DEMIRE Deutsche Mittelstand Real Estate AG

ANNUAL REPORT 2013/2014

April 1, 2013 – March 31, 2014

Key data at a glance

	2013/2014	2012/2013
Group key figures in EURk		
Profit/loss from the rental of real estate	460	276
Profit/loss from the sale of real estate companies	386	2,290
Profit/loss from the sale of real estate	0	302
Profit/loss from asset management	38	67
Profit/loss from investments accounted for using the equity method	–1,688	–1,288
Other operating income and other effects	2,071	–1,944
Profit/loss before interest and taxes	–5,552	–4,943
Profit/loss before taxes	–5,735	–5,651
Net profit/loss attributable to parent company shareholders	–5,935	–5,927
Shareholders' equity	7,702	14,252
Total assets	48,400	31,143
Equity ratio	15.9%	45.8%
Cash flow from operating activities	–1,900	–1,181
Cash flow from investing activities	–18,715	1,327
Cash flow from financing activities	22,239	–1,394
Cash and cash equivalents at the end of the period	3,955	2,333
Key stock market data as at March 31		
Number of shares	13,894,651	13,894,651
Share price at fiscal year-end in EUR (XETRA)	0.96	0.63
Market capitalisation in EUR	13,394,444	8,753,630
Earnings per share in EUR	–0.43	–0.43
Net asset value (NAV) per share in EUR	0.56	1.04
Free float (shareholders < 3 percent)	60.2%	70.5%

Other information

Name	**DEMIRE Deutsche Mittelstand Real Estate AG**
ISIN	DE000A0XFSF0
WKN	A0XFSF
Ticker symbol	DMRE
Market segment	General Standard
Open market	Berlin, Düsseldorf und Stuttgart
General Standard (Regulated Market)	Frankfurt Stock Exchange; Xetra

Contents

Foreword of the Executive Board

Hon.-Prof. Andreas Steyer,
Speaker of the Executive Board (CEO)

Dear Shareholders,

Ladies and Gentlemen,

We look back on an eventful 2013/2014 fiscal year marked by major changes. We substantiated the strategic realignment of our Company, beginning with the complete reconstitution of the Company's governing bodies and, particularly, with the change in the Company's name which was decided at the extraordinary Annual General Meeting in June 2013. Since this time, we have achieved significant milestones under the new name of DEMIRE Deutsche Mittelstand Real Estate AG: we not only continued to withdraw from previous activities, but we acquired the fund necessary to construct a new, value-creating real estate portfolio in Germany through a convertible bond successfully placed in December and January of the 2013/2014 fiscal year.

The issuance of this instrument marked a turning point in the strategic realignment. In early January, a portion of the EUR 11.3 million in proceeds received were directly invested in the first of two commercial properties in the greater Munich area acquired during the fiscal year. The purchase of the second property took place a short time later at the end of the fiscal year. Both investments are fully in accordance with our investment strategy, especially since they generate positive cash flows from the start. In addition, we realised a significant increase in value of the first property in the reporting year, despite the property's brief holding period. This highlights the success of our acquisition strategy. Through active asset management, we were also able to improve the property's occupancy rate and running costs during this short time, thereby increasing further potential.

The current fiscal year 2014/2015 is centred on growth. Therefore, we constantly screen the market for attractive real estate portfolios. To finance the acquisition of such portfolios, we are currently reviewing various financing options, primarily in the debt area, as well as the issuance of equity-like instruments.

After the reporting year, we successfully concluded one of our previous investments by selling our interest in the company holding the properties in Turkey. Further disposals have been initiated. In addition, we closed our former office in Vienna (Austria) in the reporting year and concentrated all of our activities at our headquarters in Frankfurt/Main. The accompanying staff reductions and other measures led to a tremendous decline in our costs.

The Company's earnings development was strongly influenced by the well advanced but not yet fully completed reorganisation of the Group. Restructuring costs related to the realignment, in particular, contributed to continued negative profit before taxes (EBT) of EUR –5.7 million. Nevertheless, we were able to maintain the previous year's level.

During the current 2014/2015 fiscal year, we aim to achieve significantly better or slightly positive earnings before interest and taxes (EBIT) at the operational level by the consistent expansion of our core portfolio and through active asset management. Above all, we want to take advantage of the presently favourable market environment for the development of the Group. Therefore, our current priority is growth measured by the volume of our German portfolio.

The development of the DEMIRE share during the reporting year was extremely favourable: after a level of EUR 0.63 at the beginning of the fiscal year, the overall rise in the share was 53% and attained a price of EUR 0.96 on March 31, 2014. This trend continued in the months to follow. In mid-July 2014, the share achieved its highest level in more than two years and traded at EUR 1.54. Thus, market participants are judging the Company's realignment very positively.

We would like to thank you for the tremendous amount of trust you have placed in us as we pursue our present path towards becoming a profitable holder of German commercial properties and hope we will be able to demonstrate the continued success of our efforts as early as in the current 2014/2015 fiscal year. Special thanks also go to our staff for their renewed strong commitment and their tremendous involvement during this past fiscal year.

Frankfurt/Main, August 2014

Hon.-Prof. Andreas Steyer

Report of the Supervisory Board

Prof. Dr. Hermann Anton Wagner,
Chairman

Dear Shareholders,

In the 2013/2014 fiscal year, the Supervisory Board performed the tasks and exercised the responsibilities incumbent upon it, pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association, and its rules of business procedure.

The Supervisory Board and Executive Board worked together as part of their given tasks and discussed numerous factual issues. Along with the explicit topics mentioned in this report, these issues included all further significant questions relating to the Company and the Group. The Supervisory Board consulted regularly with the Executive Board. It supervised the conduction of business under the aspects of legality, effectiveness, and economic efficiency. The Executive Board directly involved the Supervisory Board in decisions of fundamental significance for the Company and the Group.

The Executive Board kept the Supervisory Board informed in a timely and comprehensive manner on the basis of detailed verbal and written reports. This included a detailed discussion of all significant questions relating to the development of the Company's and the Group's relevant markets, short- and long-term corporate planning, and current business progress. The current position of the Company and the Group, including the liquidity and risk positions, the group-wide risk management system, current real estate projects, and the further strategic development of the Group were also part of these discussions. The information provided by the Executive Board was critically reviewed by the Supervisory Board for plausibility.

The Executive Board submitted detailed clarifications that were then reviewed by the Supervisory Board when the course of business diverged from the previously approved plans and targets and also with regard to the measures necessary to counter these divergences. After examination and discussion, the Supervisory Board approved the reports and proposals of the Executive Board, to the extent required by the legal and statutory provisions.

Between meetings, the Executive Board comprehensively informed the Supervisory Board Chairman in a timely manner by way of written and verbal reports of particular business transactions that were of key significance in the assessment of the situation, the development, and management of the Company and the Group. Matters requiring the Supervisory Board's approval were submitted for resolution by the Executive Board.

The Supervisory Board Chairman was in regular and close contact with the Executive Board and kept himself regularly informed of current business developments and significant business transactions. He also kept the other Supervisory Board members informed outside of the meetings and discussed developments with them.

During the year under review, there were no conflicts of interest on the part of the Executive and Supervisory Board members that would require immediate disclosure to the Supervisory Board or the Annual General Meeting.

A fundamentally strategic realignment of the Company and the Group was resolved in the first quarter of the 2013/2014 fiscal year. Specific details are explained below in a special chapter of this report ("Strategic Realignment"). Liquidity during the fiscal year was secured through the issue of a convertible bond on December 30, 2013. Further changes in the composition of the Executive and Supervisory Boards also took place in the course of the fiscal year.

