

Annual Report 2017

fair value
REIT

Key figures Fair Value Group			
Revenue and earnings		2017	2016
Rental income	in € thousand	22,105	22,542
Net rental result	in € thousand	15,921	16,088
Operating result (EBIT)	in € thousand	23,584	15,520
Group net profit	in € thousand	12,571	6,909
Earnings per share (basic/diluted) ¹⁾	in €	0.90	0.49
Adjusted group net profit (EPRA-Earnings)/FFO	in € thousand	6,788	6,313
EPRA-earnings/FFO per share (basic/diluted) ¹⁾	in €	0.48	0.45
Assets and capital		31/12/2017	31/12/2016
Non-current assets	in € thousand	291,048	296,907
Current assets	in € thousand	28,569	21,237
Non-current assets available for sale	in € thousand	–	3,600
Total assets	in € thousand	319,617	321,744
Equity/Net asset value (NAV)	in € thousand	127,550	120,590
Equity ratio	in %	39.9	37.5
Immovable assets	in € thousand	290,911	290,542
Equity within the meaning of Sec. 15 REITG	in € thousand	191,703	182,298
Equity ratio within the meaning of Sec. 15 REITG (minimum 45%)	in %	65.9	62.7
Real estate portfolio		31/12/2017	31/12/2016
Number of properties	amount	30	33
Market value of properties	in € million	291	291
Contractual rent	in € million	21.7	21.8
Potential rent	in € million	23.7	24.0
Occupancy rate	in %	91.5	90.6
Remaining term of rental agreements	years	5.1	5.2
Contractual rental yield before costs	in %	7.4	7.5

¹⁾ Weighted average number of shares outstanding in 2017: 14,029,013 basic/diluted

Further key figures			
		31/12/2017	31/12/2016
Number of shares outstanding	in pieces	14,029,013	14,029,013
Net asset value (NAV) per share	in €	9.09	8.60
EPRA-NAV per share	in €	9.09	8.60
Number of employees (excluding Management Board)		3	3

02	Letter to shareholders
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
33	Risk report
40	Opportunities report
41	Remuneration report
43	Other disclosures pursuant to Sec. 315 (4) HGB

Audited Consolidated financial statements

46	Consolidated balance sheet	98	Declaration by legal representative
47	Consolidated statement of income	99	Audit opinion
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		

Compliance

106	Supervisory Board and Management Board
109	Report of the Supervisory Board
112	Corporate governance report

116	Management Board declaration adhering to the requirements of the REIT Act
118	Auditor's report pursuant to section 1 para. 4 of the REIT Act
120	Method of real estate valuation
122	Individual property information of Fair Value REIT-AG's portfolio
126	Imprint

Letter to shareholders

Dear shareholders, ladies and gentlemen,

In the past fiscal year 2017, we successfully continued with our strategic portfolio streamlining, saw positive developments in the rental sector and achieved the operating (FFO) targets.



Ralf Kind, CEO



Stefan Herb, CFO

The Fair Value Group further expanded its operational strength in 2017 and can report on a positive fiscal year 2017. All key earnings indicators were improved considerably in 2017 compared to the previous-year period: The operating result (EBIT) increased to €23.6 million compared to €15.5 million in the previous year, at around €12.6 million, group net profit increased significantly compared to the previous-year figure of €6.9 million and funds from operations (FFO) after non-controlling interests also increased to €6.8 million compared to €6.3 million in the previous year. This corresponds to €0.48 per share currently outstanding compared to €0.45 in the previous year.

Thanks to its active asset management, fiscal year 2017 saw the Fair Value Group further optimise its real estate portfolio, which currently comprises 30 properties with a market value of around €291 million. Despite sales of properties in the past, at €22.1 million we more or less kept the rental income (previous year: €22.5 million) as well as at €15.9 million the net rental income (previous year: €16.1 million) at the previous-year level. As of 31 December 2017 the weighted average lease term (WALT) at 5.1 years remains above 5 years.

The occupancy rate was slightly increased from 90.6% as of 31 December 2016 to 91.5%; or 92.3% if the lease agreements already entered into for vacant space that is shortly to be handed over to tenants are taken into account. Thus Fair Value is building on the high figures of previous years.

As of 31 December 2017, the net asset value (NAV) amounted to €127.6 million (previous year: €120.6 million). This is an increase in the net asset value to €9.09 per share compared to €8.60 as of 31 December 2016. As of the reporting date, the REIT equity ratio increased significantly from 62.7% of immovable assets as of 31 December 2016 to 65.9% as of the reporting date.

The past fiscal year 2017 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 €0.34 per share for fiscal year 2017, that is around €4.8 million. This proposed dividend corresponds to a distribution rate of around 91% of the net profit for the year pursuant to German GAAP.

Outlook 2018

Based on the existing portfolio, we expect funds from operations (FFO) before non-controlling interests of €8.7 million to €9.3 million for 2018. 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 €5.1 million and €5.5 million in 2018. This corresponds to FFO of between €0.37 and €0.39 per share currently outstanding. The target dividend for 2018 is €0.15 per share for all shares currently outstanding. This corresponds to a distribution rate of between 38% and 41% of FFO or 90% of the planned net profit for the year under German commercial law.

We believe that this positive trend will continue in the coming fiscal year. 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, 26 April 2018

The Management Board



Ralf Kind



Stefan Herb

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.

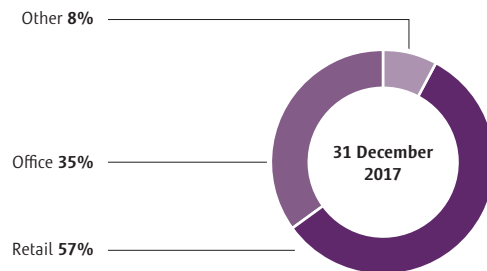
As of 31 December 2017, the directly and indirectly owned portfolio comprised 30 properties (previous year: 33 properties) with market values totalling around €291 million (previous year: €291 million).

Portfolio overview as of 31 December 2017								Share of Fair Value REIT-AG
Direct investments and participations	Number of Properties	Total lettable area [in m ²]	Annualised contractual rent [in T€]	Market value as of 31/12/2017 [in T€]	Occupancy rate [in %]	secured remaining term of rental agreements [in yrs]	Contractual rental yield before costs [in %]	Investment [in %]
Direct investments segment	15	72,399	5,139	64,650	95.6	6.2	8.0	100.0
Subsidiaries segment	15	167,137	16,517	226,261	90.4	4.7	7.3	50.1
Overall portfolio	30	239,536	21,655	290,911	91.5	5.1	7.4	61.6

The market values of the properties as of 31 December 2017 were up by €13.0 million, or 4.7%, on the like-for-like previous-year figures. After deducting the capitalised investment in improving the value of the properties in Eisenhüttenstadt and Zittau, the measurement result recognised through profit or loss amounts to €9.8 million.

Distribution by type of use

Overall portfolio (% of potential rent)



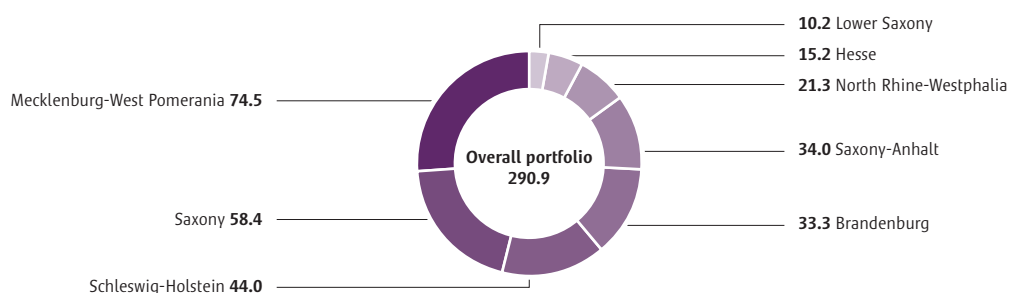
As of 31 December 2017, the overall portfolio generated around 57% of the total potential rents of €23.7 million with properties that are used primarily for retail purposes. Around 35% of potential rents is generated with properties that are used primarily as offices, 8% by other usage.

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, particularly on the second real estate market of closed-end real estate funds.

Regional distribution of properties (overall portfolio)

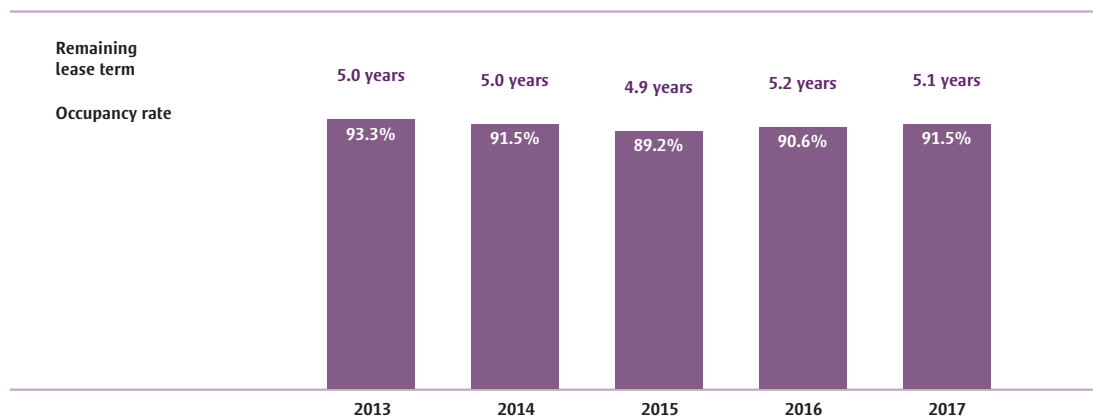
Market values on 31 December 2017 in € million



Well positioned portfolio

The Fair Value Group continued to benefit from its quality and substance in the fiscal year 2017. The occupancy rate again increased by around 1 percentage point, thus building on from the high figures of previous years. The weighted remaining lease term remains at over 5 years.

Occupancy rate of overall portfolio



At the beginning of the past fiscal year 2017, with an occupancy rate of around 90.6% of potential rents, 62 leases accounting for around 9.3% of the total contractual rental volume were due for renewal. The occupancy rate was raised further by extending lease agreements and through new lets, despite the sale of three buildings during the year, most of which were fully let.

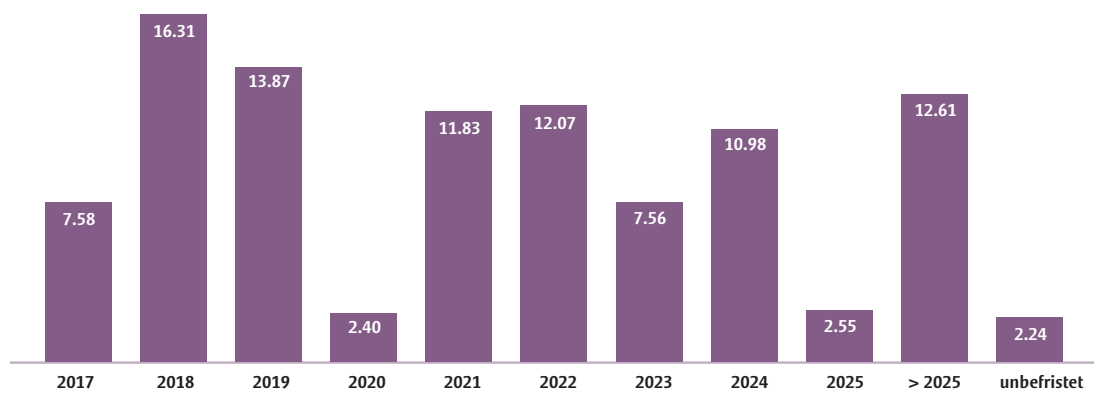
This put the occupancy rate of Fair Value REIT-AG's overall portfolio at 91.5% of the potential rents of €23.7 million as of the beginning of 2018. The weighted remaining lease term, which decreased only marginally to 5.1 years on the previous year, is a further indication of the portfolio's quality in terms of properties and location.

If those lease agreements already entered into as of 1 January 2018 or vacancies that are yet to be handed over to the tenants were included on a pro forma basis, the profit-weighted occupancy rate of the portfolio as of 1 January 2018 would amount to €21.8 million or 92.3% of potential rents.

Of the current 520 leases in the overall portfolio, a total of 43 leases are due for renewal in the current fiscal year 2018. They represent a roughly 8% share of the contractual rents of €21.7 million as of 31 December 2017.

Rental expiry by year of expiry

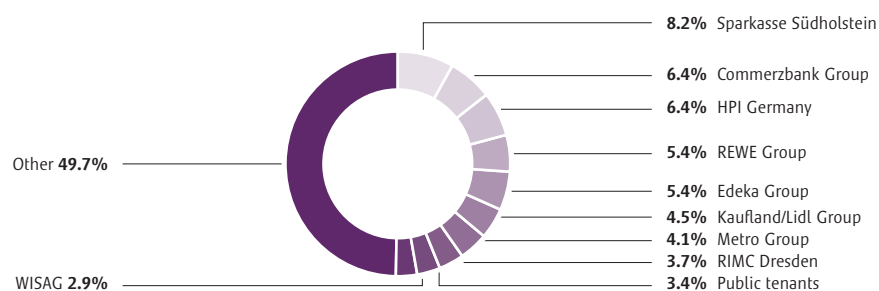
in % of contractual rents, as of 31 December 2017



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) are in second place, accounting for around 15%.

10 largest tenants as of 31 December 2017

in % of contractual rent



The Fair Value REIT-AG on the capital market

The German stock exchanges were shaped by a positive mood in 2017, as reflected, among other things, in rising share prices. The robust economic situation in Germany aided the positive development in share prices. Political uncertainty, such as the tension between North Korea and the US, remained largely unnoticed by the stock exchanges and did not subsequently dampen the mood. Even when there was more profit-taking in the DAX, Germany's leading share index, in mid-2017, this index nevertheless increased by nearly 13% for the year as a whole. At the same time, the DAX recorded a new all-time high by clearing the 13,000-point hurdle in October. With a plus of a good 18%, the smaller stocks index MDAX returned a clearly positive result for the year. The SDAX, for smaller stocks, was even able to exceed this with growth of around 25% for the year as a whole.

The Fair Value REIT-AG share developed considerably better in the reporting period than the indices mentioned, recording a plus of around 32% for the year as a whole. After recording its lowest closing price for the year of €6.50 on 2 January 2017, the share price rebounded strongly in the months that followed. This increase was driven by a positive business development as well as the planned dividend increase from €0.25 to €0.40 per share. From mid-2017 onwards, the share price settled at a high level. At the end of the year, the price increased once again due to the continued positive business development, recording its highest closing price for the year of €8.33 on 27 December 2017. On the last day of trading of 2017, the price of the Fair Value REIT share in the electronic trading system Xetra was likewise €8.33.

In 2017, the average number of Fair Value REIT-AG shares traded per day came to around 5,700 on all German stock exchanges, with Xetra accounting for a good 93%.

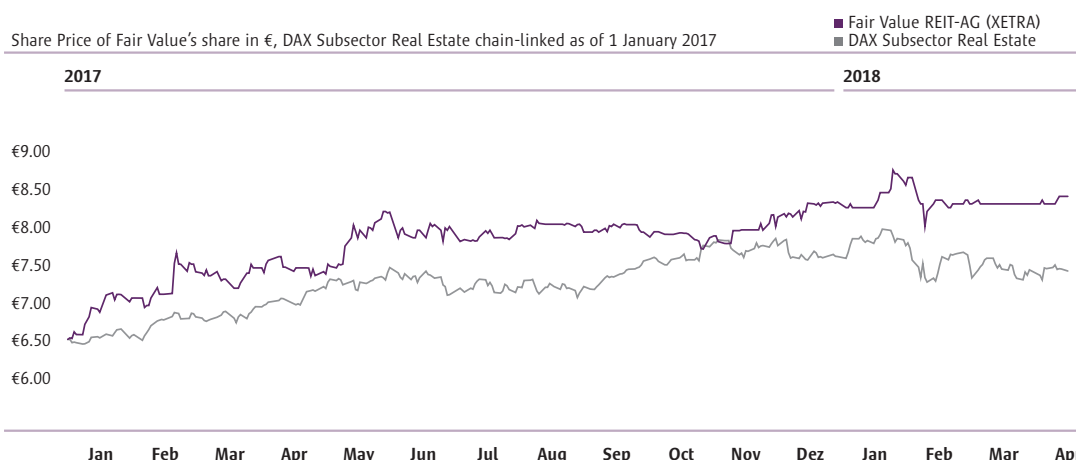
The Annual General Meeting of Fair Value REIT-AG was held in Munich on 2 June 2017, where a unanimous resolution was passed to distribute a dividend of €0.40 per share. This corresponds to a distribution of €5,611,605.20 in total, a significant increase on the previous year when the paid dividend amounted to €0.25 per share. All other points on the agenda were approved with more than 99% of the share capital present.

