was generated	(11,447)	(81)	(11,528)	(12,070)	(42)	(12,112)
<b>Total net rental income</b>	<b>15,838</b>	<b>250</b>	<b>16,088</b>	<b>16,598</b>	<b>1,128</b>	<b>17,726</b>

### (21) Property-related operating expenses

	2016	2015
in € thousand		
Energy costs and water consumption	2,406	2,750
Property management fees	873	705
Property tax	810	865
Servicing and operating technical systems	619	493
Garden maintenance/cleaning	596	532
Management contract costs	540	206
Security	357	347
Caretaker costs	344	333
Non-deductible input tax	336	379
Building cleaning	331	318
Insurance	216	256
Street cleaning/rubbish removal	171	230
Other operating expenses	151	36
Other	149	6
Other property costs	112	158
Advertising and promotional costs	68	180
Maintenance cost payments for partially-owned properties	–	126
<b>Service charge expenses</b>	<b>8,079</b>	<b>7,920</b>
Repair and maintenance costs	2,173	2,940
Letting costs	639	508
Technical building maintenance	637	744
<b>Other property-related expenses</b>	<b>3,449</b>	<b>4,192</b>
<b>Total property-related operating expenses</b>	<b>11,528</b>	<b>12,112</b>

## (22) General administrative expenses

in € thousand	2016	2015
Personnel expenses	693	740
Fund management fees	514	846
Non-deductible input tax	354	445
Legal and consulting fees	345	1,880
Stock market listing, Annual General Meeting and events	271	334
Trustee fees	268	282
Audit fees	224	215
Accounting	138	143
Travel and vehicle expenses	128	43
Office expenses	96	76
Appraisals	63	124
Other	53	–
Remuneration (Supervisory Board, Advisory Board and general partner remuneration)	14	102
Amortisation, depreciation and impairment	1	–
<b>Total general administrative expenses</b>	<b>3,162</b>	<b>5,230</b>

## (23) Total other operating income and expenses

in € thousand	2016	2015
<b>Income</b>		
Cost refunds	292	179
Income from the redemption of liabilities from non-controlling interests	215	1,298
Other	90	460
Income from the bargain purchase of BBV 08	–	2,310
<b>Total income</b>	<b>597</b>	<b>4,247</b>
<b>Expenses</b>		
Other write-offs of receivables	(168)	(621)
Other	(94)	(121)
Allocation of specific valuation allowances on trade receivables	–	(268)
Allocation of specific valuation allowances on other receivables	–	(700)
Reversal/utilization of specific valuation allowances on trade receivables	54	71
<b>Total expenses</b>	<b>(208)</b>	<b>(1,639)</b>
<b>Total other operating income (+) and expenses (-)</b>	<b>389</b>	<b>2,608</b>

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

in € thousand	2016	2015
<b>Net income from the disposal of investment property and non-current assets held for sale (purchase price)</b>	<b>19,780</b>	<b>17,022</b>
Expenses in connection with the disposal of investment property and non-current assets held for sale	452	(231)
Carrying amounts	(19,780)	(16,820)
<b>Total expenses in connection with the disposal of investment property and non-current assets held for sale</b>	<b>(19,328)</b>	<b>(17,051)</b>
<b>Profit/loss from the disposal of investment property and non-current assets held for sale</b>	<b>452</b>	<b>(29)</b>

These items consist of three (2015: five) properties directly held by the Company and four (2015: two) properties held by subsidiaries for which both title and the risks and rewards incidental to ownership were transferred in 2016.

#### (25) Measurement result

in € thousand	2016	2015
Measurement gains	4,293	9,655
Measurement losses	(2,540)	(12,447)
<b>Total measurement gains/losses</b>	<b>1,753</b>	<b>(2,792)</b>

The measurement result in the fiscal year stems from fair value measurement as of the reporting date; capitalised fit-out costs of €8,251 were offset. There were measurement losses for 12 (2015: five) of the properties directly held by the Company and for seven (2015: seven) properties held by its investments. There were measurement gains for two (2015: eight) of the properties directly held by the Company and for ten (2015: 15) properties held by its investments.

#### (26) Interest expenses

in € thousand	2016	2015
Loans and swaps interest	3,255	4,201
Interest expense convertible bond	356	–
<b>Total interest expenses</b>	<b>3,611</b>	<b>4,201</b>



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

in € thousand	2016	2015
Salaries	657	706
Social security contributions	36	34
<b>Total personnel expenses</b>	<b>693</b>	<b>740</b>
thereof expenses for pension obligations	12	15

Excluding the Management Board, the Company had three (2015: three) employees as an annual average. As of 31 December 2016, the number of employees came to three, excluding the Management Board.