MEMBERS OF THE SUPERVISORY BOARD IN FISCAL YEAR 2013/2014

- Prof. Dr. Werner Schaffer, Urbar (Chairman until October 23, 2013)
- Dr. Carsten Strohdeicher, Frankfurt/Main (Deputy Chairman until October 23, 2013)
- Prof. Dr. Hermann Anton Wagner (since April 17, 2013; Chairman since October 23, 2013)
- Dr. Dirk Hoffmann (since October 23, 2013; Deputy Chairman since October 23, 2013)
- Günther Walcher (since October 23, 2013)

On April 17, 2013 the District Court in Frankfurt appointed Prof. Dr. Hermann Anton Wagner as a new member of the Supervisory Board, at the Executive Board's request. The extraordinary Annual General Meeting on June 27, 2013, elected Dr. Wagner as a member of the Supervisory Board until the end of the Annual General Meeting that will resolve on the fiscal year ending March 31, 2016. Furthermore, the extraordinary Annual General Meeting decided to reduce the number of members of the Supervisory Board from six members to three members. Hence, following the conclusion of the extraordinary Annual General Meeting, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG comprised Prof. Dr. Werner Schaffer (Chairman), Dr. Carsten Strohdeicher (Deputy Chairman), and Prof. Dr. Hermann Anton Wagner.

Prof. Dr. Werner Schaffer and Dr. Carsten Strohdeicher have resigned from their positions as members of the Supervisory Board taking effect at the end of the Annual General Meeting on October 23, 2013. The Supervisory Board would like to thank them for their many years of service and wishes them well in their future endeavours.

The Annual General Meeting on October 23, 2013 appointed Dr. Dirk Hoffmann and Mr. Günther Walcher as new members of the Supervisory Board with terms running until the Annual General Meeting that decides on the discharge of the members of the Supervisory Board for the fiscal year ending on March 31, 2016. Thus, since the Annual General Meeting on October 23, 2013, the Supervisory Board has been comprised of Prof. Dr. Hermann Wagner (Chairman), Dr. Dirk Hoffmann (Deputy Chairman), and Günther Walcher (Member).

SUPERVISORY BOARD COMMITTEES

During fiscal year 2013/2014, the Supervisory Board was comprised of six members up until the extraordinary Annual General Meeting on June 27, 2013 after which it was comprised of three members. The Supervisory Board did not form any committees, since this is impractical with a total of only three members.

WORK OF THE PLENUM DURING THE REPORTING YEAR

The Supervisory Board met repeatedly during the 2013/2014 fiscal year in short succession: namely, on April 9, 2013, May 16, 2013, June 26, 2013, August 13, 2013, October 23, 2013, December 10, 2013, and on February 27, 2014 in the context of a significant change in the shareholder structure, the fundamental realignment of the Company and Group, and in preparation for the extraordinary Annual General Meeting.

On June 26, 2013, the Supervisory Board together with the Executive Board, discussed DEMIRE Deutsche Mittelstand Real Estate AG's Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act for fiscal year 2013/2014. This related to the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette in the version of May 13, 2013 as well as any divergences from these recommendations. The Declaration of Conformity was subsequently published on the Company's website (www.demire.de).

At the meeting on August 13, 2013 the Supervisory Board dealt extensively with the financial statements and consolidated financial statements for the 2012/2013 fiscal year including the management report for the Company and the Group and, on August 16, 2013, approved these by way of a resolution passed by circulation procedure. The financial statements and management report of DEMIRE Deutsche Mittelstand Real Estate AG were prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements and the Group management report were prepared according to the principles of International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary provisions according to Section 315a (1) of the German Commercial Code (HGB).

WORK OF THE PLENUM AFTER THE FISCAL YEAR'S CLOSE

The Supervisory Board met on June 3, 2014 and on August 29/30, 2014 following the close of fiscal year 2013/2014 with regard to the material change in shareholder structure and the fundamental realignment of the Company and the Group.

In August 2014, the Supervisory Board, together with the Executive Board, discussed DEMIRE Deutsche Mittelstand Real Estate AG'S Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act for fiscal year 2013/2014. This related to the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette in the version of May 13, 2013 as well as any divergences from these recommendations. Thereafter, the Declaration of Conformity was published on the Company's website. Further information on corporate governance is contained in the Corporate Governance report, including the Declaration on Corporate Governance pursuant to Section 289a of the German Commercial Code, reproduced in DEMIRE Deutsche Mittelstand Real Estate AG's 2013/2014 Annual Report.

At the meetings on August 29/30, 2014 the Supervisory Board dealt extensively with the financial statements and consolidated financial statements for the 2013/2014 fiscal year including the coherent presentation of the combined management report for the Company and the Group. DEMIRE Deutsche Mittelstand Real Estate AG'S financial statements and management report were prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements and Group management report were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the associated supplementary regulations according to Section 315a (1) HGB.

The auditor took part in the meeting on August 29, 2014 and presented the key findings of his audit. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart was chosen as the auditor by the Annual General Meeting and was mandated by the Supervisory Board. The financial statements, including the combined management reports for the Company and the Group, were reviewed by the auditors and furnished with unqualified audit opinions.

The Supervisory Board subjected the financial statements, the consolidated financial statements, and the combined management report for the Company and the Group to its own review and approved the results of the audit conducted by the auditor. No objections were raised following issuance of the final audit report on the financial statements, the consolidated financial statements, the combined management report for the Company and the Group, and the auditors audit reports. The Supervisory Board approved the financial statements, the consolidated financial statements, and the combined management report on August 30, 2014, and thus adopted the Company's financial statements.

CHANGES IN THE EXECUTIVE BOARD

After many years as a member of the Executive Board, Dr. Marc-Milo Lube resigned by mutual agreement on April 19, 2013 in order to pursue new professional challenges. The Supervisory Board thanks Dr. Lube for his longstanding commitment to the Company and wishes him success in his future endeavours.

After many years of serving on the Executive Board, Mr. Jürgen Georg Faè resigned from the Company by mutual agreement in order to pursue new professional challenges with effect from December 4, 2013. The Supervisory Board thanks Mr. Faè for his important contributions to the Company and wishes him well in his future endeavours. At the Supervisory Board meeting held on May 16, 2013, Hon.-Prof. Andreas Steyer was appointed as the Company's new Speaker of the Executive Board with immediate effect.

STRATEGIC REALIGNMENT

The Executive and Supervisory Boards believe that the Group's previous strategic objectives and its focus to date on the target markets surrounding the Black Sea and in Eastern Europe did not offer sufficient long-term opportunities. Therefore, the Executive and Supervisory Boards decided to completely realign the Group. This change was also reflected in the renaming of the Company to "DEMIRE Deutsche Mittelstand Real Estate AG", which was approved by the extraordinary Annual General Meeting in June 2013. The new name was registered at the commercial register of the District Court of Frankfurt/Main on July 30, 2013.

In contrast to the Company's previous business model, DEMIRE Deutsche Mittelstand Real Estate AG will pursue a "Buy & Hold" strategy in the future and conduct active portfolio management. As an investor and portfolio manager, the Group plans to concentrate solely on the German real estate market and on real estate investments which generate positive cash flows from the start. Systematic planning, management, and control should raise the real estate investments' potential for success and achieve a sustainable increase in their value. It is the Executive Board's and Supervisory Board's firm conviction that the German real estate market is currently attractive and will continue to remain so in the future. Due to the domestic and international economic strength of the German Mittelstand as the backbone of the German economy, this optimism is particularly warranted for investments targeted at this sector. Therefore, the focus of the Group's investments will be on commercial properties and the areas of logistic and office space.

This new strategy was implemented for the first time in the first quarter of 2014 with the acquisition of two commercial properties in the greater area of Munich. These properties are multi-tenant properties with various medium-sized tenants with each property having an occupancy rate of approximately 70 percent. Here there is an opportunity to improve these properties through active asset management. The Supervisory Board's approval to purchase an additional property portfolio with seven commercial properties at almost full occupancy emphasises the focus on the Group's new role as an investor and portfolio holder. All properties will generate positive cash flows from the start and will enhance the Group's liquidity.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Executive Board and the employees of the Group for their commitment and constructive cooperation during the 2013/2014 fiscal year.

This report was discussed and adopted by the Supervisory Board at its meeting on August 29/30, 2014.

Frankfurt/Main, August 2014

Prof. Dr. Hermann Anton Wagner
(Chairman)

Corporate Governance

DEMIRE Deutsche Mittelstand Real Estate AG is committed to managing and supervising the Company and the Group in a manner that is responsible and creates value. The transparency of the Group's management principles and the traceability of its development should be maintained in order to build, maintain, and strengthen the trust of the shareholders, business partners, customers, capital market participants, and employees. The Executive Board and the Supervisory Board work closely together for the benefit of the Company in order to ensure that the Company is responsibly managed and controlled through good corporate governance.