On 4 December, Ralf Kind, member of the management board and CEO of DEMIRE Deutsche Mittelstand Real Estate AG, was appointed as additional member of the Management Board of Fair Value REIT-AG. At the same time, Kind was appointed the new CEO by the Supervisory Board. Changes were also made to the composition of the Supervisory Board. Frank Hölzle was elected new chairman of the Supervisory Board and Dr. Thomas Wetzel deputy chairman of the Supervisory Board. This Supervisory Board election had become necessary as both the former chairman of the Supervisory Board, Rolf Elgeti, and the former deputy chairman of the Supervisory Board, Markus Drews, had stepped down as of the end of 30 November 2017.

On 27 December 2017, the Management Board of Fair Value REIT-AG, with the approval of the Supervisory Board, filed an application with the Frankfurt Stock Exchange to change from the Prime Standard to the General Standard. The change in the share's stock exchange listing is expected to help reduce the additional expense and costs associated with being listed on the Prime Standard (e.g., no quarterly statements, no financial reporting in English). Trading of the shares on the General Standard commenced on 17 April 2018.

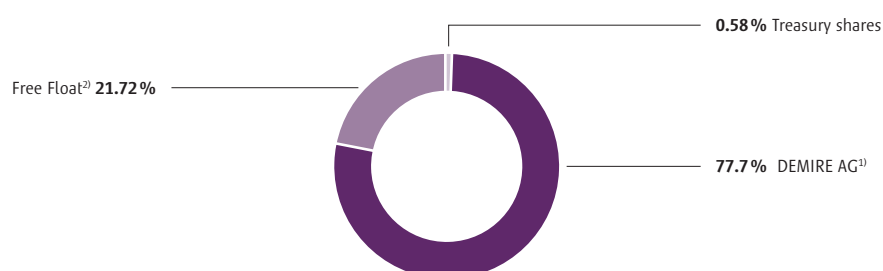
Development of Fair Value's share

Share Price of Fair Value's share in €, DAX Subsector Real Estate chain-linked as of 1 January 2017



Fair Value REIT-AG's shareholder structure

as of 25 April 2018



¹⁾ FVR Beteiligungsgesellschaft Erste mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Zweite mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Dritte mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Vierte mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Fünfte mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Sechste mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Siebente mbH + Co. KG < 10 %, FVR Beteiligungsgesellschaft Achte mbH + Co. KG < 10 %

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

Key data

Fair Value REIT-AG's share	2017
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 2017 (XETRA)	€8.33 / €6.50
Market capitalization as of 31 December 2017 (XETRA)	€117.5 million
Market segment	Prime Standard
Stock exchanges Prime Standard	Frankfurt, XETRA
Stock exchanges OTC	Berlin, Duesseldorf, Hamburg, Munich, Stuttgart, Tradegate
Designated sponsor	ODDO SEYDLER Bank
Indices	RX REIT All Shares-Index, RX REIT Index

Investor Relations

In the past year, Fair Value REIT-AG maintained contact with investors, analysts and journalists. The Management Board presented the Company at capital market conferences and demonstrated its prospects.

The Company continues to provide information about important financial dates as well as the Company and the current portfolio on its website www.fvreit.de. Shareholders are also regularly informed about current business developments via ad hoc announcements and press releases.

Furthermore, the Company published semi-annual and annual reports as well as quarterly statements.

Financial calendar

Financial calendar

Fair Value REIT-AG	
8 June 2018	Annual General Meeting, Munich/Germany
16 August 2018	Semi-Annual Report 2018

Group management report

Group net profit €12.6 million
(2016: €6.9 million)

Operating result (FFO)
€6.8 million
(2016: €6.3 million)

Balance sheet equity ratio
39.9%
(2016: 37.5%)

REIT-equity ratio 65.9%
(2016: 62.7%)

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
- 32 Opportunities and overall statement of the management on the expected development of the Group

33 Risk report

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

40 Opportunities report

41 Remuneration report

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

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

Basic group information

Group structure and business model

Fair Value REIT-AG (hereinafter also referred to as Fair Value) is headquartered in Graefelfing 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. 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 2017.

Requirements of the REIT Act			Actual volume Fair value	
REIT-G	Criterion	Requirement	31/12/2017	31/12/2016
Sec. 11	Free float – separate financial statements ¹⁾	Min. 15%	21.7%	21.7%
Sec. 12, para. 2 a	Capital requirements – Group	Min. 75%	92.4%	91.9%
Sec. 12, para. 3 a	Income requirements – Group	Min. 75%	100.0%	100.0%
Sec. 13, para. 1	Minimum distribution to shareholders – separate financial statements	Min. 90%	90.8%	91.0%
Sec. 14	Exclusion of real estate trading – Group	Max. 50%	35.6%	34.9%
Sec. 15	Minimum equity – Group	Min. 45%	65.9%	62.7%

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

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 2017, the directly and indirectly owned portfolio comprised 30 properties (previous year: 33 properties) with market values totalling around €291 million (previous year: €291 million).

A decrease of €13 million on the previous year resulting from the disposal of three properties was fully compensated for by increases in value from investments and lets within the existing portfolio as of 31 December 2017.

The contractual rent volume of the overall portfolio came to €21.7 million as of 31 December 2017 with a weighted remaining lease term of 5.1 years; this corresponds to a profit-weighted occupancy rate of 91.5% of potential rents with full occupancy of €23.7 million (previous year like-for-like: 90.5% of potential rents with full occupancy of €22.9 million).

If those lease agreements already entered into as of 1 January 2018 or vacancies that are yet to be handed over to the tenants were included on a pro forma basis, the profit-weighted occupancy rate of the portfolio as of 1 January 2018 would amount to €21.8 million or 92.3% of potential rents.

Direct investments As of the reporting date, the Company directly owns 15 commercial properties (previous year: 16 properties) with a total rentable space of 72,399 m² (previous year: 72,615 m²). The slight decrease resulted from the sale of a property in Schleswig-Holstein that was used as a bank branch (Geschendorf).

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. They are thus slightly above the like-for-like previous-year figure of €64.4 million.

The total contractual rent volume of these properties came to €5.1 million as of 31 December 2017 with a weighted remaining lease term of 6.2 years; this corresponds to a profit-weighted occupancy rate of 95.6% of potential rents with full occupancy of €5.4 million (previous year like-for-like: 96.3% 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 five companies are property-holding partnerships (previous year: eight). 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 15 properties as of the reporting date (previous year: 17). The decrease arises from the sale of the property in Teltow by the subsidiaries IC 07 as well as the sale of the property in Krefeld by the subsidiary BBV 06. The market values of the properties held by the subsidiaries totalling €226.3 million as of 31 December 2017 were down on balance by €12.8 million or 6.0% on the like-for-like previous-year figure of €213.5 million in total.

The increase in value is the balance of measurement losses totalling €0.2 million with three properties and measurement gains totalling €13.3 million with 12 properties. €11.3 million or around 85% of the measurement gain is attributable to five properties in Dresden and Rostock (BBV 14), Eisenhüttenstadt and Langen (BBV 10) as well as Zittau (BBV 08).

The contractual rents of the properties held by the subsidiaries as of 31 December 2017 totalling €16.5 million were up significantly on the like-for-like previous-year figure of €15.6 million due to letting. This corresponds to a profit-weighted occupancy rate of 90.4% of potential rents with full occupancy of €18.3 million (previous year like-for-like: 88.8% of potential rents of €17.6 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 income for the year under German GAAP.

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.

Governance and control

Fair Value REIT-AG is managed autonomously by the Management Board. The Management Board currently consists of two persons – Mr. Ralf Kind and Mr. Stefan Herb.

Effective 1 December 2017, Mr. Ralf Kind was appointed CEO of the Company for three years. Since 1 March 2017, Mr. Kind has also been a member of the management board (since 1 January 2018 sole member of the management board) at DEMIRE Deutsche Mittelstand Real Estate AG. Until 2016, the trained banker and business management graduate was the founding shareholder and CEO of Arbireo Capital AG and managing partner of Dr. Lübke & Kelber GmbH. From 2002-2013, Mr. Kind was director in the structured finance team of Barclays Capital, before heading the Barclays Real Estate Investment Banking team Germany, Austria, Switzerland and the Netherlands. From 1998-2001, he was principal consultant for PwC Unternehmensberatung GmbH in Frankfurt and for Price Waterhouse in Tokyo.

By resolution of the Supervisory Board of 20 February 2018, Mr. Stefan Herb was appointed as ordinary member of the Management Board of the Company for the period from 1 March 2018 to 28 February 2021. Mr. Herb is also head of investment management/treasury of DEMIRE Deutsche Mittelstand Real Estate AG. Mr. Herb, a fully qualified lawyer and business graduate, previously worked, among other things, as a real estate investment manager at Arbireo Capital AG, Frankfurt, and as general manager of two international institutional investment funds of Deka Immobilien Investment GmbH, Frankfurt.

On 28 February 2018, Mr. Kaiser resigned from the Management Board effective the same day. 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. His resignation relates to the takeover bid of AEPF III 15 S.á r.l. to the shareholders of the Company to acquire their bearer shares, which was announced by the Company on 27 February 2018.

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 289f 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.

Management system

Since 1 January 2017, the real estate portfolio directly held by the Company has been managed by DEMIRE Immobilienmanagement 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 managed 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 its business activities, 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 grew for the eighth year in a row in 2017. The number of persons employed averaged at around 44.3 million in 2017, slightly exceeding the previous-year figure. The annual inflation rate increased to 1.7%. In the commercial letting markets, parts of the office segment continued to see a rise in take-up and rising rents, although there were decreases in Cologne, Stuttgart and Düsseldorf. The downward trend in rents in the retail segment continued with falling rents. In the investment market, a transaction volume of €56.8 billion was generated with commercial property in Germany, thus exceeding the record revenue of €53 billion seen in the previous year.

Macroeconomic environment

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

In 2017, GDP (adjusted for price effects) increased by 2.2% following 1.9% in the previous year. Consumers' willingness to spend continued unabated due to the positive situation on the labour market and low interest rates. The construction industry also benefited from the ongoing low interest rates, contributing to economic growth as their order books grew. Recovery in the global economy and the associated rising demand for "Made in Germany" products also had a positive effect on the economic situation.

Consumer prices in 2017 increased by an average of 1.7% on the previous year. This was up on the very low previous-year level of just 0.5% and was largely due to price hikes for energy.

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 44.3 million, again manifesting the long-standing upward trend. An average of 2.5 million persons were registered unemployed in 2017, a decrease of 158,000 persons, or 5.8%, in comparison to the previous year. The unemployment rate thus dropped by 0.4 percentage points to 5.7%.

Real estate market in Germany

Sources: Jones Lang LaSalle/Colliers International

The rental market Office space Office take-up on the seven large German office letting markets* significantly increased to a total volume of 4.2 million m² in fiscal year 2017, although there were decreases in Cologne, Stuttgart and Düsseldorf. This is around 7% more than in the previous year. Prime rents in fiscal year 2017 increased in Berlin, Düsseldorf, Cologne and Munich, while stagnating in Frankfurt, Hamburg and Stuttgart. The prime rent price index in the "Big 7" rental markets* actually rose by 4.6%, the biggest increase since 2007.

The average vacancy rate of the "Big 7" fell to 4.7% over the course of 2017 compared to 5.5% in the previous year. At the same time, a total of about 0.86 million m² new office space was completed during the year, which corresponded to an almost 22% decrease in comparison to the previous year. However, 86% 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.

Retail space With regard to an increase in expectations for the economy and further growth in consumers' willingness to buy in fiscal year 2017, there was steady take-up of around 448,200m² on the retail property market. Although this was 7% less than in the previous year, the number of transactions closed (1,055) was down 2% on the previous-year level. The trend toward small and medium-sized spaces continued.

Despite a slowdown, retail textile tenants remained the strongest sector, although its share fell to 28% of total take-up in 2017 compared to 33% in the previous year. Space taken up by the gastronomy/food industry experienced renewed growth, albeit slower, settling at around 20%. The health and beauty retail segment increased its share considerably to 16% of total take-up in 2017 (2016: 15%). Prime rent in the 1a commercial locations in the 185 locations across Germany decreased by 2.6% year on year following a marginal 0.1% increase in the previous year.

The investment market The German investment market for commercial property hit a record high with a volume of around 56.8 billion, an increase of 7% on 2016. Around 44% of the transaction volume again related to office property, following 45% in the previous year. Retail property ranked second with a share of just over 20%, although this was down from 23% in the previous year. Logistics and commercial real estate attained a share of 15% (2016: 9%). The remaining shares are largely spread among hotel properties, land and special-purpose properties (around 11%). Mixed-use properties accounted for a share of 10% compared to 6% in 2016.

Primarily in the office segments, a trend can be observed of investors shifting to markets beyond the Big 7. In the Big 7, by contrast, attention is increasingly turning to project development.

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

Overall statement by the company management on business development

In the past fiscal year 2017, Fair Value REIT-AG successfully continued with its strategic portfolio streamlining, generated positive developments in the rental sector and achieved its operating (FFO) targets.

As a result, as of 31 December 2017, the occupancy rate of the portfolio stood at 91.5% of potential rents following 90.5% (like-for-like) at the end of the previous year. The average remaining lease term as of the reporting date decreased to 5.1 years compared to 5.2 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 stood at around 92.3% of potential rents as of 1 January 2018.

As of 31 December 2017 the directly and indirectly owned portfolio represented 30 properties with an aggregate market value of around €291 million (previous year: 33 properties with market values totalling €291 million).

An expected decrease in the market value of €13 million on the previous year resulting from the disposal of three properties was fully compensated for through increases in value from investments and lets within the existing portfolio as of 31 December 2017.

At €2.7 million, net interest expenses were down €0.7 million (21%) on the previous-year figure of €3.4 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 €12.6 million (previous year: €6.9 million).

As of the reporting date, group equity amounted to €127.5 million (previous year: €120.6 million) or €9.00 for each share currently outstanding (previous year: €8.60). Total assets decreased as of the reporting date 2017 to €319.6 million compared to €321.7 million in the previous year, thus causing the equity ratio as of 31 December 2017 to increase to 40% (previous year: 37%).

Including the shares in non-controlling interests in subsidiaries, as intended when calculating REIT equity, the equity of all shareholders amounted to €191.7 million or 60% of total assets (previous year: 57%).

As of the reporting date, the REIT equity ratio came to 65.9% of the immovable property (previous year: 62.7%) 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 2016 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 €9.6 million and €10.2 million for the fiscal year 2017. 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 €6.1 million and €6.4 million.

The Management Board confirmed this plan following the publication of the quarterly statement as of 30 September 2017 in light of the costs for those lease agreements for vacancies that have already been entered into and an EPRA result for 2017 within the communicated range.

In effect, the FFO before non-controlling interests generated in 2017 at €10.5 million was up €0.3 million on the specific figure planned. After deducting the non-controlling interests, the FFO came to around €6.8 million, which at €0.4 million was up on the specific figure planned and thus demonstrates the stability and profitability of the portfolio, which has been reduced slightly through disposal, confirming both the strategy and its implementation.

EPRA earnings (FFO) compared to the previous year At €15.9 million, the adjusted net rental income for the past fiscal year was around 1% and thus slightly above the previous-year figure of €16.1 million. The expected decrease in rental income resulting from the disposal of three properties was reduced by means of new lets and a reduction in vacancies. General administrative expenses were also reduced and a positive balance generated from other operating income and expenses. The adjustment of other operating income and expenses of €0.9 million contains expenses of €0.1 million in connection with the former CEO Frank Schaich stepping down as well as consulting fees of €0.8 million in connection with real estate transactions that were not executed.

At €13.3 million, the adjusted operating result was thus down only slightly on the previous-year figure of €13.5 million.

The net interest expense decreased significantly as a result of the repayment-related decrease by 13% to €2.7 million (previous year: €3.1 million). FFO before non-controlling interests of €10.5 million was up slightly on the previous-year figure of €10.4 million.

At €3.7 million, the share of profit/loss attributable to non-controlling interests was down by 10% on the previous-year figure of €4.1 million. The adjusted group net profit (EPRA result or FFO) after non-controlling interest of €6.8 million is thus up on the previous-year figure of €6.3 million. This corresponds to €0.48 per share currently outstanding..

The past fiscal year 2017 was thus highly satisfactory and slightly exceeded our expectations.