**Fees and services provided by the group auditors** In 2016 the Group's auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, charged the following fees:

in € thousand	2016	2015
Audits of financial statements	198	215
Other attestation services	5	286
Other services	21	22
<b>Total fees</b>	<b>224</b>	<b>523</b>

**(28) Earnings per share**

Basic earnings per share can be calculated as follows:

		2016	2015
Profit/loss of the Group	in € thousand	6,909	6,585
Interest convertible bond	in € thousand	–	359
Net profit adjusted for the effect of dilution	in € thousand	6,909	6,944
Weighted average number of shares for the calculation of the basic earnings	in pieces	14,029,013	12,379,587
Convertible shares	in pieces	–	885,918
Weighted average number of shares for the calculation of the diluted earnings	in pieces	14,029,013	13,265,505
<b>Earnings per share (basic/diluted)</b>	in €	<b>0.49/0.49</b>	<b>0.53/0.52</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

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

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

Fair values of financial instruments	31/12/2016		31/12/2015	
	Carrying amounts	Fair values	Carrying amounts	Fair values
in € thousand				
<b>Assets</b>				
Trade receivables	2,578	2,578	2,757	2,757
Other receivables	11,706	11,706	11,911	11,911
Cash and cash equivalent	16,776	16,776	16,028	16,028
<b>Total assets</b>	<b>31,060</b>	<b>31,060</b>	<b>30,696</b>	<b>30,696</b>
<b>Equity and liabilities</b>				
Liabilities measured at amortized cost				
Non-controlling interests	61,708	61,708	61,160	61,160
Financial liabilities	131,680	132,097	144,113	143,620
Trade payables	3,233	3,233	2,679	2,679
Other liabilities	3,888	3,888	4,393	4,393
<b>Total equity and liabilities</b>	<b>200,509</b>	<b>200,926</b>	<b>212,345</b>	<b>211,852</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.

**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 €-10,446 thousand (2015: €-10,930 thousand)/€10,465 thousand (2015: €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 2016.

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 €558 thousand lower (2015: €638 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 2016, rental losses, calculated on the basis of additions to specific bad debt allowances, amounted to 0.0% (2015: 0.90%) 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	31/12/2016				31/12/2015			
	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	–	–	–	61,708	–	–	–	61,249
Financial liabilities	9,275	6,287	63,762	52,356	18,118	6,889	60,952	58,154
Provisions	645	–	–	–	743	–	–	–
Trade payables	3,233	–	–	–	2,679	–	–	–
Other liabilities	3,004	475	397	12	3,317	1,076	–	–
<b>Total maturities</b>	<b>16,157</b>	<b>6,762</b>	<b>64,159</b>	<b>114,076</b>	<b>24,857</b>	<b>7,965</b>	<b>60,952</b>	<b>119,403</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>31/12/2016</b>	<b>31/12/2015</b>
Equity	in € thousand	120,590	117,278
Total assets	in € thousand	321,744	330,366
Equity ratio	in %	37.5	35.5

The Group's ability to steer its capital structures is limited, apart from the possibility of retaining profits at its subsidiaries, as at least 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>31/12/2016</b>	<b>31/12/2015</b>
Equity acc. to consolidated statement of financial position	120,590	117,278
Non-controlling interests	61,708	61,160
<b>Equity pursuant to Sec. 15 REITG</b>	<b>182,298</b>	<b>178,438</b>
<b>Immovable assets</b>		
Investment property	286,942	287,794
Non-current assets held for sale	3,600	11,750
<b>Total immovable assets</b>	<b>290,542</b>	<b>299,544</b>
Equity ratio pursuant to Sec. 15 REITG	62.7%	59.6%

### (30) 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	2016		2015	
	Segment revenues	Segment results	Segment revenues	Segment results
Direct investments	6,051	4,262	4,434	2,369
Subsidiaries	21,572	12,978	25,413	7,436
<b>Total segment revenue and profit/loss</b>	<b>27,623</b>	<b>17,240</b>	<b>29,847</b>	<b>9,805</b>
Consolidation entries recognised through profit or loss	–	57	–	3,692
Central administrative expenses and other	–	(1,787)	–	(1,215)
Net interest expense	–	(3,375)	–	(4,201)
Share of profit/loss attributable to non-controlling interests	–	(5,226)	–	(1,496)
<b>Profit/loss of the Group</b>	<b>–</b>	<b>6,909</b>	<b>–</b>	<b>6,585</b>

**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	2016	2015
Main tenant 1 (Direct investments segment)	2,214	3,976
Main tenant 2 (Subsidiaries segment)	1,458	–
Other between 5% and 10%	1,361	5,720
Other under 5% each	22,589	20,151
<b>Total rental revenue</b>	<b>27,622</b>	<b>29,847</b>