ORGANISATION AND MANAGEMENT

DEMIRE Deutsche Mittelstand Real Estate AG is headquartered in Germany. The headquarters of the subsidiaries, associated companies, and joint ventures are located in the countries in which they are predominantly active.

During fiscal year 2013/2014, the Group was realigned in accordance with its new core business as an investor and portfolio manager of German commercial real estate. These activities, which will be the Group's sole focus going forward, combine to form the "Core Portfolio" segment. Following the disposal of the co-proprietor's building schemes activities, the related asset management activities were also sold. The previous "Investments" segment will also be dismantled step by step through the disposal of real estate projects in the former target markets as part of actualising the Group's new business focus.

As in the past, the Executive Board will continue to steer the Group and the individual real estate investments according to cash flows and in the realm of clearly defined individual budgets. The development of the individual budgets on the basis of budget targets is part of the regular strategy and reporting discussions carried out by the Executive Board with the respective individuals responsible for the operations.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of DEMIRE Deutsche Mittelstand Real Estate AG exercise their management and control rights at the Annual General Meeting. The ordinary Annual General Meeting exercises all of the tasks that are incumbent upon it according to the law. It is held within the first eight months of every fiscal year. DEMIRE Deutsche Mittelstand Real Estate AG's fiscal year end is March 31. The Chairman of the Supervisory Board chairs the Annual General Meeting. Every shareholder has the right to take part in the Annual General Meeting, to speak about the respective agenda items, and to demand information about Company matters when such information is necessary in order to make an objective assessment of the shareholders' meeting agenda.

All of the issued shares of DEMIRE Deutsche Mittelstand Real Estate AG are ordinary bearer shares with identical rights and obligations. Each share carries one vote at the Annual General Meeting and there is no maximum limit to the shareholder's voting rights and no special voting rights. Resolutions generally require a simple majority of the votes cast. In cases where the law requires a majority of represented capital, the Articles of Association provide a simple majority of represented capital (for example for amendments to the Articles of Association and capital increases) with the exception of certain cases regulated by law which require at least a three-quarters majority of the represented capital (for example for capital reductions and of subscription rights).

SHARES OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG HELD BY MEMBERS OF THE GOVERNING BODIES AND MAJOR SHAREHOLDERS

Shares held by members of the governing bodies at the end of fiscal year 2013/2014: Hon.-Prof. Andreas Steyer held 68,571 shares of the Company, representing 0.49% of the total of the Company's shares outstanding.

Shares held by major shareholders at the end of fiscal year 2013/2014: DeGeLog Deutsche Gewerbe-Logistik Holding GmbH held 4,100,000 shares, representing 29.51% of the Company's shares outstanding. The remaining 70.49% of shares are held by institutional and private investors. None of these shareholders holds a share of more or equal to 10%. Thus, this also represents the Company's free float according to the definition of Deutsche Börse AG. This information is based on voting right notifications made by shareholders pursuant to the WpHG, and information submitted by members of the governing bodies of the Company.

ACCOUNTING AND AUDITING

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS).

The Executive Board is required to prepare the financial statements (the balance sheet, income statement, and notes to the financial statement) and the Company's management report within the first three months of the fiscal year. It should be presented to the Supervisory Board immediately following the auditor's audit and include the auditor's report and the Board's proposal for the use of the unappropriated retained earnings. The Supervisory Board reviews the financial statements, the management report, and the Executive Board's proposal for the use of unappropriated retained earnings. The Supervisory Board then forwards its related report to the Executive Board within one month from having received the Executive Board's drafts and the auditor's report about the audit of the financial statements.

The following agreements with the auditor exist:

» The Supervisory Board Chairman is to be informed immediately if potential reasons arise for exclusion or disqualification during the audit that cannot be immediately excluded.

» The auditor is to report on all findings and events that arise during the audit that are of significance to the tasks of the Supervisory Board.

» If the auditor establishes facts during the audit that contradict the Declaration of Compliance according to the German Corporate Governance Code that is issued by the Executive Board and Supervisory Board, the auditor is required to note this in its audit report and to notify the Supervisory Board Chairman.

TRANSPARENCY

DEMIRE places a high priority on information being timely, consistent, and comprehensive. Reporting on the Group's situation and development and especially the business results occur in the Annual Report and the interim reports for the three and nine month periods, and in the half year financial report. The Group also provides information to the public through press releases and ad hoc announcements pursuant to Section 15 of the German Securities Trading Act (WpHG). Additionally, the Executive Board communicates intensely with the relevant participants in the capital markets domestically and internationally. All financial publications, announcements, and presentations that are prepared for financial communication are available on the Company's website. The financial calendar is also available on the website and provides early information on regular reporting dates.

DEMIRE Deutsche Mittelstand Real Estate AG keeps an insider list pursuant to Section 15b WpHG. The individuals concerned are informed of statutory duties and sanctions.

STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289a HGB

DEMIRE Deutsche Mittelstand Real Estate AG issues a Statement on Corporate Governance pursuant to item 3.10 of the German Corporate Governance Code and pursuant to Section 289a HGB. The Declaration of Compliance regarding the German Corporate Governance Code pursuant to Section 161 AktG that this statement contains is also available on the Company's website (www.demire.ag) under the section "Company" section.

Composition and operating procedures of the Executive Board and Supervisory Board

As a listed German public stock corporation, the management of the Company is determined by the German Stock Corporation Act, the further statutory provisions of commercial and corporate law, and the requirements of the German Corporate Governance Code in its respective current version. German law requires that public stock corporations operate a dual management system. There is a strict separation of personnel between the Executive Board as the management body and the Supervisory Board as a supervisory body, whereby the Executive Board and Supervisory Board work closely together in the Company's interest.

The Executive Board manages the Company under its own responsibility and represents the Company when entering into transactions with third parties. It determines the strategy in coordination with the Supervisory Board and implements this strategy with the aim of creating sustainable value. The members of the Executive Board are responsible for individual areas independently of their joint responsibility for the Group. The members work congenially and keep each other continually informed of important events and measures within their areas of responsibility. Currently, the Company is managed by a sole Executive Board member. In legally-specified instances, the Executive Board is required to obtain the approval of the Supervisory Board. In addition, DEMIRE's Articles of Association also list extraordinary transactions which require the agreement of the Supervisory Board. With the unanimous approval of the Supervisory Board, the Executive Board has set its own rules of business procedure.

The Executive Board informs and reports to the Supervisory Board regularly, timely, and comprehensively on all company-relevant planning, business development, and questions of risk. The Executive Board is required to report other important matters to the Supervisory Board Chairperson. The Supervisory Board Chairperson is also informed regularly and continually of the business development. In the context of this reporting, the Executive Board refers back to the valid risk management system found throughout the entire DEMIRE Group.

Since the Executive Board is comprised of only one member, no committees have been formed.

The Supervisory Board appoints Executive Board members, determines their respective overall compensation, and supervises their management of the Company. The Supervisory Board also consults with the Executive Board concerning the management of the Company. The Supervisory Board adopts the financial statements and approves the consolidated financial statements. Important Executive Board decisions require the agreement of the Supervisory Board. Additionally, the Supervisory Board has issued itself rules of business procedure.

The Supervisory Board currently consists of three members to be elected by DEMIRE's Annual General Meeting. The Supervisory Board Chairperson coordinates the work of the Supervisory Board. The Supervisory Board has formed no committees.

Further details on the specific work of the Supervisory Board can be found in the Supervisory Board Report that forms part of this Annual Report.

Wording of the last Declaration of Conformity to the German Corporate Governance Code pursuant to Section 161 AktG

The Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG ("Company") monitor the compliance with the German Corporate Governance Code. They hereby declare that the Company has been and is in conformance with the recommendations of the "Government Commission German Corporate Governance Code" as published on May 13, 2013 by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, subject to the following exceptions:

» Code Item 2.3.1: In the currently valid version of the Company's Articles of Association, the possibility of a postal vote by the shareholders and a corresponding authorisation of the Executive Board are provided. However, it is currently not intended to introduce such a postal ballot.