Adjusted profit/loss of the Group (EPRA earnings) or FFO 2017		Adjustment for one-off effects			Adjusted consolidated statement of income
in € thousand	According to the consolidated statement of income	Gains/losses on disposal	Property measurement	Other	
Rental income	22,105	–	–	–	22,105
Service charge income	5,630	–	–	–	5,630
Service charge expenses/ground rent	(7,782)	–	–	–	(7,782)
Other property-related expenses	(4,030)	–	–	–	(4,030)
Net rental income	15,921	–	–	–	15,921
General administrative expenses	(2,851)	–	–	–	(2,851)
Other operating income and expenses	(715)	–	–	882	167
Profit/loss from disposal of investment properties	1,463	(1,463)	–	–	–
Measurement result	9,766	–	(9,766)	–	–
Operating result	23,584	(1,463)	(9,766)	882	(13,237)
Net interest expenses	(2,718)	–	–	–	(2,718)
Result before non-controlling interests	20,866	(1,463)	(9,766)	882	10,519
Share of profit/loss attributable to non-controlling interests	(8,279)	291	4,665	(392)	(3,715)
Income taxes	(16)	–	–	–	(16)
Group net profit	12,571	(1,172)	(5,101)	490	6,788
Profit/loss of the Group per share	0.90 ¹⁾				0.48 ¹⁾

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

Adjusted consolidated net income (EPRA-earnings) or FFO 2016		Adjustment for one-off effects			Adjusted consolidated statement of income
in € thousand	According to the 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)
Net rental income	16,088	–	–	–	16,088
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)	–	–
Operating result	15,520	(452)	(1,753)	226	–13,541
Net interest expenses	(3,375)	–	–	254	(3,121)
Result before non-controlling interests	12,145	(452)	(1,753)	480	10,420
Ergebnisanteile von Minderheitsgesellschaftern	(5,226)	(95)	1,224	–	(4,097)
Share of profit/loss attributable to non-controlling interests	(10)	–	–	–	(10)
Group net profit	6,909	(547)	(529)	480	6,313
Profit/loss of the Group per share	0.49 ¹⁾				0.45 ¹⁾

¹⁾ Weighted average number of shares outstanding in 2015: basic/diluted 14,029,013

Financial performance, cash position and financial position

Financial performance

in € million	2017	2016	Change	
			[€ million]	[%]
Rental income	22.1	22.5	(0.4)	(2)
Service charge income	5.6	5.1	0.5	10
Service charge expenses	(7.8)	(8.1)	(0.3)	(4)
Other property-related expenses	(4.0)	(3.4)	0.6	(18)
Net rental income	15.9	16.1	(0.2)	(1)
General administrative expenses	(2.8)	(3.2)	(0.4)	(13)
Balance of other operating income and expenses, disposal and measurement gains/losses	10.5	2.6	7.9	304
Operating result	23.6	15.5	8	52
Net interest expenses	(2.7)	(3.4)	(0.7)	(21)
Share of profit/loss attributable to non-controlling interests	(8.3)	(5.2)	3.1	60
Group net profit	12.6	6.9	5.6	81
Group net profit per share basic/diluted	0.90€ ¹⁾	0.49€ ¹⁾	0.41	84

¹⁾ Weighted average number of shares outstanding in 2017: basic/diluted 14,029,013

At €22.1 million, rental income was down €0.4 million or 2% on the previous-year figure. The decrease was due to sales of non-strategic properties and from vacancies. Income from the allocation of service charge expenses increased by €0.5 million, or 10%, to €5.6 million (previous year: €5.1 million), while service charge expenses decreased marginally by €0.3 million, or 4%, to €7.8 million.

Other property-related expenses amounted to €4 million, up 18% on the previous-year figure. At €15.9 million, net rental income was thus down €0.2 million, or 1%, on the previous-year figure of €16.1 million.

At €2.8 million, general administrative expenses were down €0.4 million or 13% on the previous year. This decrease was mainly attributable to the lower personnel expenses 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 €10.5 million, which was up €7.9 million on the previous-year total income of €2.6 million.

At €23.6 million, the operating result was thus up 52% on the previous-year figure of €15.5 million.

At €2.7 million, net interest expenses were down €0.7 million or 21% on the previous-year figure (€3.4 million) largely due to repayments. However, the previous-year figure also contains 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 €12.6 million (previous year: €6.9 million). This corresponds to earnings per number of shares currently outstanding of €0.90 after €0.49 in the previous year.

Cash position

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

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

Capital structure Equity attributable to the shareholders of Fair Value REIT-AG amounted to €127.6 million as of the reporting date (previous-year figure: €120.6 million). Including the shares in non-controlling interests in subsidiaries totalling €64.2 million, the equity of all shareholders amounts to €191.7 million (previous year: €182.3 million). This corresponds to around 60% of consolidated total assets of €319.6 million (previous year: 57% of €321.7 million).

As presented below, the Group's financial liabilities amounted to €121.1 million as of the reporting date (previous year: €131.7 million):

Financial liabilities of the Group		Amount 12/2017 [T€]	Amount 12/2016 [T€]	Interest rate	Bankmargin	Term
Short name	Lender					
FV AG	Capital Bank GRAWE Group, Graz	–	(7,000)	–	–	–
FV AG	WIB Westdeutsche Immobilienbank AG ¹⁾	(8,400)	(8,900)	2.55%	–	30.06.2019E
FV AG	WIB Westdeutsche Immobilienbank AG ¹⁾	(5,416)	(5,909)	floating	1.27%	30.06.2019E
FVAG	Stadt-Sparkasse Langenfeld	(2,560)	(2,636)	1.55%	–	30.03.2020
FVAG	Stadt-Sparkasse Langenfeld	(1,886)	(1,943)	1.69%	–	30.03.2020
FVAG	Volksbank Mittweida eG ⁴⁾	(3,684)	(3,913)	2.25%	–	01.08.2026
IC 12	WIB Westdeutsche Immobilienbank AG ²⁾	(1,764)	(1,831)	2.50%	–	31.03.2018
IC 15	Sparkasse Südholstein	(7,042)	(7,269)	2.71%	–	30.01.2018
BBV 02	Bayer. Beamten Lebensvers. a.G. ³⁾	(139)	(139)	–	–	–
BBV 02	Bayer. Beamten Lebensvers. a.G. ³⁾	(942)	(942)	–	–	–
BBV 08	Unicredit Bank AG	(7,748)	(8,556)	floating	2.60%	30.09.2025E
BBV 10	Bayer. Beamten Lebensvers. a.G.	(22,141)	(20,409)	3.90%	–	30.11.2019
BBV 10	Unicredit Bank AG	(21,982)	(23,257)	floating	2.37%	31.03.2018
BBV 10	Unicredit Bank AG	(6,949)	(7,434)	floating	2.44%	31.03.2018
BBV 14	DG Hypothekenbank AG	(30,442)	(31,642)	1.38%	–	31.03.2020E
Total		(121,095)	(131,680)			

¹⁾ LTV 75 % // DSCR 120 %

²⁾ LTV 50 % // DSCR 120 %

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

⁴⁾ 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 2017. 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 €79.0 million (previous year: €79.5 million).

At €42.1 million, around 35% of financial liabilities with no interest hedges were thus subject to floating-rate interest as of the reporting date (previous year: €52.2 million, or 40%).

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 2.37% p.a. as of the reporting date. This represents a decline of 12.7% compared with the previous-year figure of 2.1% p.a.

The weighted remaining term of the fixed-interest and bank margin agreements amounted to 18 months as of the reporting date compared to 16 months in the previous year.

Liquidity The Group's cash and cash equivalents amounted to €24.2 million as of the reporting date, up €7.4 million, or 44%, on the previous-year figure of €16.8 million.

At €18.6 million, the net cash flow from operating activities was thus up considerably on the previous-year figure of €9.5 million.

Net cash flow from operating activities

in € thousand	2017	2016
Profit/loss of the Group	12,571	6,909
Measurement and sales result	(11,229)	(2,205)
Non-controlling interests (shares of gains)	8,279	5,226
Income from the acquisition of non-controlling interests	–	7
Other adjustments	8,959	(454)
Net cash flow from operating activities	18,580	9,483

The cash inflow from other adjustments of €9 million (previous year: €-0.4 million) primarily results from the settlement balance for the terminated shares in BBV 09.

Net cash flow from investing activities Investment activities resulted in a cash inflow of €11.6 million compared to €12.1 million in the previous year. In 2017, cash inflows resulted from cash received from the disposal of properties for a total of €15.3 million (previous year: €19.8 million), which was counter-balanced by cash paid for investments or fit-outs of €3.5 million (previous year: €7.7 million).

in € thousand	2017	2016
Net cash inflow from investment activities	11,642	12,066
Net cash outflow from financing activities	(22,806)	(20,801)
Change to cash and cash equivalents	7,416	748
Cash and cash equivalents at the beginning of the period	16,776	16,028
Cash and cash equivalent at the end of the period	24,192	16,776

Net cash flow from financing activities The cash outflow from financing activities of €22.8 million (previous year: €20.8 million) consists of a net outflow of €10.6 million from the repayment of and proceeds from financial liabilities (previous year: €12.5 million). Furthermore, the dividend for the fiscal year 2016 amounted to €5.6 million (previous year: €3.5 million) and distributions to non-controlling interests in subsidiaries to €5.5 million (previous year: €4.4 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	31/12/2017		31/12/2016		Change	
	[€ thousand]	[%]	[€ thousand]	[%]	[€ thousand]	[%]
Total non-current assets	291,048	91	296,907	92	(5.9)	(2)
Total current assets	28,569	9	21,237	7	7.3	35
Non-current assets available for sale	0	0	3,600	1	(3.6)	(100)
Total assets	319,617	100	321,744	100	(2,127)	(1)

Total assets decreased by 1% compared to the previous year to €319.6 million.

Non-current assets of €291 million accounted for 91% of total assets (previous year: €296.9 million, or 92%). Around 99% or €290.9 million related to investment property (previous year: 97% or €286.9 million).

Current assets of €28.6 million (previous year: €21.2 million) comprised €24.2 million or around 84% of cash and cash equivalents (previous year: €16.8 million). Around €2.2 million (8%) relates to trade receivables following €2.6 million in the previous year. Around €2.2 million (8%) related to other receivables and assets (previous year: €1.9 million). The decrease in current assets is largely due to the settlement balance for the terminated shares in BBV 09.

Equity and liabilities	31/12/2017		31/12/2016		Change	
	[€ thousand]	[%]	[€ thousand]	[%]	[€ thousand]	[%]
Equity of parent company	127,550	40	120,590	37	6,960	6
Non-controlling interests	64,153	20	61,708	19	2,445	4
Financial liabilities, derivatives, other liabilities	111,337	35	123,289	38	(11,952)	(10)
Total non-current liabilities	175,490	55	184,997	57	(9,507)	(5)
Total current liabilities	16,577	5	16,157	5	(420)	(3)
Total liabilities	192,067	60	201,154	63	(9,087)	(5)
<i>Thereof financial liabilities</i>	<i>121,095</i>	<i>38</i>	<i>131,680</i>	<i>65</i>	<i>(10,585)</i>	<i>(8)</i>
Total equity and liabilities	319,617	100	321,744	100	(2,127)	(1)

On the reporting date, a total of 40% of assets (previous year: 37%) was financed by equity attributable to shareholders of the parent company and 60% (previous year: 63%) by liabilities. Here it must be taken into account that the non-controlling interests in subsidiaries of €64.2 million (previous year: €61.7 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 €191.7 million or 60% of the total equity and liabilities (adjusted previous-year figure: €182.3 million or 57%).

The financial liabilities of the Group amounted to €121.1 million or 38% of total assets (previous year: €131.7 million or 41%). The decrease in financial liabilities by €10.6 million or 8% on the previous year is mainly due to the premature repayment of the loan at Capital Bank GRAWE Group, Graz, of €7 million as well as regular repayment and disposal-related unscheduled repayments, less new loans borrowed. Of the financial liabilities, €9.5 million (previous year: €9.3 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 2017 immovable assets totalled €290.9 million. Nominal REIT equity amounted to €191.7 million. This resulted in a REIT equity ratio of 65.9%, thus above the legally required minimum ratio of 45.0% of immovable assets.

Calculation of equity ratio pursuant to Sec. 15 REITG	31/12/2017		31/12/2016	
	[€ thousand]	[%]	[€ thousand]	[%]
Investment properties incl. assets under construction	290,911	–	286,942	–
Non-current assets held for sale	–	–	3,600	–
Immovable assets	290,911	100.0	290,542	100.0
Equity	127,550	–	120,590	–
Non-controlling interests	64,153	–	61,708	–
Equity pursuant to Sec. 15 REITG	191,703	65.9	182,298	62.7

Equity/net asset value (NAV) per share As of 31 December 2017, the net asset value amounted to €127.6 million (previous year: €120.6 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 €9.09 per share following €8.60 in the previous year.

NAV in the consolidated statement of financial position		
in € thousand	31/12/2017	31/12/2016
Market value of properties (incl. held for sale)	290,911	290,542
Other assets less other liabilities	24,496	27,322
Non-controlling interests	(64,153)	(61,708)
Financial liabilities	(121,095)	(131,678)
Other liabilities	(2,609)	(3,888)
Net asset value	127,550	120,590
Net asset value per share	9.09	8.60

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 NNNAV indicator used by some experts.

EPRA-NAV		
in € thousand	31/12/2017	31/12/2016
NAV pursuant to consolidated statement of financial position	127,550	120,590
Market value of derivative financial instruments	–	–
Thereof attributable to non-controlling interests	–	–
EPRA-NAV	127,550	120,590
EPRA-NAV per share (in €)	9.09	8.60

Forecast report

Economic conditions and industry prospects

The German economy will continue its strong upswing in 2018. 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 environment

In its annual economic report for 2018, the forecast issued by the German federal government expects the German economy to grow by 2.4% in 2018. The more favourable economic environment is having a positive effect on the German economy, helping revive foreign trade and investments. Germany's economic upswing remains a solid foundation for positive economic development overall. However, the increase in the employment rate is expected to develop somewhat less positively as the labour supply becomes scarcer. The federal government currently sees the risks and opportunities for the economy as more balanced than in the recent past, even if unpredictability remains high.

Letting markets

According to analysts' estimates, the office letting market will again remain unchanged in 2018. Due to the continuing demand for office space, the trend of available space becoming scarcer will continue, from which the secondary locations in the area of the top seven rental markets will benefit.

Investment market

The investment market for commercial property in Germany will stay attractive for investors in 2018 as the European Central Bank continues its low interest policy and the transaction volume will remain high. Analysts expect a transaction volume for 2018 of €55 billion, the same as in 2017. 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, Colliers International

Anticipated financial performance of the Group

Forecast of consolidated earnings for 2018

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 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 figures of the previous year.

Any non-recurring effects, such as from market valuations, were not taken into account. With the exception of the planned sale of the Eisenhüttenstadt property (BBV 10) as of 31 December 2018, 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 range between €8.7 million and €9.3 million at group level in 2018 before non-controlling interests. After non-controlling interests, the Management Board expects FFO of around €5.1 million to €5.5 million. This corresponds to FFO of between €0.37 and €0.39 per share currently outstanding. The target dividend for 2018 is €0.15 per share for all shares currently outstanding. This corresponds to a distribution rate of between 38% and 41% of FFO or 90% of the planned net income pursuant to HGB for 2018.

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 2018. 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 provider supports the management of Fair Value in the identification, notification, assessment and management of current and potential risks. Risk control and reporting are carried out centrally by the management of Fair Value REIT-AG. This ensures that the Management Board is informed in a timely manner of all significant risks in order to initiate appropriate measures.

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

Key features of the internal control and risk management system with respect to the Group's accounting pursuant to Sec. 289 (5) 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 2.3% below to around 2.5% above the market values as of 31 December 2017. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €6.5 million or €7.1 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 3.6% below or 3.7% above the market values as of 31 December 2017. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €10.5 million or €10.8 million, respectively.

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. In fiscal year 2017, six legal disputes were pending in the Group, of which five had not been concluded. Two of the legal disputes relate to directly held properties.

In the first and second instance, Fair Value REIT-AG lost a dispute concerning parking space issues with an office tenant in the Bad Segeberg property. Fair Value was ordered by the court to pay compensation, with the amount in dispute coming to €5,000.00. It is currently being examined whether Fair Value REIT-AG can therefore claim compensation from the brokerage company commissioned to let the property.

A co-owner of the property in Bad Bramstedt has contested several decisions of the owners' meeting from August 2017 and in this context sued Fair Value REIT-AG and all other co-owners. The provisional amount in dispute is €11,939.75.

The four other legal disputes relate to subsidiaries of the Fair Value REIT-AG Group.

There are legal disputes with a tenant in the Celle property (BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG) stemming from maintenance measures. In a mediation meeting it was agreed to conclude an addendum to the lease agreement aimed at regulating all open points and their remedy. This addendum is currently being drafted.

Legal action has been brought against a tenant of the Eisenhüttenstadt property belonging to BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG due to outstanding rent receivables. The amount in dispute is €35,000.00.

A partner of IC Fonds & Co. SchmidtBank-Passage KG appealed against the decision taken at the partner meeting on 23 March 2017 to sell a fund property to Fair Value REIT-AG. The amount in dispute is €50,000.00.

A partner of IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG appealed against the decision taken at the partner meeting on 23 March 2017 to sell fund properties to Fair Value REIT-AG. In the first instance the resolution to sell taken by the partner meeting was declared null and void. The appeal process is currently ongoing at the higher regional court. The amount in dispute also comes to €50,000.00.