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

in € thousand	2016		2015	
	Direct investments	Subsidiaries	Direct investments	Subsidiaries
Office	3,893	6,335	3,050	6,086
Retail	–	15,237	30	18,507
Other	2,157	–	1,354	820
<b>Total revenue</b>	<b>6,050</b>	<b>21,572</b>	<b>4,434</b>	<b>25,413</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	2016		2015	
	Direct investments	Subsidiaries	Direct investments	Subsidiaries
Measurement gains	1,070	3,223	2,607	7,048
Measurement losses	(840)	(1,700)	(490)	(11,957)
	<b>230</b>	<b>1,523</b>	<b>2,117</b>	<b>(4,909)</b>
Gains (losses) on disposal	(26)	478	9	(38)
	<b>204</b>	<b>2,001</b>	<b>2,126</b>	<b>(4,947)</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 2016</b>				
	<b>Direct investments</b>			
in € thousand	FV AG	IC 07	IC 12	IC 13
Rental income	4,945	745	597	(2)
Service charge income	1,106	304	375	58
<b>Segment revenue</b>	<b>6,051</b>	<b>1,049</b>	<b>972</b>	<b>56</b>
Ground rent	–	–	(1)	–
Service charge expenses	(1,444)	(431)	(461)	44
Other property operating expenses	(514)	(289)	(70)	7
Segment-related administrative expenses	(94)	(60)	(52)	(35)
Other operating expenses and income (net)	59	67	1	(7)
Gain from disposal of investment properties	(26)	–	–	–
Measurement gains	1,070	40	–	–
Measurement losses	(840)	–	(400)	–
<b>Segment profit</b>	<b>4,262</b>	<b>376</b>	<b>(11)</b>	<b>65</b>
Central administrative expenses	(1,777)	–	–	–
Other expenses	–	–	–	–
Profit/loss of investment accounted for using the equity method	–	–	–	–
Other income from participations	6,306	–	–	–
Net interest expense	(898)	(8)	(80)	–
Share of profit/loss attributable to non-controlling interests	–	–	–	–
Income taxes	–	–	–	–
<b>Net income for 2016</b>	<b>7,893</b>	<b>368</b>	<b>(91)</b>	<b>65</b>



Subsidiaries							Reconciliation	Group
IC 15	BBV 02	BBV 06	BBV 08	BBV 10	BBV 14	Total		
1,967	—	1,018	2,226	6,155	4,892	17,598	(1)	22,542
252	—	90	(1)	1,475	1,421	3,974	—	5,080
2,219	—	1,108	2,225	7,630	6,313	21,572	(1)	27,622
(1)	—	(4)	—	—	—	(6)	—	(6)
(557)	(5)	(289)	(512)	(2,716)	(1,706)	(6,633)	(2)	(8,079)
(652)	—	(172)	(135)	(1,116)	(508)	(2,935)	—	(3,449)
(198)	(8)	(155)	(233)	(305)	(316)	(1,362)	71	(1,385)
153	—	(24)	26	174	(26)	364	(34)	389
—	—	10	(236)	—	—	(226)	704	452
2,250	—	—	300	1,044	270	3,904	(681)	4,293
—	—	(70)	(749)	(381)	(100)	(1,700)	—	(2,540)
3,214	(13)	404	686	4,330	3,927	12,978	57	17,297
—	—	—	—	—	—	—	—	(1,777)
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(6,306)	—
(201)	—	—	(320)	(1,400)	(471)	(2,480)	3	(3,375)
—	—	—	—	—	—	—	(5,226)	(5,226)
—	—	—	—	—	—	—	(10)	(10)
3,013	(13)	404	366	2,930	3,456	10,498	(11,482)	6,909

**Income statement by segments 2015**

in € thousand	Direct investments			
	FV AG	IC07	IC12	IC13
Rental income	3,797	716	670	939
Service charge income	637	322	337	324
<b>Segment revenue</b>	<b>4,434</b>	<b>1,038</b>	<b>1,007</b>	<b>1,236</b>
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/loss</b>	<b>2,369</b>	<b>839</b>	<b>696</b>	<b>(681)</b>
Central administrative expenses	(1,215)	–	–	–
Other expenses	–	–	–	–
Profit/loss of investments accounted for using the equity method	–	–	–	–
Other income from investments	3,110	–	–	–
Net interest expenses	(970)	(21)	(99)	(293)
Share of profit/loss attributable to non-controlling interests	–	–	–	–
Income tax	–	–	–	–
<b>Net income for 2015</b>	<b>3,294</b>	<b>818</b>	<b>597</b>	<b>(974)</b>

**Assets and liabilities of the segments:**

in € thousand	31/12/2016		31/12/2015	
	Assets	Liabilities	Assets	Liabilities
Direct investments	81,565	–	76,095	2,900
Subsidiaries	242,465	6,552	254,660	5,177
<b>Total segment assets/segment liabilities</b>	<b>324,030</b>	<b>6,552</b>	<b>330,755</b>	<b>8,077</b>
Non-allocated assets/liabilities/consolidation	(2,286)	315,192	(389)	322,289
<b>Total Group assets/group liabilities</b>	<b>321,744</b>	<b>321,744</b>	<b>330,366</b>	<b>330,366</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		
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
220	–	14	287	74	2,322	1,010	4,910	–	5,547
<b>2,540</b>	<b>(1)</b>	<b>105</b>	<b>1,671</b>	<b>1,925</b>	<b>9,819</b>	<b>6,037</b>	<b>25,404</b>	<b>–</b>	<b>29,838</b>
(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	845	1,720	2,100	6,148	–	8,755
–	–	–	(80)	–	(7,847)	(820)	(8,747)	(2,310)	(11,547)
<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>