» Code Item 3.8: For D&O insurance, a deductible for the Executive Board was agreed but a deductible is not intended for the Supervisory Board. It is the opinion of the Company that an agreement on such a deductible for Supervisory Board members would significantly reduce the attractiveness of a position within the Supervisory Board and thereby have a negative impact on the chances of winning adequate candidates for a position within the Supervisory Board at the Company.

» Code Item 4.2.1: The Executive Board currently consists of just one member. Due to the Company's current size and number of employees several board members would not be appropriate.

» Code Item 4.2.3: The service contract of the single member of the Executive Board includes variable remuneration components with a one-year and multiple-year basis for assessment. Through this approach, the Company balances its interest in the Company's sustainable development with the interest of the Executive Board member to receive performance-related remuneration

» Code Item 5.1.2: No age limit has been established for members of the Executive Board. In the Company's view, age is not an appropriate criterion to be used in appointing board members. Furthermore, there is currently no female member of the Executive Board. Should the Executive Board need to expand, even more effort will be given than in the past to find suitable female candidates

» Code Item 5.3: The Supervisory Board does not form committees since, due to a change in the Articles of Association, the Supervisory Board now consists of only three members.

» Code Item 5.4.1: No age limit has been established for members of the Supervisory Board. It is the opinion of the Company that age is not an appropriate criterion to be used for in the election of Supervisory Board members. In the composition of the Supervisory Board, diversity in particular is currently being taken into account. In future elections, women will be increasingly sought as Supervisory Board candidates.

» Code Item 5.4.6: Supervisory Board members do not receive performance-based compensation in order to further strengthen their independence.

» Code Item 7.1.2: The Company will continue to comply with the publication deadlines required by law until further notice. Nevertheless, the Company will strive to meet the shorter periods of the Corporate Governance Code for deadlines through its continuous improvement in processes and reporting.

This declaration has been made available to shareholders by its direct reproduction on the homepage at www.demire.ag.

Frankfurt/Main, August 2014
DEMIRE Deutsche Mittelstand Real Estate AG

For the Supervisory Board
Prof. Dr. Hermann Anton Wagner

For the Executive Board
Hon.-Prof. Andreas Steyer"

DEMIRE in the capital market

Our share price developed very favourably during fiscal year 2013/2014 achieving a net rise of more than half of its value (+53%) from EUR 0.63 to EUR 0.96 (based on XETRA prices). Overall it substantially outperformed the benchmark index of listed real estate companies in Germany (EPRA), which gained 9% in the fiscal year. Contributing to this performance were both the exceptionally good performance of the international capital markets and the comprehensive and systematic realignment of the DEMIRE Group, which was assimilated into the share's valuation by market participants.

At the beginning of the reporting year, the share price declined to the year's low of EUR 0.54. Following the extraordinary Annual General Meeting in late June 2013 in the course of the Group's realignment, the share rose to EUR 0.79, after which it fluctuated in the range of EUR 0.60 to EUR 0.80 until the close of the year. Only in early January 2014 – soon after the first real estate investment in Germany was carried out in Munich – the stock climbed further to the year high of EUR 0.98 in late February 2014.

The share was able to capitalise on this trend during the first four months of the current 2014/2015 fiscal year. Immediately after investing in the second German commercial property, not only was the one euro level surpassed significantly, but the highest level in the past two years was recorded in mid-July at with a share price of EUR 1.54.

Shareholders and other interested parties may find comprehensive information on DEMIRE shares and a current overview of the most important conferences and financial dates under the section titled "Investor Relations" on our website (www.demire.ag).

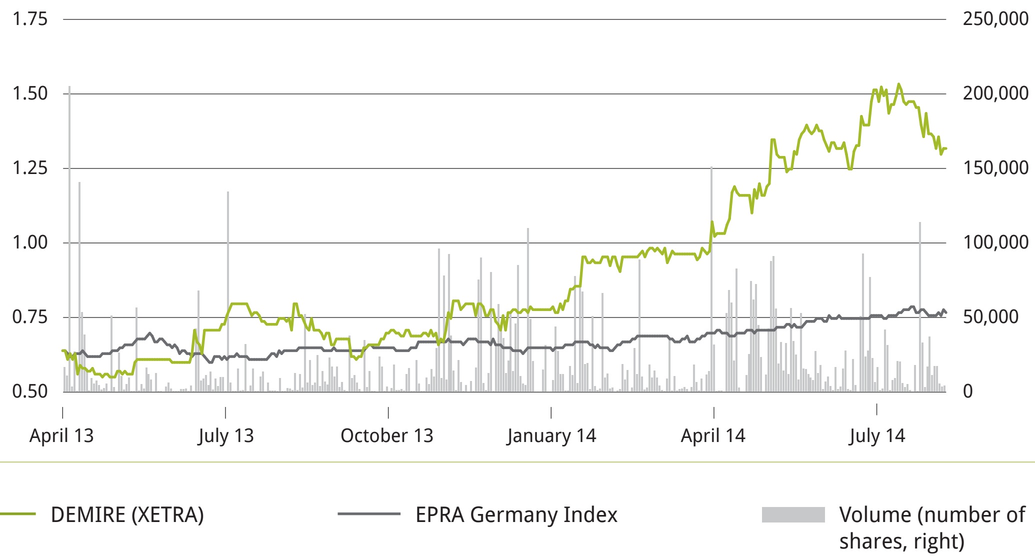
CONVERTIBLE BOND 2013/2018

An important milestone in the realignment of the DEMIRE Group was formed in December 2013, when the Executive and Supervisory Boards resolved the issuance of a convertible bond. The placement of this attractive instrument with an interest coupon of 6% and a term of five years was successfully completed at the end of January 2014. From a total of 11,300,000 convertible bonds with a nominal value of EUR 1.00, 727,800 fractional convertible bonds were subscribed to by shareholder as part of a subscription offer and the remaining 10,572,200 fractional convertible bonds were privately placed. The funds raised by the convertible bond serve to strengthen DEMIRE's financial position and provide part of the financing for the two strategic real estate investments in Munich.

BASIC INFORMATION ON THE SHARE

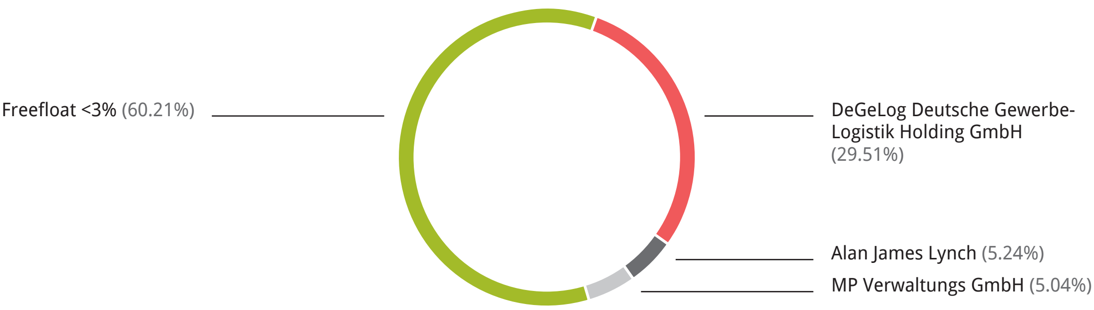
Name	**DEMIRE Deutsche Mittelstand Real Estate AG**
Number of shares as at March 31, 2014	13,894,651
ISIN / WKN	DE000A0XFSF0 / A0XFSF
Bloomberg / Reuters	DMRE
Transparency level	General standard
Market segment	Regulated market
Stock exchanges	**Regulated market** Frankfurt Stock Exchange; XETRA **Open market** Berlin, Düsseldorf, Stuttgart
Index	DIMAX / C-DAX / DAXsector All Financial Services DAXsubsector All Real Estate / General Standard Index

DEMIRE's share price development



Source: Reuters

Shareholder structure as of July 31, 2014



Sources: Company's knowledge, based on voting rights notifications

	2013/2014	2012/2013
Number of shares as at March 31	13,894,651	13,894,651
Share price at start of fiscal year in EUR (XETRA)	0.63	0.69
Share price at end of fiscal year in EUR (XETRA)	0.96	0.63
Year high in EUR (XETRA)	0.98	0.74
Year low in EUR (XETRA)	0.54	0.23
Market capitalisation as at March 31 in EUR (XETRA)	13,394,444	8,753,630
Average daily turnover in shares (XETRA and regional exchanges)	17,688	11,439
Basic earnings per share in EUR	–0.43	–0.43