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 REIT 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 investments less management costs, administrative expenses and financing costs as well as repayments.

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 2018 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 interest burden for the existing financial liabilities with variable interest arrangements within the Group as of 31 December 2017, for example, of one percentage point, would involve a reduction in the FFO before non-controlling interests of around €0.4 million in total.

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

Other risks

Legal and tax framework

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

Risks for REIT-AG

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

Risks from the REIT status

Infringements of the requirements of the REIT law in some cases implicate the 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 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 2017 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 €19.4 million after deducting non-controlling interests. Of this amount, 85% (€16.4 million) constitutes non-cash measurement risks.

Weighted net risks amount to €6.1 million; of this amount, with a share of €5.8 million, 95% constitutes non-cash measurement risks. Net risks with cash effects of the Fair Value Group are thus estimated at a total of €0.3 million.

Overall for fiscal year 2018, 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.

Opportunities report

The Management Board is confident that it can exploit the current market environment to enhance the value-added of Fair Value's share in the real estate portfolio 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

Mr. Ralf Kind

No remuneration structure has been set yet for the new member of the Management Board Ralf Kind for fiscal year 2017 as well as for fiscal year 2018. The Supervisory Board and Mr. Kind are currently negotiating the contractual arrangements, in particular a cost allocation agreement between DEMIRE Deutsche Mittelstand Real Estate AG and Fair Value.

Mr. Stefan Herb

No remuneration structure has been set yet for the new member of the Management Board Stefan Herb for fiscal year 2018. The Supervisory Board and Mr. Herb are currently negotiating the contractual arrangements, in particular a cost allocation agreement between DEMIRE Deutsche Mittelstand Real Estate AG and Fair Value.

Mr. Patrick Kaiser

The remuneration of the Management Board member Patrick Kaiser breaks down into a basic component of €162,000 p.a. plus fringe benefits (primarily from the contribution to private health insurance and care insurance, as well as for a monthly mobility allowance of €1,200.00 net instead of a company car).

The Management Board member also receives annual performance-related remuneration, the amount of which is determined at the discretion of the Supervisory Board after the Company's financial statements for the related fiscal year have been ratified and the dividend payments for this year have been resolved by the Annual General Meeting. Judgement is solely exercised on the basis of a multi-year measurement base using the following performance targets and comparison parameters: The annual performance-related remuneration is limited to an amount of €88,000.00 p.a.

Terminated service agreements

Mr. Frank Schaich

On 29 January 2016, the supervisory board of DEMIRE Deutsche Mittelstand Real Estate AG had concluded an agreement with Herr Schaich as an additional member of the management board as of 1 February 2016 for three years. In addition to his basic annual salary of €230,000, Mr. Schaich receives a performance and earnings-based bonus of up to €125,000 per year. In line with the termination agreement dated 31 October 2016, Mr. Schaich's contractual claims were met in full by the end of 31 March 2017 and the bonuses for the entire contractual term from 1 March 2016 to 31 March 2017 as well as an annual compensation amount for private health and care insurance were granted. The phantom stock option rights were compensated for with an amount of €120,000 and settled in March 2017. Mr. Schaich also receives a compensation payment equivalent to half of the most recent benefits received under the contract for a period of six months, which is paid out in six equal installments from April 2017 to October 2017 and offset against any other remuneration that Mr. Schaich receives in this period. Until 31 March 2018, the amounts of the reinsured pension commitments in favour of Mr. Schaich are paid by DEMIRE Deutsche Mittelstand Real Estate AG and the company car made available under the management board service agreement.

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 Mr. Schaich's 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.

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 Deutsche Mittelstand Real Estate AG 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, 25 April 2018

Fair Value REIT-AG



Ralf Kind
CEO



Stefan Herb
Member of the Management Board

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
98	Declaration by legal representative
99	Audit opinion

Consolidated balance sheet

Consolidated balance sheet			
in € thousand	Note no.	31/12/2017	31/12/2016
Assets			
Non-current Assets			
Intangible assets	(5)	72	75
Property, plant and equipment	(5)	58	62
Investment property	(6)	290,911	286,942
Other receivables and assets	(7)	7	9,828
Total non-current assets		291,048	296,907
Current assets			
Trade receivables	(9)	2,223	2,578
Income Tax receivables	(10)	3	5
Other receivables and assets	(11)	2,151	1,878
Cash and cash equivalent	(12)	24,192	16,776
Total current assets		28,569	21,237
Non-current asset held for sale	(8)	–	3,600
Total assets		319,617	321,744
Equity and liabilities			
Equity	(13)		
Issued capital		28,221	28,221
Capital reserves		99,645	99,645
Revaluation reserve		(21)	(22)
Accumulated loss		103	(6,856)
Treasury shares		(398)	(398)
Total equity attributable to the shareholders of the parent company		127,550	120,590
Non-current liabilities			
Non-controlling interests	(14)	64,153	61,708
Financial liabilities	(15)	111,298	122,405
Other liabilities	(16)	39	884
Total non-current liabilities		175,490	184,997
Current liabilities			
Provisions	(17)	393	645
Financial liabilities	(15)	9,797	9,275
Trade payables	(16)	3,817	3,233
Other liabilities	(16)	2,570	3,004
Total current liabilities		16,577	16,157
Total equity and liabilities		319,617	321,744

Consolidated statement of income

Consolidated statement of income			
in € thousand	Note no.	2017	2016
Rental income		22,105	22,542
Service charge income		5,630	5,080
Ground rent		(2)	(6)
Service charge expenses	(21)	(7,782)	(8,079)
Other property operating expenses	(21)	(4,030)	(3,449)
Net rental income	(20)	15,921	16,088
General administrative expenses	(22)	(2,851)	(3,162)
Other operating income		486	597
Other operating expenses		(1,201)	(208)
Total other operating income and expenses	(23)	(715)	389
Income from the disposal of investment property and non-current assets held for sale		15,300	19,780
Expenses in connection with the disposal of investment property and non-current assets held for sale		(13,837)	(19,328)
Profit/loss from the disposal of investment properties and non-current assets held for sale	(24)	1,463	452
Measurement gains from investment property and non-current assets held for sale		10,807	4,293
Measurement losses from investment property and non-current assets held for sale		(1,041)	(2,540)
Measurement result	(25)	9,766	1,753
Operating result		23,584	15,520
Interest income	(26)	406	236
Interest expenses	(26)	(3,124)	(3,611)
Share of profit/loss attributable to non-controlling interests	(14)	(8,279)	(5,226)
Financial result		(10,997)	(8,601)
Income taxes		(16)	(10)
Net profit/loss of the Group		12,571	6,909
Earnings per share in € (basic/diluted)	(28)	0.90/0.90	0.49/0.49

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

Consolidated statement of comprehensive income			
in € thousand	Note no.	2017	2016
Profit/loss of the Group		12,571	6,909
Other comprehensive income			
Gains (+)/losses (-) from changes of actuarial assumptions	(7)	1	(6)
Total other comprehensive income		1	(6)
Total Comprehensive income		12,572	6,903

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

Consolidated statement of changes in equity							
in € thousand except for circulating shares	Number of shares out-standing	Issued capital	Capital reserves	Revaluation reserve	Accumulated loss	Treasury shares	Total
As of 1 January 2016	14,029,013	28,221	99,729	(16)	(10,258)	(398)	117,278
Distribution	–	–	–	–	(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)
As of 31 December 2016	14,029,013	28,221	99,645	(22)	(6,856)	(398)	120,590
Distributions	–	–	–	–	(5,612)	–	(5,612)
Total comprehensive income	–	–	–	1	12,571	–	12,572
Profit/loss of the Group	–	–	–	–	12,571	–	12,571
Other comprehensive income	–	–	–	1	–	–	1
As of 31 December 2017	14,029,013	28,221	99,645	(21)	103	(398)	127,550

A dividend of €0.40 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

Consolidated statement of cash flows			
in € thousand	Note no.	2017	2016
Profit/loss of the Group		12,571	6,909
Adjustments to consolidated earnings for reconciliation to cash flow from operating activities			
Interest expenses	(26)	3,124	3,611
Interest income	(26)	(406)	(236)
Depreciation of property, plant and equipment and amortisation of intangible assets	(5)	12	3
Gains (-)/losses (+) on disposal of investment properties	(24)	(1,463)	(452)
Measurement result	(25)	(9,766)	(1,753)
Cash paid in connection with intercompany transactions		–	(23)
Non-cash income from the acquisition of non-controlling interests		–	7
Other non-cash relevant expenses and income		–	(848)
Shares of losses (+) / gains (-) attributable to non-controlling interests	(14)	8,279	5,226
Interest paid	(26)	(3,120)	(3,897)
Interest received	(26)	406	322
Changes in assets, equity and liabilities			
(Increase)/decrease in trade receivables	(9)	355	171
(Increase)/decrease in other receivables	(7)	9,548	133
(Decrease)/increase in provisions	(17)	(255)	(98)
(Decrease)/increase in trade payables		584	554
(Decrease)/increase in other liabilities	(16)	(1,289)	(146)
Net cash flow from operating activities		18,580	9,483
Cash paid for the purchase of interests		(130)	–
Purchase of investment properties	(6)	(3,526)	(7,678)
Net income from the disposal of investment property	(6)	15,300	19,780
Purchase of property, plant and equipment and intangible assets		(2)	(36)
Net cash flow from investing activities		11,642	12,066
Severance payments to former non-controlling interests	(14)	(1,109)	(400)
Distributions to non-controlling interests	(14)	(5,500)	(4,358)
Proceeds from borrowings	(15)	2,329	13,671
Repayment of borrowings	(15)	(12,914)	(26,123)
Costs of the capital increase		–	(84)
Dividend payments	(13)	(5,612)	(3,507)
Net cash flow from financing activities		(22,806)	(20,801)
Change in cash and cash equivalents	(12)	7,416	748
Cash and cash equivalents at the beginning of the period	(12)	16,776	16,028
Cash and cash equivalents at the end of the period		24,192	16,776

Table of contents

51	(1)	General corporate information
		Accounting and valuation methods
51	(2)	Significant accounting, valuation and consolidation methods
61	(3)	Estimates and accounting judgments
62	(4)	Fair value measurement
		Notes to the statement of financial position
62	(5)	Intangible assets and property, plant and equipment
63	(6)	Investment properties
66	(7)	Other receivables and 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 (current)
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
		Notes to the consolidated income statement
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 income
79	(27)	Additional notes on the consolidated statement of income
79	(28)	Earnings per share
		Other notes to the consolidated financial statements
80	(29)	Finanzinstrumente und Finanzrisikomanagement
84	(30)	Segment reporting
94	(31)	Related parties
96	(32)	Subsequent events
97	(33)	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 2017 were authorised for issue by a resolution of management on 25 April 2018. 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 Würmstr. 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 2017, 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
Amendments to IAS 7	Statement of Cash Flows (part of the Disclosure Initiative)	reporting years beginning on or after 1 January 2017
Amendments to IAS 12	Recognition of Deferred Taxes for Unrealised Losses	reporting years beginning on or after 1 January 2017
Various	Annual Improvements (2014 to 2016)	reporting years beginning on or after 1 January 2017

The standards and interpretations subject to mandatory adoption for the first time in fiscal year 2017 in accordance with the provisions of the European Union did not have any material effect on the Group's financial position and performance.

The following accounting provisions have been issued, but have not yet come into force. There is therefore still no obligation to adopt them. If the accounting provisions were to be endorsed by the European Union, generally speaking it would be possible to early adopt them voluntarily. The Group does not currently intend to early adopt these standards.

Standards and interpretations	Title	Effective as of
Endorsed by the EU		
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
IFRS 9	Financial Instruments	reporting years beginning on or after 1 January 2018
IFRS 15 as well as clarifications to IFRS 15	Clarification of 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
Various	Annual Improvements (2014 to 2016)	reporting years beginning on or after 1 January 2018
Amendments IFRS 2	Classification and Measurement of Share-based Payment Transactions	reporting years beginning on or after 1 January 2018
Amendments IAS 40	Transfers of Investment Property	reporting years beginning on or after 1 January 2018
IFRS 9	Prepayment Features with Negative Compensation	reporting years beginning on or after 1 January 2019
EU endorsement outstanding		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	reporting years beginning on or after 1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	reporting years beginning on or after 1 January 2019
IAS 28	Investments in Associates and Joint Ventures	reporting years beginning on or after 1 January 2019
IFRS 17	Insurance Contracts	reporting years beginning on or after 1 January 2021
Various	Annual Improvements (2015 to 2017)	reporting years beginning on or after 1 January 2019

In 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.

The Group assumes that the adoption of IFRS 9 will not have any significant effects.

In May 2014, the IASB issued the accounting standard IFRS 15 Revenue from Contracts with Customers. 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. In April 2016, the IASB published clarifications to IFRS 15 relating to the following areas:

- Identification of performance obligations (with regard to identifiability within the context of the agreement)
- Principal/agent relationships (with regard to assessing the control over goods and services before transfer to the customers)
- Licences (with regard to determining the type of licence issued as well as licence fees depending on revenue and usage)
- Transitional provisions (with regard to the practical expedients for the first-time application of the standard) .

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.

In addition to IFRS 15, which is mandatory for fiscal years beginning on or after 1 January 2018, Fair Value decided to early adopt IFRS 16 for fiscal years beginning on or after 1 January 2018. In its analyses pursuant to IFRS 15/IFRS 16, Fair Value identified and assessed performance obligations which are described in more detail below. Rental income generated from lets classified as operating leases is recognised as rental income over time. The property tax and insurance charged as incidental expenses do not constitute a separate performance obligation and are allocated to rental income accordingly. These allocations are regarded as fully variable and would therefore (from a lessee perspective) not have to be capitalised as a part of lease payments. With regard to other expenses (gas, electricity, water, etc.), the Company came to the conclusion that it is acting as the principal here and continue to bear the significant risks. As such, the gross amounts of revenue and corresponding expenses continue to be recognised as before. The first-time application of the standard – also with regard to the presentation of other income flows (e.g., sale of property or real estate companies) – thus only results in immaterial changes compared to the previous accounting treatment.

Early adoption of IFRS 16 does not have any significant effects on the consolidated financial statements of Fair Value, as the changes concerning the lessor are marginal. Fair Value or its subsidiaries only act as lessee in a small number of cases and these therefore have no significant effect. Fair Value classifies the majority of income from operating expenses as non-lease components, which must be accounted for pursuant to IFRS 15. Property tax and insurance are accounted for as other lease components pursuant to

IFRS 16. The Company has come to the conclusion that it acts as the principal for the operating expenses that are deemed to be services pursuant to IFRS 15.

The effects from the first-time application of the standards mentioned will most likely not have any significant effect on the presentation of the financial position and performance overall. Major parts of the analysis of these effects had already been concluded by the time the consolidated financial statements had been prepared. IFRS 15 and IFRS 16 are being implemented as of 1 January 2018 applying the modified retrospective method. The accumulated effect from the first-time application is recognised in equity as of 1 January 2018.

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 2017. 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 2017, the basis of consolidation was as follows:

Share of voting rights/fixed capital in %	31/12/2017	31/12/2016
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	62.23
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich ("BBV08")	58.22	58.22
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")	51.12	50.01
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich ("IC15")	48.27	48.17
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich ("BBV10")	46.18	45.16
BBV Immobilien-Fonds Erlangen GbR, Munich ("BBV02")	42.02	42.02

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.

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 (“Wertermittlungsverordnung”: Regulation on performing valuations), the cash flows over the observation period are quantified explicitly and not presented as an annuity payment.

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

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

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

The specific inputs for the property include, for example, the rental income from first-time leases and renewals, the likelihood of renewals of existing leases, the duration of vacancies and vacancy costs, non-allocable service charges and the expected capital expenditure of the owner, costs of finishings and

rental expenses for first-time leases and renewals or the interest on the capital employed for the property as a whole or by specific lease agreement.

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

The management of the Group is involved in the valuation process of investment property, which is performed at least once annually, and monitors the process accordingly. To do this, it checks the plausibility of the findings provided by the independent valuer during a first inspection and compares them to the values of 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.