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 2016</b>					
	Direct investments				
in € thousand	FV AG	IC 07	IC 12	IC 13	IC 15
Property, plant and equipment and in intangible assets	43	–	24	–	–
Investment property	64,650	9,140	7,480	–	25,600
Non-current assets held for sale	–	–	–	–	–
Trade receivables	481	190	108	69	62
Income tax receivables	5	–	–	–	–
Other receivables and assets	12,464	–	13	87	69
Cash and cash equivalent	3,922	26	938	44	1,290
<b>Subtotal segment assets</b>	<b>81,565</b>	<b>9,356</b>	<b>8,563</b>	<b>200</b>	<b>27,021</b>
Shares in subsidiaries	68,766	–	–	–	–
Investments accounted for using the equity method	–	–	–	–	–
<b>Total assets</b>	<b>150,331</b>	<b>9,356</b>	<b>8,563</b>	<b>200</b>	<b>27,021</b>
Provisions	(447)	(11)	(9)	(9)	(20)
Trade payables	(179)	(69)	(43)	(3)	(85)
Other liabilities	(994)	(4)	(23)	(83)	(38)
<b>Subtotal segment liabilities</b>	<b>(1,620)</b>	<b>(84)</b>	<b>(75)</b>	<b>(95)</b>	<b>(143)</b>
Non-controlling interests	–	–	–	–	–
Financial liabilities	(30,201)	(50)	(1,831)	–	(7,269)
<b>Total liabilities</b>	<b>(31,821)</b>	<b>(134)</b>	<b>(1,906)</b>	<b>(95)</b>	<b>(7,412)</b>
<b>Net assets as of 31 December 2016</b>	<b>118,510</b>	<b>9,222</b>	<b>6,657</b>	<b>105</b>	<b>19,609</b>
<b>Overview of maturities of financial liabilities</b>					
Non-current	(29,086)	–	–	–	(7,042)
Current	(1,115)	(50)	(1,831)	–	(227)
<b>Financial liabilities</b>	<b>(30,201)</b>	<b>(50)</b>	<b>(1,831)</b>	<b>–</b>	<b>(7,269)</b>

Subsidiaries							
BBV 02	BBV 06	BBV 08	BBV 10	BBV 14	Total	Reconciliation	Group
–	–	–	–	–	24	70	137
–	–	30,000	78,802	71,270	222,292	–	286,942
–	3,600	–	–	–	3,600	–	3,600
–	123	29	1,198	318	2,097	–	2,578
–	–	–	–	–	–	–	5
1,361	47	16	30	66	1,689	(2,447)	11,706
27	3,483	2,531	1,193	3,231	12,763	91	16,776
<b>1,388</b>	<b>7,253</b>	<b>32,576</b>	<b>81,223</b>	<b>74,885</b>	<b>242,465</b>	<b>(2,286)</b>	<b>321,744</b>
–	–	–	–	–	–	(68,766)	–
–	–	–	–	–	–	–	–
<b>1,388</b>	<b>7,253</b>	<b>32,576</b>	<b>81,223</b>	<b>74,885</b>	<b>242,465</b>	<b>(71,052)</b>	<b>321,744</b>
(8)	(33)	(33)	(24)	(28)	(175)	(23)	(645)
(8)	(179)	(1,344)	(1,224)	(92)	(3,047)	(7)	(3,233)
(30)	(275)	(482)	(1,402)	(993)	(3,330)	436	(3,888)
<b>(46)</b>	<b>(487)</b>	<b>(1,859)</b>	<b>(2,650)</b>	<b>(1,113)</b>	<b>(6,552)</b>	<b>406</b>	<b>(7,766)</b>
–	–	–	–	–	–	(61,708)	(61,708)
(1,081)	–	(8,556)	(53,300)	(31,642)	(103,729)	2,250	(131,680)
<b>(1,127)</b>	<b>(487)</b>	<b>(10,415)</b>	<b>(55,950)</b>	<b>(32,755)</b>	<b>(110,281)</b>	<b>(59,052)</b>	<b>(201,154)</b>
<b>261</b>	<b>6,766</b>	<b>22,161</b>	<b>25,273</b>	<b>42,130</b>	<b>132,184</b>	<b>(130,104)</b>	<b>120,590</b>
–	–	(7,748)	(50,287)	(30,442)	(95,519)	2,200	(122,405)
(1,081)	–	(808)	(3,013)	(1,200)	(8,210)	50	(9,275)
<b>(1,081)</b>	<b>–</b>	<b>(8,556)</b>	<b>(53,300)</b>	<b>(31,642)</b>	<b>(103,729)</b>	<b>2,250</b>	<b>(131,680)</b>

**Assets and liabilities by segments 2015**

in € thousand	Direct investments				
	FV AG	IC07	IC12	IC13	IC15
Property, plant and equipment and 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>Segment assets subtotal</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	–	–	–	–
<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>

Investments and depreciation and amortisation are presented below:

in € thousand	2016		2015	
	Investments	Amortisation, depreciation and impairment	Investments	Amortisation, depreciation and impairment
<b>Direct investments</b>				
Investment property	86	–	1,100	–
Property, plant and equipment and intangible assets	36	(1)	1	(3)
<b>Total direct investments</b>	<b>122</b>	<b>(1)</b>	<b>1,101</b>	<b>(3)</b>
<b>Subsidiaries</b>				
Investment property	8,165	–	–	–
<b>Total subsidiaries</b>	<b>8,165</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total investments and amortisation, depreciation and impairment</b>	<b>8,287</b>	<b>(1)</b>	<b>1,101</b>	<b>(3)</b>