Net Asset Value (EPRA)

in EURk	31/03/2014	31/03/2013	31/03/2012
NAV per the financial statements	**7,833**	**14,361**	**20,326**
Effect of exercise of options, convertibles and other equity interests	–	–	–
Diluted NAV, after the exercise of options, convertibles and other equity interests	**7,833**	**14,361**	**20,326**
Revaluations	–	–	–
Development properties held for investment	–	–	–
Revaluation of other non current investments	–	–	–
Fair value of tenant leases held as finance leases	–	–	–
Fair value of trading properties	–	–	–
Fair value of financial instruments	–407	–	–
Deferred tax	283	46	–321
Goodwill as result of deferred tax	–	–	–
Diluted EPRA NAV	**7,709**	**14,407**	**20,005**
Shares in Millions	**13.89**	**13.89**	**13.89**
Diluted EPRA NAV EUR per share	**0.56**	**1.04**	**1.44**

Combined Group Management Report and Management Report of DEMIRE Deutsche Mittelstand Real Estate AG

For fiscal year April 1, 2013 to March 31, 2014

The following presents our first combined Management Report for DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, (hereinafter referred to as “the Company”) and the Group (hereinafter referred to as “DEMIRE” or the “DEMIRE” Group) for the April 1, 2013 to March 31, 2014 fiscal year. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared according to the principles of International Financial Reporting Standards (IFRS), as applicable in the European Union. The scope of consolidation is presented in detail in the Notes under Item B (1.).

We continued to forge ahead in the reporting year with the strategic realignment of DEMIRE. Going forward, the Group will focus exclusively on the German commercial real estate market as both an investor and portfolio manager. Existing investments in Eastern Europe and the Black Sea Region will be sold in the years to come. Thus, the focus of this management report is the execution of the realignment and the future outlook for the Group and the Company.

I. Group principles

1. GROUP BUSINESS MODEL

DEMIRE Deutsche Mittelstand Real Estate AG is a public stock corporation under German law, headquartered in Frankfurt/Main, and does not have any other branch offices. The Company’s shares are traded in the regulated market (General Standard) of the Frankfurt Stock Exchange and on the XETRA trading system.

The Company stems from MAGNAT Real Estate Opportunities GmbH & Co. KGaA, which was established on April 6, 2006. Diverse investments are held which originated from the business activities of the former company. These investments are primarily in Eastern Europe and the Black Sea Region and are each held as individual project companies and, in some cases, held indirectly via an intermediate holding company. The investments are located in Bulgaria, Georgia, Poland, Romania, and in the Ukraine. Our investment in Turkey, which was still held on the balance sheet date, was sold after the end of the reporting year. There are two holdings in Germany. These investments are mostly majority-owned by DEMIRE. Some investments in the form of interests in projects, however, were also entered into together with partners.

By resolution of the extraordinary Annual General Meeting of June 27, 2013 the name of the Company was changed to DEMIRE Deutsche Mittelstand Real Estate AG. During the previous fiscal year, the focus was on the Group’s restructuring and, accordingly, we concentrated on disposing of the residual risks of the past in order to simplify the existing structure, lay the foundation for future growth, and enter into our first investments in the German market. These investments are each held in separate subsidiaries. The Company is run by a sole Executive Director who is monitored by a Supervisory Board consisting of three persons. The non-strategic operational functions, such as accounting and commercial and technical property management, are carried out by external service providers to allow the Group’s cost base to be kept as small and as flexible as possible. The organisation and degree of outsourcing will need to be adjusted accordingly in the future in conjunction with the growing portfolio of real estate.

In the future, the DEMIRE Group will be active as an investor and portfolio manager of commercial real estate in Germany, in line with the Company’s focus. Key business processes include the acquisition, management, and leasing of real estate and real estate development through, for example, reconstruction, modernisation, or expansion, as well as through realising appreciations in value by way of disposals. Thus, the Group has a simple and clearly-defined business model, strongly defined by its low level of complexity.

DEMIRE’s activities are divided into three business segments: Investments, Asset Management, and Core Portfolio (introduced in the reporting year). The Investments segment comprises the real estate portfolios in Eastern Europe and the Black Sea region, i.e., the entire real estate and land held by the Group in these countries, including the activities of the respective project holdings. The Asset Management segment provides services for the management of land and real estate. In particular, these services concern the management of a property owned by

SQUADRA Immobilien GmbH & Co. KGaA, in which DEMIRE holds an interest of 24.8%. Currently, there is no plan to expand these activities any further or to acquire any additional asset management mandates. The Core Portfolio segment makes a clear distinction between new investments and previous holdings by including the domestic subsidiaries established in the reporting year that are focussed on German commercial real estate. The activities of DEMIRE Deutsche Mittelstand Real Estate AG, in its capacity as a Group holding, are shown separately in the "Central Functions" segment.

The main external factors affecting DEMIRE's business include changes in the macroeconomic and industry conditions in the countries where the Group's investments are located. These changes include rent developments and trends in individual property locations, changes in legal and regulatory requirements, and the performance of the money and capital markets. This concerns both the interest and the availability of financing. While the German real estate market currently offers sustainable, stable, and favourable conditions, market conditions in Eastern Europe and the Black Sea region continue to be very difficult and have deteriorated even further in some regions due to political instability, such as that seen in the Ukraine. The development of external factors influencing the reporting year is described in the chapter titled "Macroeconomic and industry conditions".

2. OBJECTIVES AND STRATEGIES

We are currently working to build a substantial portfolio of German commercial real estate within the next one to two years. We are relying on an investment strategy with a balanced opportunity and risk profile. The target portfolio will be clearly focussed on the logistics and office segment. Logistics properties are generally less cyclical than office buildings, and thus contribute to stable business development. A volume of approximately EUR 10 million to EUR 50 million is being sought for each investment, giving the investments a very marketable size. As previously mentioned, our present focus is on building a suitable core portfolio. We can also accomplish this by acquiring real estate packages and then fine tuning the core portfolio.

We are focused on areas bordering top locations and on emerging secondary locations in German metropolitan areas. To minimise risk, we focus on properties that generate positive cash flows from the start, those that are used by several medium-sized tenants with good credit standing, and properties which can be used for alternative purposes.

The combination of the value-added investment strategy and the core-plus approach offers attractive opportunities. The value-added strategy is aimed at investing in undervalued sites or properties. These properties are to be repositioned based on the corresponding growth in rental income and, if necessary, through renovation and revitalisation. Over and above the generation of successively increasing cash flows, we also aim to create long-term value appreciation. This can be achieved through sales. To create a leverage effect, a somewhat higher share of debt is taken into consideration than in the case of core-plus investments.

With the core-plus approach, the focus is on the selection of properties with future appreciation potential. Accordingly, the leverage here is lower than in the value-added segment. The aim is to achieve an increase in rental income and thus generate added value through the renewed leasing of expiring contracts. The holding period of the properties is usually long term for both approaches.

Above and beyond these operational objectives, we are working to enable our shareholders to participate in our business success through an attractive dividend policy following the completion of our construction phase.

3. CONTROL SYSTEM

The central aim of the DEMIRE Group is presently the construction of an attractive property portfolio with a balanced risk-reward profile. Cash flow is the key control parameter in this current phase of expansion. New properties are expected to generate positive cash flows from the start. Over the medium term, the portfolio should also be able to generate high and stable cash flows and therefore we have designed our investment strategy accordingly.

At the operational level, we continuously monitor the development of the occupancy rate, the actual net rent per square metre (excluding ancillary costs), the ongoing maintenance and operating costs, losses of rent, and the advertising costs, that is, the cash flow development and hence the actual development in value. In addition, the properties, the responsible employees or service providers defined under property budgets, and the cash flow forecasts are controlled and continuously monitored and adapted when necessary. Integrated cash flow planning links the business units and the individual objects to one another. Net asset value ("NAV") according to the EPRA (European Public Real Estate Association) calculation method is the key indicator for measuring added value. A further key performance indicator is the return on equity.