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

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

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

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

(3) Estimates and accounting judgments

Consolidation of entities over which the Group no longer holds control The Group assesses control on the basis of whether it holds a majority of the voting rights in the shareholder/partnership meetings of its subsidiaries where decisions are made on the policies of the respective subsidiary. The voting rights in BBV 02, BBV 10 and IC 15 are not in themselves sufficient to assess who has control over the entity. Although the share of voting rights lies below 50%, Fair Value REIT-AG is the largest shareholder/partner in the above entities. An assessment of control was performed within the framework of determining whether the entities should be fully consolidated or not. This led to the conclusion that Fair Value REIT-AG could once again substantially exercise control over the past fiscal year by simple majority on such decisions as ratifying the financial statements, setting the amount of the profit distribution and appointing property and/or fund managers, and thus 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 2017. Due to the distinctive characteristics and features of the investment properties, there were no market values available to use as reference values. 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 2017					
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	31/12/2017	290,911	–	–	290,911
Non-current assets held for sale					
Commercial property in Germany	31/12/2017	–	–	–	–

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

Notes to the statement of financial position**(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)
Acquisition costs		
As of 1 January 2016	212	38
Additions	–	37
As of 31 December 2016	212	75
Additions	–	5
As of 31 December 2017	212	80
Accumulated depreciation, amortization and impairment loss		
As of 1 January 2016	(134)	(12)
Additions	(3)	(1)
As of 31 December 2016	(137)	(13)
Additions	(3)	(9)
As of 31 December 2017	(140)	(22)
Carrying amounts		
As of 1 January 2016	78	26
As of 31 December 2016	75	62
As of 31 December 2017	72	58

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

in € thousand	Direct investments	Subsidiaries	Total
Cost of the business combination			
As of 1 January 2016	64,274	276,039	340,313
Additions (subsequent acquisition costs)	86	8,165	8,251
Disposals – sales	(1,052)	(8,903)	(9,955)
Reclassifications	2,300	–	2,300
Reclassification to assets held for sale	–	(5,843)	(5,843)
As of 31 December 2016	65,608	269,458	335,066
Additions (subsequent acquisition costs)	–	3,554	3,554
Disposals – sales	(265)	(35,949)	(36,214)
As of 31 December 2017	65,343	237,063	302,406

Changes in value

As of 1 January 2016	(1,484)	(51,035)	(52,519)
Write-ups	1,070	3,904	4,974
Write-downs	(840)	(1,700)	(2,540)
Reclassifications	681	(2,981)	(2,300)
Disposals – sales	(385)	2,403	2,018
Reclassification to non-current assets held for sale	–	2,243	2,243
As of 31 December 2015	(958)	(47,166)	(48,124)
Write-ups	1,060	9,747	10,807
Write-downs	(850)	(191)	(1,041)
Disposals – sales	55	26,808	26,863
As of 31 December 2017	(693)	(10,802)	(11,495)

Fair values

As of 1 January 2016	62,790	225,004	287,794
As of 31 December 2016	64,650	222,292	286,942
As of 31 December 2017	64,650	226,261	290,911

As of 31 December 2017, investment property consisted of a total of 30 properties, of which 27 are wholly owned and three are partially owned. Compared to 31 December 2016, the number of properties has fallen on balance by two. In the reporting period one investment property was sold from the portfolio held directly by Fair Value REIT-AG and one property held by subsidiaries.

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 €60 thousand (2016: €655 thousand).

The fair value of the properties was measured on a property-by-property basis by CBRE GmbH, using the DCF method. The cash flows were projected in detail for a ten-year period. For the ensuing terminal phase, the net rental income was assessed on the basis of the capital value of the property using the

specific capitalisation rates for the property concerned and the estimated cost of sale after ten years. The surplus cash flows over the ten-year period and the resulting capital value at the end of the ten-year period were discounted to the valuation date and reduced by the estimated transaction costs for a potential buyer. The land reference value was used for the land in Chemnitz.

The 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 m2 on the valuation date for the various types of use and compared to the previous year were as follows:

Rental contracts			
in €		31/12/2017	31/12/2016
Office	Min	1,39	2,02
	Max	25,80	25,80
	Average	7,71	7,34
Retail	Min	3,00	2,50
	Max	90,00	90,00
	Average	9,59	9,65
Other	Min	2,00	2,00
	Max	11,60	11,60
	Average	4,95	4,80
Total	Min	1,39	2,00
	Max	90,00	90,00
	Average	8,22	8,04

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

Bandwidths for capitalisation and discounting rates¹⁾				
	Capitalisation rates in %		Discount rates in %	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Office	5.15–7.60	6.00–7.50	6.25–7.60	6.50–8.10
Weighted average	6.42	6.49	6.98	7.04
Retail	5.40–8.00	5.60–7.90	5.90–8.95	6.10–8.50
Weighted average	6.17	6.37	6.69	6.93
Other	7.10–7.60	7.30–7.80	7.60–8.10	7.80–8.30
Weighted average	7.31	7.51	7.81	8.00

¹⁾ Source: Property appraisal CBRE 2017, 2016

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 2.3% below (2016: 2%) to around 2.5% (2016: 2%) above the market values as of 31 December 2017. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €6.5 million (2016: €6 million) or around €7.1 million (2016: €7 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 3.6% below (2016: 4%) or around 3.7% (2016: 4%) above the market values as of 31 December 2017. Accordingly, this would result in a deterioration or improvement of FFO before non-controlling interests of around €10.5 million (2016: €10 million) or around €10.8 million (2016: €10 million), respectively.

Of the 19 (2016: 14) properties whose value either remained stable or rose, two properties (2016: two) displayed no change in value. Eight (2016: 11) of the remaining 11 (2016: 19) properties whose market value decreased were directly held.

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

Future rental income		
in € thousand	31/12/2017	31/12/2016
Less than one year	20,804	21,031
Between one to five years	57,908	58,235
After more than five years	31,098	34,740
Total of future rental income	109,810	114,006

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

(7) Other receivables and assets (non-current)

in € thousand	31/12/2017	31/12/2016
Financial assets		
Receivable settlement balance BBV 09	–	9,822
Non-financial assets		
Other	7	6
Total other assets	7	9,828

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 and, according to the business plan of BBV 09, it was to 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. After 1% of the determined receivable had been paid out in fiscal year 2016, the residual amount of the receivable including accrued interest was settled in full on 29 December 2017.

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	31/12/2017	31/12/2016
Krefeld property ("BBV 06")	–	3,600
Total non-current assets held for sale	–	3,600

The Krefeld property (BBV 06) was derecognised upon transfer of the risks and rewards on 7 February 2017 following full payment of the purchase price. As of the reporting date there were no non-current assets held for sale.

(9) Trade receivables

in € thousand	31/12/2017	31/12/2016
Rent receivables including settlement of incidental costs		
Not yet due	832	1,296
Past due and not impaired		
Due for up to 30 days	726	585
Due for between 30 and 90 days	81	82
Due for between 90 and 360 days	314	304
Due for more than 360 days	270	311
Bad debt allowances	312	287
Total rent receivables	2,535	2,865
Valuation allowances	(312)	(287)
Total trade receivables	2,223	2,578

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 €725 thousand (2016: €1,182 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	2017	2016
As of the beginning of the year	287	509
Additions	64	–
Utilised	–	(168)
Reversal	(39)	(54)
As of the end of the year	312	287

(10) Income tax receivables

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

(11) Other receivables and assets (current)

in € thousand	31/12/2017	31/12/2016
Financial assets		
Purchase price receivable for commercial property Erlangen, Henkestr. 5 (BBV02)	1,361	1,361
Receivable settlement balance BBV 09	–	332
Other	214	136
Collateral provided	7	7
Fiduciary accounts	569	–
Total financial assets	2,151	1,836
Non-financial assets		
VAT	–	42
Other	–	–
Total non-financial assets	–	42
Total assets	2,151	1,878

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 Erlangen 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-2018..

(12) Cash and cash equivalents

At subsidiary BBV 10, current account balances of €1,000 thousand (2016: €1,000 thousand) are pledged to the financing bank.

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

(13) Equity

Issued capital Issued capital consists of 14,110,323 bearer no-par shares. All shares are issued and fully paid up. As of the reporting date 31 December 2017, there were 14,029,013 shares outstanding (2016: 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 2018, based on a proposal of the Management Board, the Annual General Meeting will propose that a dividend of €0.34 (2016: €0.40) per share currently outstanding be distributed and the remaining accumulated profit from 2017 of €485,516.81 (2016: €556,619.32) be carried forward to new account. The amount to be distributed of €4,769,864.42 (2016: €5,611,605.20) is around 90.76% (2016: 91%) of the net profit for the year 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	IC07	IC13
As of 1 January 2016	1,939	28
Share of profit/loss – expense (-)/income (+)	80	28
Payments	–	–
Reclassification (severance payments)	–	–
As of 31 December 2016	2,019	56
Share of profit/loss – expense (-)/income (+)	432	(19)
Additions/Disposals	–	–
Payments	(2,207)	–
Reclassifications (severance payments)	–	–
As of 31 December 2017	244	37

Non-controlling interests in subsidiaries are calculated at their share in the equity of the individual subsidiaries as of 31 December 2017 and constitutes either a profit (-) or a loss (+) attributable to the non-controlling interest.

	BBV06	BBV08	IC12	IC15	BBV02	BBV10	BBV14	Total
	5,359	9,195	3,106	9,141	158	12,314	19,906	61,160
	153	153	(42)	1,562	(8)	1,607	1,693	5,226
	(2,953)	–	–	(561)	–	–	(823)	(4,351)
	(2)	(61)	–	–	–	(113)	(151)	(327)
	2,557	9,287	3,064	10,142	150	13,808	20,625	61,708
	(162)	1,303	156	1,103	(10)	1,463	4,013	8,279
	–	–	–	–	–	(130)	–	(130)
	(1,914)	–	–	(563)	–	–	(816)	(5,500)
	–	–	–	(35)	–	(54)	(115)	(204)
	481	10,590	3,220	10,647	140	15,087	23,707	64,153

(15) Financial Liabilities

Structure of the financial liabilities		
in € thousand	31/12/2017	31/12/2016
Non-current liabilities		
Floating-rate liabilities to banks	38,531	49,284
Fixed interest liabilities to banks	72,767	73,121
Total non-current liabilities	111,298	122,405
Current liabilities		
Floating-rate liabilities to banks	3,566	2,871
Fixed interest liabilities to banks	6,231	6,404
Total current liabilities	9,797	9,275
Total financial liabilities	121,095	131,680

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

Remaining terms of non-current liabilities		
in € thousand	31/12/2017	31/12/2016
Between 1 and 2 years	19,385	6,287
Between 2 and 5 years	43,673	63,762
More than 5 years	48,240	52,356
Total non-current liabilities	111,298	122,405

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 2017 averaged 2.34%. In the previous year they averaged 1.74% p.a. The average interest rate on fixed interest bank loans came to 2.39% as of 31 December 2017, 2.48% p.a. in the previous year.

Changes in the liabilities from financing activities are as follows:

Changes in liabilities from financing activities					
in € thousand	1/1/2017	borrowings	amortisation	Reclassification of maturities	31/12/2017
Current financial liabilities	9,275	136	(2,235)	2,621	9,797
Non-current financial liabilities	122,405	2,207	(10,693)	(2,621)	111,298
Total liabilities from financing activities	131,680	2,343	(12,928)	–	121,095

The accrued interest was paid in full in this fiscal year.

Financial liabilities of €121,095 thousand (2016: €131,680 thousand) were fully secured by mortgages. In addition, rent receivables have been assigned as collateral by all entities.

Rights secured by land charges				
in € thousand	Property liens/other collateral		31/12/2017	31/12/2016
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	Lease/Rental income	51,453	38,291

Since December 2009, a loan-to-value test has been performed every two years on the loan from Aareal Bank AG (formerly Westdeutsche ImmobilienBank AG). 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 covenants for the loans were complied with on 31 December 2017.

The LTV ratio for Fair Value's 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 31 December 2016.

Pursuant to the loan agreement in place with Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft, BBV 14 must provide evidence of a DSCR of at least 110%. A loan-to-value test must also be performed every year, according to which the ratio of the total debit balance of the loan to the current market value of the mortgaged property as of 30 April 2017 may not exceed 51.4%. In the event that the LTV ratio is exceeded, among other things additional collateral must be provided and all rental surpluses must be deposited into a separate pledged account. As in the previous year, the covenants for the loan were complied with on 31 December 2017.

There are no other agreements regarding compliance with covenants.

(16) Liabilities

Trade payables 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.

Other liabilities		
in € thousand	31/12/2017	31/12/2016
Non-current		
Financial liabilities		
Former non-controlling interests	39	865
Shortfall in pension plan	–	19
Total non-current liabilities	39	884
Current		
Former non-controlling interests	669	1.171
Liabilities from the settlement of service charges	410	693
Other	812	493
Debtors with credit balances	293	312
Tax liabilities (VAT)	255	153
Interest liabilities	73	69
Deferred income	58	66
Remuneration of the Supervisory Board	–	47
Total current liabilities	2,570	3,004
Total other liabilities	2,609	3,888

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

Development of provisions			
in € thousand	Personnel	Audit/ consulting costs	Total
As of 1 January 2017	371	274	645
Additions	123	84	207
Utilised	371	75	446
Reversal	–	13	13
As of 31 December 2017	123	270	393

(18) Contingent liabilities and pending litigation

The Group is liable in the case of four subsidiaries (BBV 06, BBV 08, BBV 10 and BBV 14) as the limited partners' liability of €1,899 thousand (2016: €0), €1 thousand (2016: €2,801), €1,352 thousand (2016: €1,104 thousand) and €984 thousand (2016: €1,882 thousand), respectively, revived 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 Graefelfing were leased during the reporting period. In the fiscal year, this incurred expenses of €41 thousand. The term of the lease agreement gives rise to the following future obligations:

in € thousand	31/12/2017	31/12/2016
Within one year	30	30
Between 1 to 5 years	15	45
Minimum leasing expenses, total	45	75

Notes to the consolidated income statement

(20) Net rental income

Classification of net rental result	2017			2016		
	Investment property	Non-current assets held for sale	Total	Investment property	Non-current assets held for sale	Total
in € thousand						
Rental income	22,105	–	22,105	22,257	285	22,542
Service charge income	5,630	–	5,630	5,034	46	5,080
Ground rent	(2)	–	(2)	(6)	–	(6)
Property related operating expenses						
Investment property with which rental income was generated	(11,812)	–	(11,812)	(11,447)	(81)	(11,528)
Total net rental income	15,921	–	15,921	15,838	250	16,088

(21) Property-related operating expenses

	2017	2016
in € thousand		
Energy costs and water consumption	2,648	2,406
Property management fees	1,073	1,413
Property tax	801	810
Garden maintenance/cleaning	615	596
Servicing and operating technical systems	499	619
Caretaker costs	435	344
Security	347	357
Other	285	149
Insurance	231	216
Building cleaning	224	331
Non-deductible input tax	194	336
Street cleaning/rubbish removal	202	171
Other operating expenses	85	151
Other property costs	82	112
Advertising and promotional costs	61	68
Service charge expenses	7,782	8,079
Repair and maintenance costs	3,272	2,173
Letting costs	421	639
Technical building maintenance	337	637
Other property-related expenses	4,030	3,449
Total property-related operating expenses	11,812	11,528

(22) General administrative expenses

in € thousand	2017	2016
Personnel expenses	674	693
Fund management fees	536	514
Legal and consulting fees	303	345
Non-deductible input tax	297	354
Trustee fees	275	268
Audit fees	205	224
Accounting	178	138
Stock market listing, Annual General Meeting and events	133	271
Office expenses	91	96
Appraisals	86	63
Other	73	196
Total general administrative expenses	2,851	3,162

(23) Total other operating income and expenses

in € thousand	2017	2016
Income		
Cost refunds	211	292
Income from the redemption of liabilities from non-controlling interests	209	215
Other	66	90
Total income	486	597
Expenses		
Other write-offs of receivables	(79)	(168)
Other	(146)	(94)
Allocation of specific valuation allowances on trade receivables	(113)	–
Allocation of specific valuation allowances on other receivables	(830)	–
Reversal/utilization of specific valuation allowances on trade receivables	(33)	54
Total expenses	(1,201)	(208)
Total other operating income (+) and expenses (-)	(715)	389

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

in € thousand	2017	2016
Net income from the disposal of investment property and non-current assets held for sale (purchase price)	15,300	19,780
Expenses in connection with the disposal of investment property and non-current assets held for sale	(887)	(338)
Carrying amounts	(12,950)	(18,990)
Total expenses in connection with the disposal of investment property and non-current assets held for sale	(13,837)	(19,328)
Profit/loss from the disposal of investment property and non-current assets held for sale	1,463	452

These items consist of one property (2016: three) directly held by the Company and two properties (2016: four) held by subsidiaries for which both title and the risks and rewards incidental to ownership were transferred in 2017.

(25) Measurement result

in € thousand	2017	2016
Measurement gains	10,807	4,293
Measurement losses	(1,041)	(2,540)
Total measurement gains/losses	9,766	1,753

The measurement result in the fiscal year stems from fair value measurement as of the reporting date; capitalised fit-out costs of €3,526 (2016: €8,251) were offset. There were measurement losses for eight (2016: 12) of the properties directly held by the Company and for three (2016: seven) properties held by its investments. There were measurement gains for five (2016: two) of the properties directly held by the Company and for 12 (2016: 15) properties held by its investments.