						Subsidiaries		Reconciliation	Group
BBV02	BBV03	BBV06	BBV08	BBV10	BBV14	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		(125,995)
(1,081)	–	–	(1,577)	(2,826)	(1,300)	(8,912)	–		(18,118)
<b>(1,081)</b>	<b>–</b>	<b>–</b>	<b>(18,576)</b>	<b>(54,500)</b>	<b>(32,824)</b>	<b>(16,828)</b>	<b>450</b>		<b>(144,113)</b>

### (31) Related parties

**Related parties** Related parties of the Group are DEMIRE with 77.70% of the voting rights (10,963,878 voting rights).

#### Remuneration of the Management Board

in €	2016	2015
Fixed remuneration		
Fixed salary	170,833	220,000
Payments in kind and other	10,642	12,178
Performance-based remuneration	141,411	214,362
<b>Remuneration as defined by Sec. 285 No. 9 HGB</b>	<b>322,886</b>	<b>446,540</b>
Expenses pension obligations	2,797	12,533
<b>Total</b>	<b>325,683</b>	<b>459,073</b>

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

in € thousand	2016	2015
Short-term benefits	326	459
Post employment benefits	226	–
<b>Total remuneration of the Management Board</b>	<b>552</b>	<b>459</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, while actual payment was 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.

Remuneration of the Management Board member Frank Schaich was paid in the fiscal year for January and February 2016 in line with his employment contract with the Company, which was rescinded effective end of February 2016. Due to his additional appointment as a management board member of DEMIRE, effective 1 March 2016 Mr. Schaich was remunerated under his management board service agreement with DEMIRE. 70% of the short-term remuneration components and fringe benefits agreed therein were borne by the Company under a cost allocation agreement between the Company and DEMIRE. The same applies for the settlement amounts for the short-term contractual and post-contractual remuneration components and fringe benefits agreed in the termination agreement between Frank Schaich and DEMIRE dated 31 October 2016.



Please see the comments in the section on remuneration in the management report for more details of the remuneration paid to members of the Management Board.

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

**Remuneration of the Supervisory Board** In fiscal year 2015, the members of the Supervisory Board were granted short-term benefits totalling €48 thousand (2014: €35 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.

#### Supervisory Board

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	until 10/2014 since 11/2014 since 11/2014 since 06/2015 since 07/2016	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 Leibrenten AG Member of the Board of Social Commerce SE
<b>Markus Drews</b> Deputy Chairman of the Supervisory Board	from 01/03/2016	since 12/2014 since 04/2016	Member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG Deputy Chairman of the Supervisory Board of BF Direkt AG, Stuttgart
<b>Prof. Andreas Steyer</b>	from 01/03/2016	since 04/2013	Member of the Executive Board (CEO) of DEMIRE Deutsche Mittelstand Real Estate AG
<b>Prof. Dr. Heinz Rehkugler</b> Chairman of the Supervisory Board (until 02/02/2015) Member from 02/02/2015	from 10/2007 until 28/02/2016	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 until 29/02/2016	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

#### Management Board

Name	Age	Appointed as first time as of	Currently appointed until
Frank Schaich, CEO	57	17/09/2007	31/03/2017
Patrick Kaiser, CFO	41	01/11/2016	31/10/2019

**(32) Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG**

On 26 January 2017 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>).

Graefelfing, 27 March 2017

Fair Value REIT-AG



Frank Schaich



Patrick Kaiser

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# Declaration by legal representative

To the best of our knowledge, we 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.

Graefelfing, 27 March 2017

Fair Value REIT-AG



Frank Schaich, CEO



Patrick Kaiser, CFO

# 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 2016 to 31 December 2016. 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 315a (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 315a (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, 27 March 2017

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Horbach  
Auditor

Ehrnboeck  
Auditor

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# Compliance

- 100 Supervisory Board and Management Board
- 102 Report of the Supervisory Board
- 105 Corporate governance report

# 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 06/2015 Chairman of the supervisory board of 1801 Deutsche Leibrenten AG
  - since 07/2016 Member of the Board of Social Commerce SE
- further Mr. Elgeti is a member of the Advisory Board of Laurus Property Partners

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
- since 04/2016 Deputy Chairman of the Supervisory Board of BF Direkt AG, Stuttgart

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 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 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 March 2017

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.

**Patrick Kaiser**

CFO since 1 November 2016

Term of appointment due to run until 31 October 2019

Patrick Kaiser (born 1975) was appointed as an additional member of the Company's Management Board for three years as of 1 November 2016. Mr. Kaiser is also commercial director of DEMIRE and managing director of DEMIRE Immobilien Management GmbH. Mr. Kaiser has many years' experience in heading up the finance departments of listed companies.

# Report of the Supervisory Board

## Dear Shareholders,

Fair Value REIT-AG developed positively again in the past fiscal year, and as a result, we will be able to propose to you a dividend distribution of €0.40 per share at the upcoming Annual General Meeting.

In 2016 the Company also acquired additional shares in subsidiaries and invested in the direct acquisition of previously indirectly owned properties.

The Management Board plans to actively continue this strategy in the current fiscal year in order to 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**

The Supervisory Board focused its activity on supervising and managing the economic development of the Company and its strategic orientation, taking particular account of the volatile capital market.