4. RESEARCH AND DEVELOPMENT

DEMIRE does not conduct any proprietary research or development activities.

II. Economic report

1. MACROECONOMIC AND INDUSTRY ENVIRONMENT

1.1. Macroeconomic Environment

In the course of fiscal year 2013/2014, the German economy proved resilient after a weak start in 2013 due to the long winter slump and lack of foreign demand stimulus throughout the majority of the year. This dampened the willingness of domestic companies to invest. Growth momentum came from strong consumer demand driven by high employment. Real gross domestic product in Germany grew just slightly for the second consecutive year and totalled 0.5% in 2013 (2012: 0.9% according to the International Monetary Fund (IMF)).

Both the German economy and the world economy stabilised during the second half of 2013. This trend continued during the first quarter of 2014. Following years of recession, the first signs of economic recovery became discernible, particularly in the crisis countries of the euro area. Starting in the second quarter of 2013, the euro zone exhibited minor growth for the first time in eighteen months. However, at –0.4%, the euro zone's average economic performance in 2013 still declined in comparison to the previous year (–0.7%). Slowing growth in the United States and Germany and a slump in key emerging markets led to a rise in the global economy of 3.2% in 2013, which was slightly below the rise seen in the previous year (3.5%).

The economic development in the countries surrounding the Black Sea, where DEMIRE still has substantial commitments originating before the realignment of the business model, have continued to be difficult during the reporting period, despite a slight improvement in the situation of some of those countries. This was met with the increasing deterioration of the political situation in the Ukraine, which is now affecting the economic development of the entire region.

1.2. Industry environment

1.2.1. Office markets

According to an analysis by BNP Paribas concerning the eight most important German office markets of Berlin, Düsseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig, and Munich, office space turnover declined by almost 6% in 2013 to around 2.88 million m². The rather subdued overall economic development was accompanied by a relatively low and below-average number of large leases signed.

Although the total supply of office space fell further in the course of 2013, the rate of decline was much lower than in the previous year. At the end of 2013, office space amounted to 7.86 million m² overall, representing a decline of around 3%. The key offer component, the vacancy rate, recorded a decline of 4% to 7.15 million m² compared to the previous year. This development, however, strongly varies depending on the region. The same applies to the space under construction, which rose marginally by 1%.

Relatively upbeat market activity, however, was observed in the small and medium-sized property segment – an important segment for DEMIRE – which suggests broad-based demand in this segment. Overall, the volume of business in the German office markets was just below the level of the ten-year average.

1.2.2. Logistics and warehousing markets

According to BNP Paribas, turnover in the German logistics and warehousing property market amounted to nearly 4.64 million m² in 2013, which was equivalent to a 9% decrease compared to the prior year. This decline, however, should be viewed while keeping in mind that the previous year's very high level was due to a number of large deals. Nevertheless, the year 2013 still exceeded the ten-year average by 20%. The relatively balanced distribution among the different size classes indicates a stable base of demand spread over very different market segments. Smaller contracts of up to 8,000 m² generated a share in turnover of almost 26%, similar to the nearly 25% share in turnover generated from large contracts of over 35,000 m².

As in the past two years, logistics service providers was the industry showing the most demand and accounted for nearly 38% of total turnover. Among others, this was helped by an acceleration in the industry's professionalisation, which brings continuous high demand. Retail and wholesale companies followed accounting for 32% of turnover and production companies contributing a solid 26% share of total turnover. All other industry groups, however, continue to play only a minor role.

2. KEY EVENTS IN FISCAL YEAR 2013/2014

Through the consistent realignment of the DEMIRE Group, we have achieved some important milestones in the course of the reporting year. These milestones include major changes in the composition of the governing bodies (see corresponding explanations on page 18), a change in the Company's name, a further withdrawal from previous activities, and taking the first steps to establish a new value-added portfolio by successfully placing a convertible bond and making initial investments.

We have worked diligently and have made good progress in our disposal of the investments in Eastern Europe and the Black Sea region, which were part of our previous activities. These efforts made it possible for us to announce the successful sale of our commitments in Turkey after the end of the reporting year. Other disposals have been initiated. In addition, we have closed our office in Vienna (Austria) and have concentrated all of our activities in Frankfurt/Main.

Above all, we were able to not only secure the Group's liquidity, but also to secure the funds necessary to begin building an attractive property portfolio in Germany and ensure steady cash flows to finance operating activities. Thus, in December and January of fiscal year 2013/2014, we were able to successfully place a convertible bond totalling EUR 11.3 million.

By early January 2014, these funds were partially invested and used profitably to purchase an office building in the Munich area. At the end of March 2014, another office building was acquired in Munich and its acquisition and integration into the Group began as early as April 2014.

Both investments are in accordance with the Group's investment strategy and will generate positive cash flows from the start. These properties possess a total area of about 25,000 m² and generate annual rental income of approximately EUR 1.7 million. We have the potential to increase rental returns by optimising operating costs and increasing the occupancy rates, which were each hovering around 70% as at the acquisition date. At the time of the completion of this report, our costs had already seen a visible decline, especially in the case of the first property acquired.

After the end of the reporting period, we announced the planned acquisition of a larger portfolio containing seven commercial properties and a total area of approximately 40,000 m². These properties are located in the Cologne/Bonn, Leverkusen, Wuppertal, Hamburg, and Wismar areas and, at almost full occupancy, currently generate annual actual net rental income (excluding ancillary costs) of EUR 4.4 million. About 70% of the area is used as office space and about 30% is used for warehousing, retailing, and medical offices. This investment will also generate positive cash flows from the start. With the completion of this transaction, which is expected to occur in the third quarter of 2014, our portfolio will have already achieved discernible size. Thus, a basis will have been created for the Group's continued expansion.

3. NET ASSETS, FINANCIAL POSITION, AND RESULTS OF OPERATIONS

3.1. Results of operations

Selected information from the consolidated statement of income

in EURk	2013/2014	2012/2013
Profit/loss from the rental of real estate	460	276
Profit/loss from the sale of real estate companies	386	2,290
Profit/loss from the sale of real estate	0	302
Profit/loss from asset management	38	67
Profit/loss from investments accounted for using the equity method	–1,688	–1,288
Other operating income and other effects	2,071	–1,944
General and administrative expenses	–4,656	–3,809
Other operating expenses	–2,164	–837
Profit/loss before interest and taxes	**–5,553**	**–4,943**
Financial result	–182	–708
Profit/loss before taxes	**–5,735**	**–5,651**
Net profit/loss for the period	**–5,986**	**–5,930**
Of which, attributable to parent company shareholders	**–5,935**	**–5,927**
Basic and diluted earnings per share (EUR)	–0.43	–0.43

The current repositioning of DEMIRE Group has also impacted the development of earnings in the 2013/2014 fiscal year. The sale of our existing commitments in Eastern Europe and in the Black Sea region requires time and care to achieve the best possible result. We have conducted intensive negotiations and examined various options; still, disposal agreements were not signed until after the end of the reporting year. In addition, our first priority was securing and restructuring DEMIRE's financial basis. Rebuilding a portfolio containing German commercial real estate could only begin after the successful placement of convertible bonds in December 2013 and January 2014, whereby the income and revenue from the rental of these properties still remained at a low level.

Overall, the Group's results benefited from the higher caution we had used in evaluating our investments at the previous year's reporting date. Thus, our current charges now only originate from our involvement in the Ukraine, where political unrest is impacting our valuations. And last but not least, after only a short period of time, we have seen a positive effect from of our new German commercial real estate portfolio. Thus, the fair value adjustment of our first Munich property has had a positive impact on our annual results.

Specifically, profit/loss from the rental of real estate rose from just EUR 0.3 million in the previous year to EUR 0.5 million in the past fiscal year due to the start of our German real estate portfolio. The sale of real estate companies generated a result of EUR 0.4 million. These sales concerned the remaining residential units of the residual co-proprietors' building schemes in Vienna as well as the asset management related to already placed co-proprietors' building schemes in Vienna, which sold en bloc at the beginning of the fiscal year. The prior year's reported profit of EUR 2.3 million included the sale of a Romanian (project Mogosoia) and German subsidiary (project Delitzsch), as well as the sale of an Austrian real estate company.