(26) Interest income

in € thousand	2017	2016
Interest income	406	236
Interest expense loan	(3,124)	(3,255)
Interest expense convertible bond	–	356
Total interest expenses	2,718	3,375

(27) Additional notes on the consolidated statement of income

Personnel expenses

in € thousand	2017	2016
Salaries	627	657
Social security contributions	47	36
Total personnel expenses	674	693
thereof expenses for pension obligations	12	12

Excluding the Management Board, the Company had three (2016: three) employees as an annual average. As of 31 December 2017, the number of employees came to three, excluding the Management Board.

Fees and services provided by the group auditors In 2017 the Group's auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, charged the following fees:

in € thousand	2017	2016
Audits of financial statements	181	198
Other attestation services	6	5
Other services	18	21
Total fees	205	224

(28) Earnings per share

Basic earnings per share can be calculated as follows:

		2017	2016
Profit/loss of the Group	in € thousand	12,571	6,909
Interest convertible bond	in € thousand	–	–
Net profit adjusted for the effect of dilution	in € thousand	12,571	6,909
Weighted average number of shares for the calculation of the basic earnings	in pieces	14,029,013	14,029,013
Convertible shares	in pieces	–	–
Weighted average number of shares for the calculation of the diluted earnings	in pieces	14,029,013	14,029,013
Earnings per share (basic/diluted)	in €	0.90/0.90	0.49/0.49

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.

As in the previous year, there were again no dilutive effects in the fiscal year.

Other notes to the consolidated financial statements

(29) Finanzinstrumente und Finanzrisikomanagement

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

Fair values of financial instruments	31/12/2017		31/12/2016	
	Carrying amounts	Fair values	Carrying amounts	Fair values
in € thousand				
Assets				
Trade receivables	2,223	2,223	2,578	2,578
Other receivables	2,158	2,158	11,706	11,706
Cash and cash equivalent	24,192	24,192	16,776	16,776
Total assets	28,573	28,573	31,060	31,060
Equity and liabilities				
Liabilities measured at amortized cost				
Non-controlling interests	64,153	65,075	61,708	61,708
Financial liabilities	121,095	122,377	131,680	132,097
Trade payables	3,817	3,817	3,233	3,233
Other liabilities	2,609	2,609	3,888	3,888
Total equity and liabilities	191,674	193,878	200,509	200,926

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. The fair values of the financial liabilities 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 equal, a 5% change in the market rents would cause the measurement of financial assets to change by €-10.8 million (2016: €-10.4 million)/€10.8 million (2016: €10.5 million).

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 2017.

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 €491 thousand lower (2016: €558 thousand lower) or higher respectively. This effect stems from interest expenses for floating-rate loans.

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 2017, rental losses, calculated on the basis of additions to specific bad debt allowances, amounted to 0.45% (2016: 0.0%) 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:

	31/12/2017				31/12/2016			
	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
in € thousand								
Non-controlling interests	–	–	–	64,153	–	–	–	61,708
Financial liabilities	9,797	19,385	43,673	48,240	9,275	6,287	63,762	52,356
Provisions	393	–	–	–	645	–	–	–
Trade payables	3,817	–	–	–	3,233	–	–	–
Other liabilities	2,570	39	–	–	3,004	475	397	12
Total maturities	16,577	19,424	43,673	112,393	16,157	6,762	64,159	114,076

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.

Consolidated equity ratio		31/12/2017	31/12/2016
Equity	in € thousand	127,550	120,590
Total assets	in € thousand	319,617	321,744
Equity ratio	in %	39.9	37.5

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	31/12/2017	31/12/2016
Equity acc. to consolidated statement of financial position	127,550	120,590
Non-controlling interests	64,153	61,708
Equity pursuant to Sec. 15 REITG	191,703	182,298
Immovable assets		
Investment property	290,911	286,942
Non-current assets held for sale	–	3,600
Total immovable assets	290,911	290,542
Equity ratio pursuant to Sec. 15 REITG	65.9%	62.7%

(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	2017		2016	
	Segment revenues	Segment results	Segment revenues	Segment results
Direct investments	6,367	4,467	6,051	4,262
Subsidiaries	21,368	20,526	21,572	12,978
Total segment revenue and profit/loss	27,735	24,993	27,622	17,240
Consolidation entries recognised through profit or loss	–	144	–	57
Central administrative expenses and other	–	(1,569)	–	(1,787)
Net interest expense	–	(2,718)	–	(3,375)
Share of profit/loss attributable to non-controlling interests	–	(8,279)	–	(5,226)
Profit/loss of the Group	–	12,571	–	6,909

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	2017	2016
Main tenant 1 (Direct investments segment)	1,972	2,214
Main tenant 2 (Subsidiaries segment)	1,457	1,458
Other between 5% and 10%	3,282	1,361
Other under 5% each	21,024	22,589
Total rental revenue	27,735	27,622

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

in € thousand	2017		2016	
	Direct investments	Subsidiaries	Direct investments	Subsidiaries
Office	3,799	4,924	3,893	6,335
Retail	290	16,444	–	15,237
Other	2,278	–	2,157	–
Total revenue	6,367	21,368	6,050	21,572

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	2017			2016		
	Direct investments	Subsidiaries	Total	Direct investments	Subsidiaries	Total
Measurement gains	1,060	9,747	10,807	1,070	3,223	4,293
Measurement losses	(850)	(191)	(1,041)	(840)	(1,700)	(2,540)
Measurement result	210	9,556	9,766	230	1,523	1,753
Gains (losses) on disposal	(18)	1,481	1,463	(26)	478	452
	192	11,037	11,229	204	2,001	2,205

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.

Income statement by segments 2017				
	Direct investments			
in € thousand	FV AG	IC07	IC12	IC13
Rental income	5,222	645	560	–
Service charge income	1,145	358	228	–
Segment revenue	6,367	1,003	788	–
Ground rent	–	–	(1)	–
Service charge expenses	(1,407)	(365)	(359)	(18)
Other property operating expenses	(675)	(206)	(310)	–
Segment-related administrative expenses	(82)	(155)	(60)	(39)
Other operating expenses and income (net)	72	17	(54)	12
Gain from disposal of investment properties	(18)	1,685	–	–
Measurement gains	1,060	–	380	–
Measurement losses	(850)	–	–	–
Segment profit	4,467	1,979	384	(45)
Central administrative expenses	(1,553)	–	–	–
Other expenses	–	–	–	–
Profit/loss of investment accounted for using the equity method	–	–	–	–
Other income from participations	4,431	–	–	–
Net interest expense	(196)	–	(45)	–
Share of profit/loss attributable to non-controlling interests	–	–	–	–
Income taxes	–	–	–	–
Net income for 2017	7,149	1,979	339	(45)

Subsidiaries							Reconciliation	Group
IC 15	BBV 02	BBV 06	BBV 08	BBV 10	BBV 14	Total		
2,096	—	34	2,260	6,383	4,910	16,888	(5)	22,105
235	—	69	381	1,907	1,307	4,485	—	5,630
2,331	—	103	2,641	8,290	6,217	21,373	(5)	27,735
(1)	—	—	—	—	—	(2)	—	(2)
(388)	—	(92)	(477)	(2,973)	(1,706)	(6,378)	3	(7,782)
(144)	—	(24)	(23)	(1,728)	(920)	(3,355)	—	(4,030)
(227)	(18)	(150)	(152)	(352)	(340)	(1,493)	277	(1,298)
(44)	—	(62)	(128)	(408)	13	(654)	(133)	(715)
—	—	(204)	—	—	—	1,481	—	1,463
800	—	—	1,472	1,714	5,381	9,747	—	10,807
—	—	—	—	(191)	—	(191)	—	(1,041)
2,327	(18)	(429)	3,333	4,352	8,645	20,528	142	25,137
—	—	—	—	—	—	—	—	(1,553)
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(4,431)	—
(195)	—	—	(215)	(1,634)	(435)	(2,524)	2	(2,718)
—	—	—	—	—	—	—	(8,279)	(8,279)
—	—	—	—	—	—	—	(16)	(16)
2,132	(18)	(429)	3,118	2,718	8,210	18,004	(12,582)	12,571

Income statement by segments 2016

in € thousand	Direct investments			
	FV AG	IC 07	IC 12	IC 13
Rental income	4,945	745	597	(2)
Service charge income	1,106	304	375	58
Segment revenue	6,051	1,049	972	56
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)	–
Segment profit	4,262	376	(11)	65
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	–	–	–	–
Net income for 2016	7,893	368	(91)	65

Assets and liabilities of the segments:

in € thousand	31/12/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
Direct investments	82,720	(1,635)	81,565	–
Subsidiaries	241,087	(5,789)	242,465	6,552
Total segment assets/segment liabilities	323,807	(7,424)	324,030	6,552
Non-allocated assets/liabilities/consolidation	(4,190)	327,041	(2,286)	315,192
Total Group assets/group liabilities	319,617	319,617	321,744	321,744

The assets of the segments consist primarily of investment property, receivables and cash and cash equivalents. 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 and non-controlling interests are presented under the liabilities not allocated to any particular segment.

Subsidiaries								
IC 15	BBV 02	BBV 06	BBV 08	BBV 10	BBV 14	Total	Reconciliation	Group
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

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.

Assets and liabilities by segments 2017					
	Direct investments				
in € thousand	FV AG	IC07	IC12	IC13	IC15
Property, plant and equipment and in intangible assets	36	–	24	–	–
Investment property	64,650	–	7,860	–	26,400
Non-current assets held for sale	–	–	–	–	–
Trade receivables	540	148	15	64	8
Income tax receivables	3	–	–	–	–
Other receivables and assets	4,177	123	24	87	88
Cash and cash equivalent	13,314	1,803	1,149	43	1,480
Subtotal segment assets	82,720	2,074	9,072	194	27,976
Shares in subsidiaries	60,901	–	–	–	–
Investments accounted for using the equity method	–	–	–	–	–
Total assets	143,621	2,074	9,072	194	27,976
Provisions	(201)	(11)	(11)	(44)	(20)
Trade payables	(654)	(524)	(274)	(4)	(134)
Other liabilities	(780)	(445)	(27)	(86)	(160)
Subtotal segment liabilities	(1,635)	(980)	(312)	(134)	(314)
Non-controlling interests	–	–	–	–	–
Financial liabilities	(21,946)	–	(1,764)	–	(7,042)
Total liabilities	(23,581)	(980)	(2,076)	(134)	(7,356)
Net assets as of 31 December 2017	120,040	1,094	6,996	60	20,620
Overview of maturities of financial liabilities					
Non-current	(20,834)	–	–	–	(6,815)
Current	(1,112)	–	(1,764)	–	(227)
Financial liabilities	(21,946)	–	(1,764)	–	(7,042)

Subsidiaries							
BBV02	BBV06	BBV08	BBV10	BBV14	Total	Reconciliation	Group
–	–	–	–	–	24	70	130
–	–	31,800	83,551	76,650	226,261	–	290,911
–	–	–	–	–	–	–	–
–	42	245	791	355	1,668	15	2,223
–	–	–	–	–	–	–	3
1,363	184	248	68	165	2,350	(4,369)	2,158
7	1,320	1,205	1,058	2,719	10,784	94	24,192
1,370	1,546	33,498	85,468	79,889	241,087	(4,190)	319,617
–	–	–	–	–	–	(60,901)	–
–	–	–	–	–	–	–	–
1,370	1,546	33,498	85,468	79,889	241,087	(65,091)	319,617
(8)	(25)	(18)	(14)	(31)	(182)	(10)	(393)
(8)	(136)	(162)	(1,480)	(435)	(3,157)	(6)	(3,817)
(30)	(115)	(291)	(874)	(422)	(2,450)	621	(2,609)
(46)	(276)	(471)	(2,368)	(888)	(5,789)	605	(6,819)
–	–	–	–	–	–	(64,153)	(64,153)
(1,081)	–	(7,748)	(55,163)	(30,442)	(103,240)	4,091	(121,095)
(1,127)	(276)	(8,219)	(57,531)	(31,330)	(109,029)	(59,457)	(192,067)
243	1,270	25,279	27,937	48,559	132,058	(124,548)	127,550
–	–	(6,896)	(47,511)	(29,242)	(90,464)	–	(111,298)
(1,081)	–	(852)	(7,652)	(1,200)	(12,776)	4,091	(9,797)
(1,081)	–	(7,748)	(55,163)	(30,442)	(103,240)	4,091	(121,095)

Assets and liabilities by segments 2016

in € thousand	Direct investments				
	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
Subtotal segment assets	81,565	9,356	8,563	200	27,021
Shares in subsidiaries	68,766	–	–	–	–
Investments accounted for using the equity method	–	–	–	–	–
Total assets	150,331	9,356	8,563	200	27,021
Provisions	(447)	(11)	(9)	(9)	(20)
Trade payables	(179)	(69)	(43)	(3)	(85)
Other liabilities	(994)	(4)	(23)	(83)	(38)
Subtotal segment liabilities	(1,620)	(84)	(75)	(95)	(143)
Non-controlling interests	–	–	–	–	–
Financial liabilities	(30,201)	(50)	(1,831)	–	(7,269)
Total liabilities	(31,821)	(134)	(1,906)	(95)	(7,412)
Net assets as of 31 December 2016	118,510	9,222	6,657	105	19,609
Overview of maturities of financial liabilities					
Non-current	(29,086)	–	–	–	(7,042)
Current	(1,115)	(50)	(1,831)	–	(227)
Financial liabilities	(30,201)	(50)	(1,831)	–	(7,269)

Investments and depreciation and amortisation are presented below:

in € thousand	2017		2016	
	Investments	Amortisation, depreciation and impairment	Investments	Amortisation, depreciation and impairment
Direct investments				
Investment property	–	–	86	–
Property, plant and equipment and intangible assets	5	(12)	36	(1)
Total direct investments	5	(12)	122	(1)
Subsidiaries				
Investment property	3,526	–	8,165	–
Total subsidiaries	3,526	–	8,165	–
Total investments and amortisation, depreciation and impairment	3,531	(12)	8,287	(1)

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
1,388	7,253	32,576	81,223	74,885	242,465	(2,286)	321,744
–	–	–	–	–	–	(68,766)	–
–	–	–	–	–	–	–	–
1,388	7,253	32,576	81,223	74,885	242,465	(71,052)	321,744
(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)
(46)	(487)	(1,859)	(2,650)	(1,113)	(6,552)	406	(7,766)
–	–	–	–	–	–	(61,708)	(61,708)
(1,081)	–	(8,556)	(53,300)	(31,642)	(103,729)	2,250	(131,680)
(1,127)	(487)	(10,415)	(55,950)	(32,755)	(110,281)	(59,052)	(201,154)
261	6,766	22,161	25,273	42,130	132,184	(130,104)	120,590
–	–	(7,748)	(50,287)	(30,442)	(95,519)	2,200	(122,405)
(1,081)	–	(808)	(3,013)	(1,200)	(8,210)	50	(9,275)
(1,081)	–	(8,556)	(53,300)	(31,642)	(103,729)	2,250	(131,680)

(31) Related parties

Related parties Companies and individuals are regarded as related parties if they have the possibility of controlling the Fair Value Group and its subsidiaries or exerting a significant influence over its financial and business policies. The existence of control relationships was taken into account in determining significant influence on the part of related parties on financial and business policy.

DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt (DEMIRE), holds 77.70% of the voting rights (10,963,878 voting rights).

Furthermore, the following persons are, on account of their significant influence, related parties in key positions of the parent company within the meaning of IAS 24:

- Members of the Management Board of Fair Value and their relatives as well as
- Members of the Supervisory Board of Fair Value and their relatives.

Legal transactions with related parties were performed exclusively at arm's length in the reporting year. For the period from 1 January 2017 to 31 December 2021, the Company concluded a management agreement with DEMIRE Immobilien Management GmbH, Berlin, on 10/16 November 2016 for the commercial and technical management of the directly held property. The fee for fiscal year 2017 amounts to €223 thousand plus VAT. In addition, €13 thousand plus VAT was paid for arranging new tenants.

Remuneration of the Management Board

in €	2017	2016
Frank Schaich		
Fixed salary and allocation of fixed salary from DEMIRE	43,048.38	184,272.31
Severance payment	43,095.00	226,100.00
Cost compensation	4,590.47	–
Variable remuneration	–	141,410.70
Patrick Kaiser		
Fixed remuneration	187,856.28	–
Special payments	14,666.67	–
Back payment for previous year	31,329.38	–

Due to his additional appointment as management board member of DEMIRE, effective 1 March 2016 Mr. Schaich was remunerated under his 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.

Further information on the remuneration of the Management Board can be found in the remuneration report.