The Supervisory Board was involved in all decisions of fundamental importance. In compliance with Sec. 90 (2) AktG [“Aktengesetz”: 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 at the Supervisory Board meetings.

The Supervisory Board was convened six times in fiscal year 2016. 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/statements 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 also reviewed. The current declaration of compliance pursuant to Sec. 161 AktG was issued on 1 February 2017 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 1 February 2017.

### 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 German GAAP (HGB) were both audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Munich, appointed as auditor by the Annual General Meeting on 4 July 2016. 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 2016 including the respective management reports as well as the audit reports which were submitted on time for its own review at its meeting on 27 March 2017. 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 27 March 2017.

### 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 the spread of shares and minimum distribution as well as on compliance with the net asset and earnings ratios.

### Changes on the Management Board

On 31 October 2016, Frank Schaich, long-standing sole Management Board member and CEO, resigned from the Management Board effective 31 March 2017. He is leaving the Company on the best of terms with the Supervisory Board in order to devote himself to new tasks in future. The Supervisory Board of the Company would like to expressly thank Mr. Schaich for all the work he has done since September 2007 and wishes him all the best for the future.

The Supervisory Board appointed Mr. Patrick Kaiser as an additional member of the Management Board of Fair Value REIT-AG for three years effective 1 November 2016. As of 1 April 2017, Mr. Kaiser will lead the Company as the sole Management Board member. The Supervisory Board wishes him every success.

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

Graefelfing, 27 March 2017

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to read 'R. Elgeti', written over a horizontal line.

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**

In the period from 1 January 2016 to 31 October 2016, the Management Board of Fair Value REIT-AG comprised one person. Since 1 November 2016 it has comprised two persons. The Management Board manages the Company and acts in the sole interest of Fair Value REIT-AG. The Management Board is duty bound to increase the Company's long-term value. It consults with the Supervisory Board on company strategy as well as its implementation. It reports to the Supervisory Board regularly, promptly and comprehensively on the business plan and strategic development as well as on the current business and risk situation.

The Supervisory Board of Fair Value REIT-AG currently has three members. It advises and controls the management of the Company by the Management Board. Furthermore, the Supervisory Board discusses the interim reports, reviews and approves the financial statements of Fair Value REIT-AG pursuant to HGB and ratifies the consolidated financial statements according to IFRSs. Significant decisions regarding the management of the Company require the approval of the Supervisory Board.

## **Directors' dealings**

With regard to the 2016 fiscal year, Fair Value REIT-AG no reports were received 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).

## **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 as of 31 December 2016. 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 1 February 2017:

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.
- **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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108	Management Board declaration adhering to the requirements of the REIT Act
109	Auditor's report pursuant to section 1 para. 4 of the REIT Act
110	Method of real estate valuation
112	Individual property information of Fair Value REIT-AG's portfolio
116	Financial calendar
118	Imprint

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

In connection with the financial statements pursuant to Sec. 264 HGB [“Handelsgesetzbuch”: German Commercial Code] as well as the consolidated financial statements pursuant to Sec. 315a HGB as of 31 December 2016, the Management Board makes the following declaration of compliance with the requirements of Secs. 11 to 15 REITG [“Gesetz über deutsche Immobilienaktiengesellschaften mit börsennotierten Anteilen”: German REIT Act] as well as the composition of income with regards to possible advance taxation pursuant to Sec. 19 (3) in conjunction with Sec. 19a REITG as of 31 December 2016:

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

As of 31 December 2016, to our knowledge 21.72% of the shares in our Company were in free float in accordance with Sec. 11 (1) REITG. This was announced to the BaFin [“Bundesanstalt für Finanzdienstleistungsaufsicht”: Federal Financial Supervisory Authority] on 9 January 2017. In compliance with Sec. 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.

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

As of 31 December 2016, immovable assets were calculated at €290,542 thousand in line with Sec. 12 (1) and (2) REITG. This represents 91.9% of assets totalling €316,193 thousand calculated pursuant to Sec. 12 (2). Revenue plus other income from immovable assets pursuant to Sec. 12 No. 4 REITG stems exclusively (100%) from rent, letting and leases including property-related activities or sales of immovable assets. The asset and income requirements pursuant to Sec. 12 (2b) and (3b) REITG were not applicable as no REIT service companies are part of the Group.

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

Following a resolution of the Annual General Meeting on 4 July 2016, a dividend of €0.25 per share currently outstanding was distributed in 2016, which corresponds to €3,507,253.25 or 100% of the accumulated profit for 2015. For the fiscal year 2016, the Management Board proposes a dividend of €0.40 per share currently outstanding or €5,611,605.20, which corresponds to 91.0% of net income pursuant to HGB.

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

Pursuant to Sec. 14 (2) REITG, the proceeds from the sale of immovable assets within the last five fiscal years (2012 to 2016) totalled €94.8 million and therefore accounted for 34.9% of the average portfolio of immovable assets of €271,780 thousand during this period. The Group did not qualify as a real estate trader during the fiscal year 2016.

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

Equity pursuant to Sec. 15 REITG totalled €182,298 thousand as of 31 December 2016. This represents 62.7% of the Group’s immovable assets totalling €290,542 thousand calculated pursuant to Sec. 12 (1) REITG.