No real estate was sold in the reporting year, whereas the previous year contained a profit of EUR 0.3 million from the sale of a Viennese property. Profit/loss from asset management continued to decline as expected and amounted to EUR 0.0 million (EURk 38) after reporting EUR 0.1 million (EURk 67) in the previous year. This item is solely comprised of revenues and expenses from services to third parties, each of which were clearly below the levels of the previous due to a reduction in the volume of assets under management. Currently, one property belonging to SQUADRA Immobilien GmbH & Co. KGaA is being managed. We are not planning to expand our asset management activities for third parties any further.

Profit/loss from investments accounted for using the equity method declined in the reporting year. This was due to both lower profits and higher losses from investments accounted for using the equity method and, above all, from the unrealised fair value adjustments of our investments in the Ukraine. In total, the profit/loss from investments accounted for using the equity method amounted to EUR –1.7 million after EUR –1.3 million in the previous year.

In contrast, other operating income and other effects experienced a significant improvement and grew to EUR 2.1 million in the reporting year after a level of EUR –1.9 million in the previous year. A key contribution came from the profit/loss of fair value adjustments in investment property of EUR 2.9 million, which was reported for the first time. This related to the acquisition of our first property in Munich under the new corporate strategy. The significant increase in value in just a short period of time reflects the success of our acquisition strategy and of the measures we had promptly implemented to optimise the ongoing operating costs and expenses of the property.

In addition, expenses for unrealised fair value adjustments in real estate inventory declined to EUR –1.1 million after EUR –1.5 million. As with investments accounted for using the equity method, expenses related to real estate inventory were also significantly affected in the reporting year by real estate held in the Ukraine. The impairment of goodwill and receivables amounted to EUR –1.2 million after EUR –1.5 million in the previous year. Other operating income rose from EUR 1.1 million in the previous year to EUR 1.5 million.

The development of general and administrative expenses and other operating expenses, however, was still dominated by the Group’s realignment and the corresponding special effects occurring in the course of the reporting year. Thus, general and administrative expenses rose from EUR 3.8 million in the previous year to EUR 4.7 million in this past fiscal year. Higher legal and consulting fees for brokerage fees as well as higher staff costs for employee reductions and replacements on the Executive Board had also contributed.

Other operating expenses increased from EUR 0.8 million to EUR 2.2 million. This was primarily due to an increase in losses from foreign currency differences of EUR 0.0 million (EURk 11) to EUR 1.3 million. This was offset by corresponding currency gains of EUR 0.7 million in the reporting year after EUR 0.6 million in the prior year. Overall, the effects of currency translations on profit/loss declined during the reporting year after designating the euro as the functional currency of the Ukraine subsidiaries. On balance, this resulted in earnings before interest and taxes (EBIT) of EUR –5.6 million after EUR –4.9 million.

The financial result improved from EUR –0.7 million to EUR –0.2 million, because income from loans to investments accounted for using the equity method increased and financing expenses declined. Despite the expenses incurred in the reporting year for the Group’s restructuring, profit/loss before taxes remained at the previous year’s level and totalled EUR –5.7 million.

Net of income taxes of EUR –0.3 million as in the prior year, net profit/loss for the period amounted to EUR –6.0 million after EUR –5.9 million in the previous year. This result was almost entirely attributable to the shareholders of the parent company, so that diluted and basic earnings per share remained unchanged at EUR –0.43. In the calculation of the diluted weighted average number of shares outstanding as of the balance sheet date, the convertible bond placed was excluded, since it would have had an anti-dilutive effect.

3.2. Segment reporting

Segment reporting is based on the internal alignment according to the strategic business segments. The information presented represents the information to be reported to the Executive Board in accordance with the management approach. While the allocation of activities to the previous segments remained unchanged in the reporting year, a new segment titled "Core Portfolio" has been added. Thus, the Group is now divided into the business segments of Investments, Asset Management, Core Portfolio, and Central Functions. As of the reporting year, segment information is provided on a net amount basis, net of the consolidation effects. The previous year's figures were adjusted accordingly.

The Investments segment contains all information relating to non-current assets and also includes the activities of the respective project holdings. The Asset Management segment represents the asset management activities and the co-proprietor's building schemes and participation schemes contained in the previous year. The Central Functions segment mainly contains DEMIRE Deutsche Mittelstand Real Estate AG's activities in its function as the Group holding, which does not represent an independent segment. The new Core Portfolio segment includes domestic subsidiaries focussed on commercial real estate in Germany which were founded in the course of reporting year.

Thus, DEMIRE's strategic orientation towards German commercial real estate is reflected in the Central Functions and Core Portfolio segments. Accordingly, these segments' revenues and EBIT provide the key financial performance indicators for the future development of the Group's results of operations.

An overview of the DEMIRE portfolio

Company	Project	Country	DEMIRE's interest (in %)	Carrying amount 2013 (in EURk)	Carrying amount 2014 (in EURk)	Change in carrying amount (in %)
DEMIRE Real Estate München I GmbH	Ohmstraße	DE	100.0	--	13,500	--
Munich ASSET Vermögensverwaltung GmbH	Hoferstraße	DE	100.0	--	7,026	--
R Quadrat Bulgaria EOOD	Pancharevo	BG	99.6	350	340	–2.9
Erste MAGNAT Immobiliengesellschaft mbH	A&T	DE	99.6	2,657	2,536	–4.6
Squadra Immobilien GmbH & Co. KGaA	SQUADRA	DE	24.8	741	1,718	131.8
Irao Magnat Digomi LLC	Digomi	GE	74.7	821	821	0.0
R-Quadrat Polska Alpha Sp. z.o.o.	Nasze Katy	PL	50.0	0	0	0.0
SC Victory International Consulting S.r.l.	Vacaresti	RO	99.6	1,200	1,200	0.0
Russian Land AG	Russian Land	RU	40.3	367	23	–93.7
Hekuba S.à.r.l.	YKB	TR	32.4	3,533	3,533	0.0
Carmen Trading Ltd.	Peremogi	UA	59.8	5,292	2,823	–46.7
Kappatrade Ltd.	Koncha Zaspa	UA	99.6	1,914	1,716	–10.3
Polartrade Ltd.	Alexanderland	UA	99.6	481	420	–12.7
R-QUADRAT Ukraine Gamma Ltd.	Vitaly	UA	100.0	270	270	0.0
Zetatrade Ltd.	Chmelnitzkij	UA	100.0	1,500	750	–50.0

In the past fiscal year, DEMIRE and the respective project companies commissioned expert opinions once again to determine the market values for a majority of the portfolio in Eastern Europe and the Black Sea region and for the German properties.

Selected information for the Investments segment

in EURk	2013/2014	2012/2013
Segment revenues	1,096	3,948
Segment expenses	–4,874	–6,871
Segment profit/loss before interest and taxes	**–3,778**	**–2,923**
Impairment losses included in net profit/loss for the period	**3,027**	**4,105**
Total assets	**20,151**	**24,415**
As a percentage of the Group	42%	78%
Total liabilities	**10,449**	**9,538**
As a percentage of the Group	26%	56%

The segment revenue of the Investments segment totalled EUR 1.1 million in the reporting year after amounting to EUR 3.9 million in the previous year. This decline was primarily the result of revenues from the sale of real estate companies which totalled EUR 0.3 million in the reporting year after a total of EUR 2.8 million was generated in the previous year. In addition, the profit/loss from investments accounted for using the equity method declined to EUR 0.0 million (EURk 23) after EUR 0.4 million in the previous year. Other income remained unchanged at EUR 0.7 million.

Segment expenses declined to EUR 4.9 million in the reporting year after EUR 6.9 million in the previous year. This figure is comprised mainly of an impairment of EUR 1.1 million taken on real estate inventory after a total of EUR 1.5 million taken in the prior year. In addition, expenses for allocated administrative costs, other operating expenses, and operating expenses for the generation of rental income – insofar as they relate to the segment's allocated properties – amounted to EUR 2.0 million after EUR 1.9 million in the previous year. The previous year's figure included management fees charged by the Central Function segment of EUR 0.8 million, which had been consolidated on the Group level. Losses from investments accounted for using the equity method amounted to EUR 1.7 million after EUR 1.7 million in the previous year.