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

Remuneration of the Supervisory Board In fiscal year 2017, the members of the Supervisory Board were granted short-term benefits totalling €48 thousand (2016: €48 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
Rolf Elgeti Chairman of the Supervisory Board from 2 February 2015	from 01/02/2015 until 30/11/2017	until 10/2014 CEO of TAG Immobilien AG, Hamburg since 11/2014 Chairman of the Supervisory Board of TAG Immobilien AG, Hamburg since 11/2014 Founder and General Partner of Obotritia Capital KGaA, Potsdam since 06/2015 Chairman of the Supervisory Board of 1801 Deutsche Leibrenten AG since 07/2016 Member of the Administrative Board of Social Commerce SE
Markus Drews Deputy Chairman	from 01/03/2016 until 30/11/2017	until 12/2017 COO of DEMIRE Deutsche Mittelstand Real Estate AG since 04/2016 Deputy Chairman of the Supervisory Board
Prof. Andreas Steyer	from 01/03/2016 until 04/09/2017	until 06/2017 Spokesman of DEMIRE Deutsche Mittelstand Real Estate AG
Frank Hölzle Chairman of the Supervisory Board from 01/12/2017	from 14/09/2017	since 07/2015 CEO of Care4 AG Basel since 02/2017 Deputy Chairman of the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG since 05/2015 Member of the Supervisory Board of Westgrund AG, Berlin (Chairman until 12/2017) since 09/2010 Chairman of the Advisory Board of MELIUS GmbH, Munich since 06/2011 Chairman of the Advisory Board of Mindlab Solutions GmbH, Stuttgart since 07/2013 Chairman of the Supervisory Board of mobileObjects AG, Büren since 06/2013 Chairman of the Advisory Board of rankingCoach GmbH, Cologne since 08/2012 Member of the Administrative Board of SIC Invent AG, Basel, Switzerland since 06/2016 Member of the Advisory Board of Rebuy GmbH, Berlin
Dr. Thomas Wetzel	from 01/12/2017	since 06/2003 Partner at law firm Wenger Plattner, Küsnacht, Switzerland since 05/2004 President of the Administrative Board of Brandenberger + Ruosch AG, Dietlikon, Switzerland since 02/2017 Member of the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG, Langen since 04/1998 President of the Administrative Board of EBV Immobilien AG, Urdorf, Switzerland since 06/2013 Vice President of the Administrative Board of Energie 360° AG, Zurich, Switzerland since 07/2013 Member of the Administrative Board of Immobilien ETHZF AG, Zurich, Switzerland since 06/2012 President of the Administrative Board of VERIT Investment Management AG, Zurich, Switzerland since 09/2007 Member of the Foundation Board of the Swiss Foundation for Anesthesia Research, Zurich, Switzerland since 05/2005 Lecturer at the CUREM (Center for Urban & Real Estate Management, Zurich) at the Institute for Banking and Finance at the University of Zurich, Switzerland
Daniel Zimmer	from 01/12/2017	since 09/2016 Legal Council at DEMIRE Deutsche Mittelstand Real Estate AG, Langen

Management Board

Name	Age	Appointed as first time as of	Currently appointed until
Frank Schaich, CEO	58	17/09/2007	31/03/2017
Patrick Kaiser, CFO	42	01/11/2016	28/02/2018
Ralf Kind, CEO	46	01/12/2017	30/11/2020
Stefan Herb, CFO	54	01/03/2018	28/02/2021

(32) Subsequent events

The Management Board and Supervisory Board of Fair Value REIT-AG acknowledged the decision announced by AEPF III 15 S.à.r.l. ("the bidder") on 26 February 2018 to offer the Company's shareholders in a voluntary public takeover offer (the "takeover offer") to acquire their no-par value bearer shares in the Company (the "Fair Value shares").

According to the bidder, which, according to its own information is a holding company controlled by funds that are associated companies of Apollo Global Management LLC (NYSE: APO), the former aims to offer, in return, the higher of the two following average prices per Fair Value share (the "offer price"):

1. weighted average domestic price of Fair Value shares during the last three months before the day of the bidder's announcement
2. weighted average domestic price of Fair Value shares during the last six months before the day of the bidder's announcement

The BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": Federal Financial Supervisory Authority] informed the bidder on 5 March 2018 that

1. the weighted average domestic price of Fair Value shares during the last three months before 26 February 2018 amounts to €8.28, and
2. the weighted average domestic price of Fair Value shares during the last six months before 26 February 2018 amounts to €8.12, and

As part of the takeover offer the bidder will therefore, in return for the acquisition of Fair Value shares, offer a cash payment of €8.28 per Fair Value share.

The offer document for the takeover offer and additional information on the takeover offer were published on the internet on 16 April 2018 at www.aepf-takeover-offer.de.

By publishing its decision to make a voluntary public takeover offer on 26 February 2018, AEPF III 15 S.à.r.l. also wanted to create the basis for Fair Value REIT-AG to apply for the admission of Fair Value shares for trading on the regulated market of the Frankfurt Stock Exchange to be revoked. This would have resulted in the Company losing its REIT status. However, the Management Board of Fair Value REIT-AG has announced that, due to the regulations in the articles of incorporation and bylaws of Fair Value REIT-AG and the passages relating to its REIT status, the articles of incorporation and bylaws currently prevent the Company from applying to have the admission of Fair Value shares for trading on the regulated market of the Frankfurt Stock Exchange revoked. As a result, AEPF III 15 S.à.r.l. cannot submit a delisting offer pursuant to Sec. 39 BörsG ["Börsengesetz": German Stock Exchange Act] at the same time as this offer as it originally intended. AEPF III 15 S.à.r.l. has therefore decided for now not to revoke the admission of Fair Value shares for trading on the regulated market of the Frankfurt Stock Exchange once this offer has been completed. However, AEPF III 15 S.à.r.l. has indicated that it could at a later date prompt Fair Value REIT-AG to delist the Fair Value shares directly or indirectly via Demire AG and the FVR investments. Pursuant to Sec. 39 BörsG, the shareholders of Fair Value REIT-AG would have to, in connection with a revocation of the listing, submit a delisting offer pursuant to Sec. 39 (2) BörsG. In terms of value, such a delisting offer could match the offer price of the voluntary public takeover offer, but could also be lower or higher.

The Management Board and Supervisory Board of the Company will review the takeover offer before commenting on it.

On 27 December 2017, the Management Board of Fair Value REIT-AG, with the approval of the Supervisory Board, filed an application with the Frankfurt Stock Exchange to change from the Prime Standard to the General Standard. The change in the share's stock exchange listing is expected to help reduce the additional expense and costs associated with being listed on the Prime Standard. Listing the Fair Value share on the General Standard means, among other things, that it is no longer mandatory to publish quarterly statements and financial reporting in English. Fair Value REIT-AG will continue to publish semi-annual and annual reports in German. The change and commencement of trading of the shares on the General Standard took place on 17 April 2018.

On 10 April 2018, the Management Board terminated the agreement with designated sponsor ODDO SEYDLER Bank AG as of 31 May 2018. The Fair Value shares may therefore no longer be eligible for trading in the Xetra segment and thus be excluded from the RX REIT All-Shares-Index and the RX REIT Index. However, designated sponsoring is not an obligatory admission requirement for trading on the stock exchange. The Fair Value share continues to be traded on the Frankfurt Stock Exchange.

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

On 31 January 2018 the Management Board and the Supervisory Board issued a declaration of conformity 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, 25 April 2018

Fair Value REIT-AG



Ralf Kind
CEO



Stefan Herb
Member of the Management Board

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, 25 April 2018

Fair Value REIT-AG



Ralf Kind
CEO



Stefan Herb
Member of the Management Board

Audit opinion

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of Fair Value REIT-AG, Graefelfing, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated statement of income and the consolidated statement of comprehensive income for the fiscal year from 1 January 2017 to 31 December 2017, the consolidated statement of changes in equity for the fiscal year from 1 January 2017 to 31 December 2017, the consolidated statement of cash flows for the fiscal year from 1 January 2017 to 31 December 2017 and the group segment report for the fiscal year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Fair Value REIT-AG for the fiscal year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2017, and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Measurement of investment property

Reasons why the matter was determined to be a key audit matter: Investment property is recognized initially at amortized cost, including transaction costs. In subsequent periods investment property is measured at fair value pursuant to IFRS 13. Gains and losses from the adjustment are presented as income or expenses under the item "Result from the fair value adjustment of investment property" in consolidated profit or loss. Due to the materiality of the investment property and due to the fact that the measurement of investment property requires the use of judgement in the measurement parameters - with regard to the development of rent, vacancies, sales deductions and maintenance expenses as well as discount rates - the recognition and measurement of investment property was a key audit matter.

Auditor's response: We analysed the assumptions made during the measurement and also performed property valuations of our own with the help of an expert. We assessed the competence, abilities and objectivity of the appraiser engaged by the Company, gained an understanding of the appraiser's work and assessed the suitability of the appraiser's work as supporting documentation for our audit. Our assessment was based, among other things, on a comparison with general and industry-specific market expectations as well as extensive management explanations regarding the significant value drivers in the budgets and forecasts. We assessed the interest rates used and analysed the Group's budgets and forecasts. Our audit procedures did not lead to any reservations relating to the measurement of investment property.

Reference to related disclosures: The disclosures on investment property are contained in the notes to the consolidated financial statements under the heading "Investment property".

2. Measurement of financial instruments categorised as loans and financial liabilities

Reasons why the matter was determined to be a key audit matter: Financial liabilities are recognised according to the categories of IAS 39 upon initial recognition. The Group primarily holds financial instruments in the categories loans and financial liabilities at amortised cost. Financial liabilities are measured taking into account any transaction costs incurred in line with the effective interest method. Due to the materiality of the financial instruments in the categories loans and financial liabilities and due to the complexity of the measurement of financial instruments, the measurement of financial instruments was a key audit matter.

Auditor's response: As regards the financial liabilities, we assessed whether their classification was in line with the provisions of IAS 39. With regard to the effective interest method to measure the financial liabilities taking into account any transaction costs, we performed a recalculation and compared it with the Group's calculation. We also analysed the scope of the transaction costs. Our audit procedures did not lead to any reservations relating to the measurement of the financial instruments in the categories loans and financial liabilities.

Reference to related disclosures: The disclosures on the financial liabilities are contained in the notes to the consolidated financial statements under the heading “Financial liabilities”.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the following components designated for the annual report: Key figures Fair Value Group, Letter to shareholders, A REIT - higher return for investors, Focus on secondary locations, Well positioned portfolio, Fair Value REIT-AG on the capital market, Supervisory Board and Management Board, Report of the Supervisory Board, Corporate governance report, Management Board declaration adhering to the requirements of the REIT Act, Method of real estate valuation, Individual property information of Fair Value REIT-AG's portfolio. We obtained a version of this other information before issuing our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

- We exercise professional judgment and maintain professional scepticism throughout the audit. We also
- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
 - Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures
 - Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements**Further information pursuant to Art. 10 of the EU Audit Regulation**

We were elected as group auditor by the Annual General Meeting on 2 June 2017. We were engaged by the Supervisory Board on 3 July 2017. We have been the group auditor of Fair Value REIT-AG without interruption since fiscal year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Patrick Horbach.

Munich, 25 April 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Horbach	Ehrnböck
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Compliance

- 106 Supervisory Board and Management Board
- 109 Report of the Supervisory Board
- 112 Corporate governance report

Supervisory Board and Management Board

Supervisory Board

Frank Hölzle (Chairman of the Supervisory Board)

Supervisory Board since 9/2017

Appointed until the Annual General Meeting 2018

Main activity outside the Company as well as additional activities as governing body in comparable domestic and foreign commercial enterprises:

since 7/2015	CEO of Care4 AG Basel
since 2/2017	Deputy Chairman of the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG
since 5/2015	Member of the Supervisory Board of Westgrund AG, Berlin (Chairman until 12/2017)
since 9/2010	Chairman of the Advisory Board of MELIUS GmbH, Munich
since 6/2011	Chairman of the Advisory Board of Mindlab Solutions GmbH, Stuttgart
since 7/2013	Chairman of the Supervisory Board of mobileObjects AG, Büren
since 6/2013	Chairman of the Advisory Board of rankingCoach GmbH, Cologne
since 8/2012	Member of the Administrative Board of SIC Invent AG, Basel, Switzerland
since 6/2016	Member of the Advisory Board of Rebuy GmbH, Berlin

Frank Hölzle (born 1968) has a degree in economics (Diplom-Volkswirt) and is CEO of Care4 AG with registered offices in Basel, Switzerland. After completing his studies in economics at the University of Freiburg, Frank Hölzle acted as authorised signatory and general manager for a listed investment company in Marl and Frankfurt am Main from 1998 to 2002. In 2002, he became general manager of HvM-Consulting GmbH with registered offices in Düsseldorf. From 2003 to 2010, Mr. Hölzle was board member and partner of eCapital entrepreneurial Partners AG, a venture capital company with registered offices in Münster. In 2010, he joined Care4 AG, a Single Family Office in Basel, of which he has been CEO since 2015. Frank Hölzle holds other mandates with the supervisory boards of DEMIRE Deutsche Mittelstands Real Estate AG, Westgrund AG and MobileObjects AG as well as with the administrative board of SICinvent AG with registered offices in Basel, Switzerland. Mr. Hölzle is a trained coach for managing directors, board members and managers of small and medium-sized enterprises.

Dr. Thomas Wetzel (Deputy Chairman of the Supervisory Board)

Supervisory Board since 12/2017

Appointed until the Annual General Meeting 2018

Main activity outside the Company as well as additional activities as governing body in comparable domestic and foreign commercial enterprises:

since 6/2003	partner at law firm Wenger Plattner, Küsnacht, Switzerland
since 5/2004	president of the administrative board of Brandenberger + Ruosch AG, Dietlikon, Switzerland
since 2/2017	member of the supervisory board of DEMIRE Deutsche Mittelstand Real Estate AG, Langen
since 4/1998	president of the administrative board of EBV Immobilien AG, Urdorf, Switzerland
since 6/2013	vice president of the administrative board of Energie 360° AG, Zurich, Switzerland
since 7/2013	member of the administrative board of Immobilien ETHZF AG, Zurich, Switzerland

- since 6/2012 president of the administrative board of VERIT Investment Management AG, Zurich, Switzerland
- since 9/2007 member of the foundation board of the Swiss Foundation for Anesthesia Research, Zurich, Switzerland
- since 5/2005 lecturer at the CUREM (Center for Urban & Real Estate Management, Zurich) at the Institute for Banking and Finance at the University of Zurich, Switzerland

Dr. Thomas Wetzel (born 1956) has been a partner at the law firm Wenger Plattner in Zurich and a certified specialist in SBA Real Estate and Construction Law since 2003. From 1988 until 1997, he worked at Intershop Holding AG in Zurich, latterly as deputy chairman of the management board. He advises clients on legal matters within private and public construction law as well as on purchases and sales of real estate. During his many years on the administrative board of Swiss Prime Site AG and as chairman of the investment committee of the AFIAA Foundation for International Real Estate Investments, he shared responsibility for important real estate portfolios. Dr. Thomas Wetzel is also a lecturer at the CUREM (Center for Urban & Real Estate Management, Zurich) at the Institute for Banking and Finance at the University of Zurich.

Daniel Zimmer (member of the Supervisory Board)

Supervisory Board since 12/2017

Appointed until the Annual General Meeting 2018

Main activity outside the Company as well as additional activities as governing body in comparable domestic and foreign commercial enterprises:

- since 7/2015 legal counsel at DEMIRE Deutsche Mittelstand Real Estate AG, Langen

Daniel Zimmer (born 1977) has been legal counsel at DEMIRE Deutsche Mittelstand Real Estate AG since July 2015. Following his second state examination in law in Frankfurt am Main, Mr. Zimmer completed his studies majoring in civil law, contract law, economic law as well as commercial and corporate law. From 2007 to 2010, he worked as an attorney for PricewaterhouseCoopers AG in Frankfurt am Main in the area of financial services. From 2011 to 2015, Mr. Zimmer moved to the legal department's banking and capital markets law division of Norddeutsche Landesbank in Hanover. Mr. Zimmer is especially familiar with tax law, banking and capital markets law as well as contractual documentation of the national and international lending business.

Hon.-Prof. Andreas Steyer (member of the Supervisory Board until 4 September 2017)

Rolf Elgeti (Chairman of the Supervisory Board until 30 November 2017)

Markus Drews (Deputy Chairman of the Supervisory Board until 30 November 2017)

Management Board

Ralf Kind (CEO)

Appointed for the first time on 1 December 2017

Current appointment until 30 November 2020

Ralf Kind (born 1971) has been appointed as the Company's CEO for three years with effect from 1 December 2017. He has been a member of the managing board and CFO with DEMIRE Deutsche Mittelstand Real Estate AG since 1 March 2017 and was appointed as this company's CEO as of 16 November 2017. He is a qualified bank clerk and business administration graduate (Diplom-Betriebswirt), and through to 2016 he was the founding shareholder and CEO of Arbireo Capital AG and managing partner with Dr. Lübke & Kelber GmbH. From 2002-2013 Mr. Kind was Director in Barclays Capital's structured finance team before managing the Barclays Real Estate investment banking team for Germany, Austria, Switzerland and the Netherlands. He worked as a Principal Consultant with PwC Unternehmensberatung GmbH in Frankfurt and for Price Waterhouse in Tokyo from 1998 – 2001.