### **Sec. 19 – Advance taxation of dividends**

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

Graefelfing, 27 March 2017

Fair Value REIT-AG

Frank Schaich, CEO

Patrick Kaiser, CFO

## 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 2016, 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 2016 (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 2016, 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 2016 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 2016, 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, 27 March 2017

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Horbach  
Wirtschaftsprüfer

Ehrnboeck  
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 2016. 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 21 and 23 February 2017 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 2016

Address	Fund	Primary use	Year of construction	Last renovation/modernization	Plot size [m²]	Market value 31/12/2015 [€ thousand]	Market value 31/12/2016 [€ thousand]	Change [€ thousand]	Change [%]
<b>Direct investments</b>									
Appen Hauptstraße 56e/56d	n/a	Office	1975	1995	4,320	170	140	(30)	(17.6)
Bad Bramstedt Bleeck 1	n/a	Office	1973	2006	3,873	1,120	1,070	(50)	(4.5)
Bad Segeberg Oldesloer Straße 24	n/a	Office	1982	2007	5,152	8,800	8,450	(350)	(4.0)
Barmstedt Königstr. 19–21	n/a	Office	1911	regular	2,842	1,410	1,390	(20)	(1.4)
Geschendorf Dorfstraße 29	n/a	Office	1985	2006	1,154	210	210	–	–
Neumünster Kuhberg 17–19	n/a	Office	1989	2005	5,286	15,200	15,200	–	–
Trappenkamp Am Markt 1	n/a	Office	1985	2005	1,190	610	570	(40)	(6.6)
Wahlstedt Markt 1	n/a	Office	1975	2005	1,848	890	830	(60)	(6.7)
Chemnitz Hartmannstraße 1	n/a	Other	2000	–	3,520	1,690	1,690	–	–
Dresden Königsbrücker Str. 121 a	n/a	Other	1997	–	8,574	9,710	9,730	20	0.2
Köln Marconistr. 4–8	n/a	Other	1990	–	13,924	3,750	3,710	(40)	(1.1)
Langenfeld Max-Planck-Ring 26/28	n/a	Other	1996	–	14,727	7,570	7,460	(110)	(1.5)
Neubrandenburg Friedrich-Engels-Ring 52	n/a	Office	1996	–	4,705	7,190	7,060	(130)	(1.8)
Potsdam Großbeerenstr. 231	n/a	Office	1995	–	2,925	3,730	4,180	450	12.1
Meschede Zeughausstr. 13	n/a	Retail	1989	–	1,673	431	430	(1)	(0.2)
Waltrop Bahnhofstraße 20 a-e	n/a	Retail	1989	–	1,742	2,550	2,530	(20)	(0.8)
<b>Subtotal direct investments</b>					<b>77,455</b>	<b>65,031</b>	<b>64,650</b>	<b>(381)</b>	<b>(0.6)</b>

Discount rate 31/12/2016 [%]	Capitalization rate 31/12/2016 [%]	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	–	1.0	100.0	21	21	15.2	15.2	100.00
6.50	6.00	997	40	8.9	99.3	80	81	7.5	7.6	100.00
6.50	6.00	9,184	358	7.5	96.2	644	670	7.6	7.9	100.00
6.60	6.10	1,257	–	7.9	100.0	102	102	7.3	7.3	100.00
6.65	6.15	316	–	0.8	100.0	22	22	10.3	10.3	100.00
6.90	6.30	11,808	–	8.6	100.0	1,046	1,046	6.9	6.9	100.00
6.90	6.40	787	–	0.8	100.0	59	59	10.3	10.3	100.00
6.70	6.20	1,346	198	0.9	84.5	78	92	9.4	11.1	100.00
–	–	300	–	0.7	100.0	41	41	2.4	2.4	100.00
7.80	7.30	11,554	–	12.5	100.0	761	761	7.8	7.8	100.00
7.90	7.50	9,640	–	6.1	100.0	334	334	9.0	9.0	100.00
8.30	7.80	10,940	–	3.2	100.0	776	776	10.4	10.4	100.00
7.55	7.10	7,228	1,371	3.3	83.0	600	723	8.5	10.2	100.00
6.75	6.25	3,828	120	5.4	94.9	314	330	7.5	7.9	100.00
7.70	7.00	1,095	–	2.5	100.0	42	42	9.8	9.8	100.00
7.75	7.25	2,124	250	3.7	92.7	225	242	8.9	9.6	100.00
		<b>72,615</b>	<b>2,337</b>	<b>6.7</b>	<b>96.3</b>	<b>5,143</b>	<b>5,341</b>	<b>8.0</b>	<b>8.3</b>	