Stefan Herb (CFO)

Appointed for the first time on 1 March 2018

Ongoing appointment until 28 February 2021

Stefan Herb (born 1963) has been appointed as a member of the company's Management Board (CFO) as of 1 March 2018. He has been a Prokurist (authorised signatory) with DEMIRE Deutsche Mittelstand Real Estate AG and managing director of the subsidiaries DIM GmbH (property management) and PRAEDIA GmbH (facility management) since October 2017. Mr. Herb has been a registered lawyer for more than 20 years, focusing on investment, company and tax law. He also holds a degree in business administration (Regensburg University). Through to September 2017 Mr. Herb was the Senior Portfolio Manager with Arbireo Capital AG (Dr. Lübke & Kelber Group), responsible for setting up new products. At Deka Immobilien Investment GmbH, Frankfurt/Main he was responsible for individual funds as the Head of Fund Management from 2007 to 2014, in particular from 2010 on as the managing director of a GmbH and Board Member of an equity participation in two international institutional investment funds. His career also includes fund management activities with REAL I.S., IC Immobilien Gruppe and Deutsche Bank, all in Munich. In particular, Mr. Herb has specialist knowledge in business development, structuring investments and transaction management.

Frank Schaich (Chairman of the Management Board until 31 March 2017)

Patrick Kaiser (CFO until 31 March 2017, sole member of the Management Board from 1 April 2017 to 30 November 2017, CFO from 1 December 2017 to 28 February 2018)

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 €0.34 per share at the upcoming Annual General Meeting.

The Company successfully continued its strategic portfolio streamlining in 2017 and made further targeted investments in directly and indirectly held 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 nine times in fiscal year 2017. 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 cash flows and financial position 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 February 2017 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 31 January 2018 together with the Management Board and is published on the Company's website.

The corporate governance statement pursuant to Sec. 289f HGB [“Handelsgesetzbuch”: German Commercial Code] was issued by the Management Board and published on the Company's website on 31 January 2018.

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 audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Munich, appointed as auditor by the Annual General Meeting on 2 June 2017. 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 2017 including the respective management reports as well as the audit reports which were submitted on time for its own review at its meeting on 10 April 2018. The auditors attesting the separate financial statements reported on the audit findings and were available to respond to any questions raised 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 25 April 2018.

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 asset and earnings ratios.

Changes on the Management Board

Ralf Kind (born 1971) was appointed CEO of the Company for three years effective 1 December 2017. He has been member of the management board and CFO of Deutsche Mittelstand Real Estate AG since 1 March 2017 and was appointed CEO of the company on 16 November 2017.

On 28 February 2018, Mr. Kaiser resigned from the Management Board effective the same day. 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. His resignation relates to the takeover bid of AEPF III 15 S.a.r.l. to the shareholders of the Company to acquire their bearer shares, which was announced by the Company on 27 February 2018. The Supervisory Board of the Company would like to expressly thank Mr. Kaiser for all the work he has done and wishes him all the best for the future.

By resolution of the Supervisory Board of 20 February 2018, Mr. Stefan Herb was appointed as ordinary member of the Management Board of the Company for the period from 1 March 2018 to 28 February 2021. Mr. Herb is also head of investment management/treasury of DEMIRE Deutsche Mittelstand Real Estate AG.

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, 25 April 2018

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to read 'Hölzle', with a stylized flourish at the end.

Frank Hölzle

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 2017 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 7 February 2017.

Management and control structure

In the period from 1 January 2017 to 31 March 2017, the Management Board of Fair Value REIT-AG comprised two persons. From 1 April 2017 to 30 November 2017, the Management Board comprised one person. Since 1 December 2017 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 2017 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 2017. 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 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 7 February 2017) within the meaning of section 161 of the AktG on 31 January 2018:

Fair Value REIT-AG's Management and Supervisory Boards welcome and support the GCGC and the objectives it pursues. Fair Value REIT-AG follows the recommendations of the GCGC in the version dated 7 February 2017 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).
- **Publication of Finance Information:** The company will continue to comply with the publication deadlines required by law until further notice (Item 7.1.2 GCGC).

116	Management Board declaration adhering to the requirements of the REIT Act
118	Auditor's report pursuant to section 1 para. 4 of the REIT Act
120	Method of real estate valuation
122	Individual property information of Fair Value REIT-AG's portfolio
126	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 2017, 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 2017:

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

As of 31 December 2017, 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 2018.

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 2017, immovable assets were calculated at €290,911 thousand in line with Sec. 12 (1) and (2) REITG. This represents 92.4% of assets totalling €315,008 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 2 June 2017, a dividend of €0.40 per share currently outstanding was distributed in 2017, which corresponds to €5,611,605.20 or 91.0% of the accumulated profit for 2016.

For the fiscal year 2017, the Management Board proposes a dividend of €0.34 per share currently outstanding or €4,769,864.42, which corresponds to 90.8% 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 (2013 to 2017) totalled €104.7 million and therefore accounted for 35.6% of the average portfolio of immovable assets of €294,076 thousand during this period. The Group did not qualify as a real estate trader during the fiscal year 2017.

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

Equity pursuant to Sec. 15 REITG totalled €191,703 thousand as of 31 December 2017. This represents 65.9% of the Group's immovable assets totalling €290,911 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, 25 April 2018

Fair Value REIT-AG



Ralf Kind
CEO



Stefan Herb
CFO

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

To Fair Value REIT-AG

As auditor of the annual financial statements and the consolidated financial statements of Fair Value REIT-AG, Graefelfing, for the fiscal year from 1 January 2017 to 31 December 2017, we have audited the information in the corresponding attached disclosures of the Management Board for adherence to the requirements of Secs. 11 to 15 REITG ["REIT-Gesetz: German Real Estate Investment Trust Act] as well as the composition of income with regards to pre-taxed and untaxed income pursuant to Sec. 19 (3) in connection with Sec. 19a REITG as of 31 December 2017, hereinafter referred to as the "REIT declaration". The disclosures in the REIT declaration are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on these disclosures based on our audit.

We conducted our audit taking into account the IDW audit instructions published by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW): Special requirements in the auditing of a REIT stock company pursuant to Sec. 1 (4) REITG, for a pre-REIT stock company pursuant to Sec. 2 (3) REITG and auditing pursuant to Sec. 21 (3) Sentence 3 REITG (IDW AuPS 9.950.2). This statement requires that we plan and perform the audit to ascertain with reasonable assurance whether the disclosures made in the REIT declaration with regard to the proportion of shares on the free float ratio and the maximum interest ownership per shareholder pursuant to Sec. 11 (1) and (4) REITG corresponds with the disclosures pursuant to Sec. 11 (5) REITG as of 31 December 2017 and whether the disclosures on the requirements of Secs. 12 to 15 REITG as well as the composition of income with regard to pre-taxed and untaxed income pursuant to Sec. 19a REITG are accurate. It was not our responsibility to fully verify or audit the tax assessment of the relevant companies. In the course of our audit, we compared the disclosures on the free float ratio and the maximum interest ownership per shareholder pursuant to Sec. 11 (1) and (4) REITG with the information pursuant to Sec. 11 (5) REITG as of 31 December 2017 and matched the disclosures in the REIT declaration relating to Secs. 12 to 15 REITG with the corresponding disclosures of the annual and consolidated financial statements of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the findings of our audit, the disclosures in the REIT declaration on the free float ratio and the maximum interest ownership per shareholder pursuant to Sec. 11 (1) and (4) REITG correspond with the disclosures pursuant to Sec. 11 (5) REITG as of 31 December 2017, and the disclosures in the REIT declaration the requirements of Secs. 12 to 15 REITG as well as the composition of income with regard to pre-taxed and untaxed income pursuant to Sec. 19a REITG are accurate.

This report is intended exclusively for submission to the financial authorities in Munich as part of the tax assessment pursuant to Sec. 21 (2) REITG and may not be used for other purposes.

Munich, 25 April 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Horbach	Ehrnböck
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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-Global Standards 2017 – 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.

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

Portfolio as of 31 December 2017

Address	Fund	Primary use	Year of construction	Last renovation/modernization	Plot size [m ²]	Market value 31/12/2016 [€ thousand]	Market value 31/12/2017 [€ thousand]	Change [€ thousand]	Change [%]
Direct investments									
Appen Hauptstraße 56e/56 d	n/a	Office	1975	1995	4,320	140	130	(10)	(7.1)
Bad Bramstedt Bleeck 1	n/a	Office	1973	2006	3,873	1,070	1,040	(30)	(2.8)
Bad Segeberg Oldesloer Straße 24	n/a	Office	1982	2007	5,152	8,450	8,400	(50)	(0.6)
Barmstedt Königstr. 19–21	n/a	Office	1911	regular	2,842	1,390	1,340	(50)	(3.6)
Neumünster Kuhberg 17–19, Kieler Straße 1	n/a	Office	1989	2005	5,286	15,200	15,200	–	–
Trappenkamp Am Markt 1	n/a	Office	1985	2005	1,190	570	570	–	–
Wahlstedt Markt 1	n/a	Office	1975	2005	1,848	830	980	150	18.1
Chemnitz Hartmannstraße 1	n/a	Other	2000	–	3,520	1,690	1,800	110	–
Dresden Königsbrücker Str. 121 a	n/a	Other	1997	–	8,574	9,730	9,760	30	0.3
Köln Marconistr. 4–8	n/a	Other	1990	–	13,924	3,710	3,890	180	4.9
Langenfeld Max-Planck-Ring 26/28	n/a	Other	1996	–	14,727	7,460	7,320	(140)	(1.9)
Neubrandenburg Friedrich-Engels-Ring 52	n/a	Office	1996	–	4,705	7,060	6,630	(430)	(6.1)
Potsdam Großbeerenstr. 231	n/a	Office	1995	–	2,925	4,180	4,770	590	14.1
Meschede Zeughausstr. 13	n/a	Retail	1989	–	1,673	430	420	(10)	(2.3)
Waltrop Bahnhofstraße 20 a-e	n/a	Retail	1989	–	1,742	2,530	2,400	(130)	(5.1)
Subtotal direct investments					76,301	64,440	64,650	210	0.3

Discount rate 31/12/2017 [%]	Capitalization rate 31/12/2017 [%]	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 [%]
7.25	6.50	212	212	–	–	–	15	–	11.8	100.00
6.80	6.30	997	40	7.9	99.3	82	82	7.9	7.9	100.00
6.55	6.00	9,184	358	6.9	97.1	638	657	7.6	7.8	100.00
6.85	6.35	1,257	–	7.0	100.0	103	103	7.7	7.7	100.00
6.85	6.35	11,808	162	7.8	98.4	1,045	1,061	6.9	7.0	100.00
6.55	6.05	787	–	0.9	100.0	59	59	10.4	10.4	100.00
6.70	6.20	1,346	–	4.1	100.0	91	91	9.3	9.3	100.00
–	–	300	100	1.3	65.5	29	45	1.6	2.5	100.00
7.80	7.30	11,554	–	11.6	100.0	822	822	8.4	8.4	100.00
7.60	7.10	9,640	–	6.1	100.0	334	334	8.6	8.6	100.00
8.10	7.60	10,940	–	2.1	99.7	773	776	10.6	10.6	100.00
7.50	7.00	7,373	1,627	2.8	81.5	582	714	8.8	10.8	100.00
6.25	5.75	3,778	120	5.7	94.9	314	331	6.6	6.9	100.00
7.70	6.95	1,095	–	1.5	100.0	42	42	10.0	10.0	100.00
7.75	7.20	2,128	250	2.9	92.0	225	244	9.4	10.2	100.00
		72,399	2,870	6.2	95.6	5,139	5,377	7.9	8.3	

Portfolio as of 31 December 2017

Address	Fund	Primary use	Year of construction	Last renovation/modernization	Plot size [m ²]	Market value 31/12/2016 [€ thousand]	Market value 31/12/2017 [€ thousand]	Change [€ thousand]	Change [%]
Subsidiaries									
Chemnitz Hartmannstr. 3 a–7	IC 12	Office	1997	–	4,226	7,480	7,860	380	5.1
Dresden Nossener Brücke 8–12	BBV 14	Office	1997	–	4,134	6,370	8,750	2,380	37.4
Rostock Kröpeliner Str. 26–28	BBV 14	Retail	1995	–	7,479	64,900	67,900	3,000	4.6
Querfurt Nebraska Tor 5	BBV 08	Retail	1992	–	32,020	11,400	11,700	300	2.6
Zittau Hochwaldstraße/Mittelweg	BBV 08	Retail	1992	2016	48,840	18,915	20,100	1,185	6.3
Celle Vor den Fuhren 2	BBV 10	Retail	1992	–	21,076	6,930	7,170	240	3.5
Eisenhüttenstadt Nordpassage 1	BBV 10	Retail	1993	2017	96,822	25,100	28,500	3,400	13.5
Genthin Altmärker Str. 5	BBV 10	Retail	1998	–	3,153	462	411	(51)	(11.0)
Langen Robert-Bosch-Str. 11	BBV 10	Office	1994	–	6,003	14,200	15,200	1,000	7.0
Münster Hammer Str. 455–459	BBV 10	Retail	1991	–	15,854	7,340	7,310	(30)	(0.4)
Osnabrück Hannoversche Str. 39	BBV 10	Retail	1989	–	7,502	3,170	3,060	(110)	(3.5)
Lutherstadt Wittenberg Lerchenbergstr. 112/113, Annendorfer Str. 15/16	BBV 10	Retail	1994	–	20,482	21,600	21,900	300	1.4
Chemnitz Heinrich-Lorenz-Str. 35	IC 15	Office	1998	–	4,718	4,010	4,020	10	0.2
Chemnitz Am alten Bad 1–7, Theaterstr. 34a	IC 15	Office	1997	–	3,246	5,990	6,080	90	1.5
Quickborn Pascallehre 15/15a	IC 15	Office	1997	–	33,255	15,600	16,300	700	4.5
Subtotal subsidiaries					308,810	213,467	226,261	12,794	6.0
Total Group					385,111	277,907	290,911	13,004	4.7

Discount rate 31/12/2017 [%]	Capitalization rate 31/12/2017 [%]	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 [%]
7.25	6.25	8,380	2,441	2.6	72.5	464	640	5.9	8.1	53.95
7.50	7.00	8,791	1,625	2.2	78.6	618	787	7.1	9.0	51.12
5.90	5.40	19,307	791	4.5	95.7	4,246	4,437	6.3	6.5	51.12
7.50	6.90	9,331	–	4.7	100.0	984	984	8.4	8.4	58.22
6.20	5.65	17,421	322	11.2	94.2	1,304	1,384	6.5	6.9	58.22
7.40	6.90	10,611	–	6.3	100.0	587	587	8.2	8.2	46.18
8.10	7.60	30,543	10,435	5.9	76.8	2,308	3,006	8.1	10.5	46.18
8.95	7.95	1,275	282	0.8	95.5	64	67	15.5	16.2	46.18
7.50	6.90	13,681	3,992	2.9	75.3	1,075	1,428	7.1	9.4	46.18
7.50	6.90	7,353	–	1.1	100.0	716	716	9.8	9.8	46.18
8.50	8.00	4,207	–	1.7	100.0	329	329	10.8	10.8	46.18
6.50	6.00	14,710	754	5.2	96.3	1,688	1,753	7.7	8.0	46.18
7.60	7.10	5,845	–	0.6	100.0	462	462	11.5	11.5	48.27
6.70	6.10	5,110	210	2.7	96.1	448	466	7.4	7.7	48.27
6.50	6.00	10,570	–	4.2	99.4	1,223	1,231	7.5	7.5	48.27
		167,137	20,851	4.7	90.4	16,517	18,278	7.3	8.1	
		239,536	23,721	5.1	91.5	21,655	23,655	7.4	8.1	

Fair Value REIT-AG

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Managing Board

Ralf Kind (CEO)
Stefan Herb (CFO)

Supervisory Board

Frank Hölzle, Chairman
Dr. Thomas Wetzels, Vice Chairman
Daniel Zimmer

Pictures

DEMIRE Deutsche Mittelstand Real Estate AG

Disclaimer

This annual report contains future-oriented statements, which are subject to risks and uncertainties. They are estimations of the management board of Fair Value REIT-AG and reflect their current views with regard to future events. Such expressions concerning forecasts can be recognised by terms such as "expect", "estimate", "intend", "can", "will" and similar expressions with reference to the enterprise. Factors, that can cause deviations or effects can be (without claim on completeness): the development of the property market, competition influences, alterations of prices, the situation on the financial markets or developments related to general economic conditions. Should these or other risks and uncertainty factors take effect or should the assumptions underlying the forecasts prove to be incorrect, the results of Fair Value REIT-AG could vary from those, which are expressed or implied in these forecasts. The Company assumes no obligation to update such expressions or forecasts.