**Portfolio as of 31 December 2016**

Address	Fund	Primary use	Year of construction	Last renovation/modernization	Plot size [m²]	Market value 31/12/2015 [€ thousand]	Market value 31/12/2016 [€ thousand]	Change [€ thousand]	Change [%]
<b>Subsidiaries</b>									
Teltow Rheinstr. 8	IC07	Office	1995	–	5,324	9,100	9,140	40	0.4
Krefeld Gutenbergstr. 152/ St.Töniser Str. 12	BBV06	Retail	1990	–	8,417	3,670	3,600	(70)	(1.9)
Chemnitz Hartmannstr. 3a–7	IC12	Office	1997	–	4,226	7,880	7,480	(400)	(5.1)
Dresden Nossener Brücke 8–12	BBV14	Office	1997	–	4,134	6,100	6,370	270	4.4
Rostock Kröpeliner Str. 26–28	BBV14	Retail	1995	–	7,479	65,000	64,900	(100)	(0.2)
Querfurt Nebraska Tor 5	BBV08	Retail	1992	–	32,020	11,100	11,400	300	2.7
Zittau Hochwaldstraße/Mittelweg	BBV08	Retail	1992	–	48,840	14,800	18,600	3,800	25.7
Celle Vor den Führen 2	BBV10	Retail	1992	–	21,076	7,200	6,930	(270)	(3.8)
Eisenhüttenstadt Nordpassage 1	BBV10	Retail	1993	–	96,822	20,900	25,100	4,200	20.1
Genthin Altmärker Str. 5	BBV10	Retail	1998	–	3,153	473	462	(11)	(2.3)
Langen Robert-Bosch-Str. 11	BBV10	Office	1994	–	6,003	13,800	14,200	400	2.9
Münster Hammer Str. 455–459	BBV10	Retail	1991	–	15,854	7,310	7,340	30	0.4
Osnabrück Hannoversche Str. 39	BBV10	Retail	1989	–	7,502	3,140	3,170	30	1.0
Lutherstadt Wittenberg Lerchenberg- str.112/113, Annendorfer Str. 15/16	BBV10	Retail	1994	–	20,482	21,700	21,600	(100)	(0.5)
Chemnitz Heinrich-Lorenz-Str. 35	IC15	Office	1998	–	4,718	3,960	4,010	50	1.3
Chemnitz Am alten Bad 1–7, Theaterstr. 34a	IC15	Office	1997	–	3,246	5,890	5,990	100	1.7
Quickborn Pascallehre 15/15a	IC15	Office	1997	–	33,255	13,500	15,600	2,100	15.6
<b>Subtotal subsidiaries</b>					<b>322,551</b>	<b>215,523</b>	<b>225,892</b>	<b>10,369</b>	<b>4.8</b>
<b>Total Group</b>					<b>400,006</b>	<b>280,554</b>	<b>290,542</b>	<b>9,988</b>	<b>3.6</b>

Discount rate 31/12//2016 [%]	Capitalization rate 31/12//2016 [%]	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 [%]
6.60	6.10	9,913	209	2.4	95.9	756	789	8.3	8.6	78.16
7.60	7.10	4,575	723	5.3	86.5	285	329	7.9	9.1	62.23
7.00	6.30	8,380	601	2.6	94.6	613	648	8.2	8.7	53.95
8.10	7.50	8,791	1,484	1.6	72.2	547	758	8.6	11.9	51.01
6.10	5.60	19,307	679	5.0	97.9	4,380	4,473	6.7	6.9	51.01
7.70	7.00	9,331	–	5.7	100.0	981	981	8.6	8.6	58.22
6.60	6.10	17,447	484	11.6	95.1	1,297	1,364	7.0	7.3	58.22
7.50	7.00	10,611	–	6.0	100.0	595	595	8.6	8.6	45.17
8.50	7.75	30,543	18,553	3.7	62.5	1,536	2,457	6.1	9.8	45.17
8.50	7.70	1,275	320	1.8	95.4	62	65	13.3	14.0	45.17
7.70	7.10	13,681	4,808	2.4	64.1	894	1,395	6.3	9.8	45.17
7.60	6.90	7,353	–	2.1	100.0	716	716	9.8	9.8	45.17
8.40	7.90	4,207	–	2.3	100.0	302	302	9.5	9.5	45.17
6.60	6.10	14,710	854	6.2	94.9	1,664	1,754	7.7	8.1	45.17
7.60	7.10	5,845	–	0.9	100.0	462	462	11.5	11.5	48.17
6.60	6.10	5,110	396	2.3	89.2	417	467	7.0	7.8	48.17
6.70	6.20	10,570	–	5.2	99.3	1,143	1,151	7.3	7.4	48.17
		<b>181,651</b>	<b>29,111</b>	<b>4.8</b>	<b>89.0</b>	<b>16,651</b>	<b>18,707</b>	<b>7.4</b>	<b>8.3</b>	
		<b>254,266</b>	<b>31,447</b>	<b>5.2</b>	<b>90.6</b>	<b>21,794</b>	<b>24,047</b>	<b>7.5</b>	<b>8.3</b>	

## Financial calendar

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### Financial calendar

Fair Value REIT-AG

11 May 2017	Interim Report 1st Quarter 2017
2 June 2017	Annual General Meeting, Munich/Germany
10 August 2017	Semi-Annual Report 2017
9 November 2017	Interim Report 1st to 3rd Quarter 2017
November 2017	Presentation, German Equity Forum, Frankfurt am Main/Germany



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Patrick Kaiser (CFO)

**Supervisory Board**

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

**Pictures**

DEMIRE Deutsche Mittelstand Real Estate AG

**Disclaimer**

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