Segment profit/loss before interest and taxes (EBIT) amounted to EUR –3.8 million after EUR 2.9 million in the previous year. The total impairment loss in the Investments segment amounted to EUR 3.0 million after EUR 4.1 million in the previous year.

Including allocated interest income and expenses and income taxes, the Investment segments profit/loss for the period of EUR –4.6 million remained below the previous year's figure of EUR –2.5 million.

Segment revenues of the Asset Management segment declined to EUR 0.7 million after EUR 1.6 million in the previous year. This reflects a continued reduction in our activities in this area for third parties. At the same time, segment expenses dropped to EUR 1.4 million after EUR 2.8 million in the previous year. Contributing to this decline were expenses of EUR 0.7 million that were incurred in the previous year after the sale of real estate allocated to this segment. This compared to a total of net assets of real estate companies sold of only EUR 0.2 million.

Segment expenses were largely burdened by administrative expenses of EUR 1.0 million. Accordingly, EBIT amounted to EUR –0.7 million after EUR –1.2 million in the previous year. After interest and taxes, net profit/loss for the period totalled EUR –0.7 million after EUR –1.3 million in the previous year.

The Central Functions segment is comprised mainly of the activities of DEMIRE Deutsche Mittelstand Real Estate AG in its function as a holding company. Thus, this segment generated only a small amount of revenue in the reporting year. In addition, management fees in the amount of EUR 0.8 million charged to the Investments segment in the previous year were no longer reported since segment information is now presented on a net amount basis. Therefore, revenue only include other income, which totalled EUR 0.5 million after amounting to EUR 0.1 million in the previous year.

As in the previous year, segment expenses in the reporting year solely related to other expenses. These expenses rose to EUR 4.4 million in the course of the Group's repositioning after EUR 1.9 million in the previous year. Accordingly, the EBIT of the Central Functions segment amounted to EUR –3.8 million after EUR –1.7 million. Nevertheless, the segment's profit/loss for the period amounted to EUR –2.4 million and was almost at the previous year's level of EUR –2.1 million. This was due to a EUR 0.4 million gain from the fair value valuation adjustment of convertible bonds on the balance sheet date. In addition, income tax expenses of EUR 0.9 million incurred in the Core Portfolio segment were offset with corresponding benefits in the same amount in the Central Functions segment.

In the first year of their commencement of operations, the activities of the new Core Portfolio segment have made a substantially positive contribution to the development of the DEMIRE Group. Segment revenues totalled EUR 3.2 million and consisted of a relatively low level of revenues of just EUR 0.3 million due to the short holding period of the newly acquired property and a fair value adjustment of EUR 2.9 million. Expenses to generate rental income amounted to EUR 0.5 million and related entirely to other expenses. Accordingly, an EBIT of EUR 2.7 million was achieved. After interest and taxes, the segment recorded a positive net profit for the period of EUR 1.7 million.

3.3. Financial position and liquidity

The financial management of the DEMIRE Group is executed in accordance with the guidelines adopted by the Executive Board. This applies to the control of funds and financing. The centralised liquidity analysis helps to optimise cash flows. The primary objective is to ensure liquidity for the overall Group. Providing the Supervisory Board with regular information on the financial situation is an integral part of DEMIRE's risk management system. The principles and objectives of capital management and control are presented in the notes to the consolidated financial statements.

Selected information from the consolidated statement of cash flows

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Cash flow from operating activities	–1,900	–1,181
Cash flow from investing activities	–18,715	1,327
Cash flow from investing activities	22,239	–1,394
Net change in cash and cash equivalents	**1,624**	**–1,247**
Cash and cash equivalents at the end of the period	3,955	2,333

Cash flow from operating activities declined from EUR –1.2 million in the previous year to EUR –1.9 million in the reporting year. Based on a consolidated profit/loss before tax of EUR –5.7 million the decline in the operating cash flow resulted primarily from the EUR 1.6 million change in trade receivables and other receivables and from the EUR 3.2 million change in trade payables and other liabilities. This stood in contrast to a change in financial receivables and other financial assets in the amount of EUR –0.8 million.

Cash flow from investing activities in the reporting period amounted to EUR –18.7 million after EUR 1.3 million in the previous year and included mainly the payments for the acquisition of two real estate projects in Munich. In this context, the cash flow from financing activities increased due to new borrowings and the issuance of a convertible bond. Thus, cash flow from financing activities after issuance and repayment of debt and interest paid amounted to EUR 22.2 million after EUR –1.4 million in the previous year.

With cash and cash equivalents of EUR 4.0 million at the end of the period and a total of EUR 2.3 million at the start of the period, the net change in cash and cash equivalents amounted to EUR 1.6 million after EUR –1.2 million in the same period of the previous year.

Throughout the entire year, the DEMIRE Group was always in a position to fully meet its payment obligations. Possible liquidity shortages due to maturing loans were avoided through the appropriate lender agreements as presented in the risk report.

3.4. Net assets and capital structure

Selected information from the consolidated balance sheet

in EURk	31/03/2014	31/03/2013
Non-current assets	**29,895**	**9,155**
thereof investment properties	20,526	0
thereof investments accounted for using the equity method	4,694	6,644
Current assets	**14,702**	**18,185**
thereof real estate inventory	7,784	10,174
thereof cash and cash equivalents	3,955	2,333
Investments accounted for using the equity method, available for sale	**3,803**	**3,803**
Shareholders' equity	**7,702**	**14,252**
Equity ratio in percent	15.9	45.8
Non-current liabilities	**25,857**	**9,205**
thereof financial debt	24,646	9,159
Current liabilities	**14,841**	**7,685**
thereof financial debt	9,779	5,041
Total assets	**48,400**	**31,143**

The total assets of the DEMIRE Group as at the March 31, 2014 balance sheet date increased significantly by 55% to EUR 48.4 million owing to the strategic acquisition of two commercial properties. As a result, investment properties – reported under non-current assets on the assets side of the balance – increased to EUR 20.5 million (previous year: EUR 0.0 million). Interests in investments accounted for using the equity method decreased from EUR 6.6 million in the previous year to EUR 4.7 million. This item was affected by an impairment of Ukrainian property and currency translation effects resulting to be recognised directly in equity from the decline in the Ukrainian currency.

On the other hand, we recorded an increase in other financial assets from EUR 0.0 million to EUR 0.7 million as well as an increase to EUR 2.5 million in loans to investments accounted for using the equity method after EUR 2.1 million in the previous year. The increase in other financial assets was due to higher non-current input-tax receivables and loans to investments accounted for using the equity method related mainly to various loans to OXELTON ENTERPRISES Limited.

Among current assets, real estate inventory declined from EUR 10.2 million to EUR 7.8 million as at 31 March 2014 following the sale of the remaining co-proprietors' building schemes in Vienna at the beginning of the reporting year. Trade receivables and other receivables were reduced to a significant extent, namely by about half, from EUR 3.4 million in the previous year to EUR 1.7 million at the end of the reporting year. Impairment losses remained unchanged compared to the previous year. The reduction from EUR 2.2 million to EUR 1.1 million in financial receivables and other financial assets resulted from an additional allowance of EUR 1.0 million in the reporting year. Cash and cash equivalents as of the balance sheet date rose to EUR 4.0 million after EUR 2.3 million. As in the previous year, investments accounted for using the equity method, available for sale totalled EUR 3.8 million. This amount includes the interest in the company holding DEMIRE's investments in Turkey. This interest was sold after the end of the reporting period (see section titled "Significant events subsequent to the end of the fiscal year").

On the liability side of the balance sheet, shareholders' equity decreased from a level of EUR 14.3 million at the end of the previous fiscal year to EUR 7.7 million due to the loss for the period and due to losses from currency translation directly recognised in equity. This corresponds to an equity ratio of 15.9% after a ratio of 45.8% in the previous year. Non-current financial debt rose significantly from EUR 9.2 million to EUR 24.6 million after the issuance of a convertible bond and following the assumption of loans to finance two newly acquired commercial properties. This amount includes a new loan in the amount of EUR 8.2 million (fixed interest and maturing in December 2016) taken for the Munich properties and a further loan for these properties of EUR 5 million (floating rate and maturing in August 2018). In addition, a convertible bond was issued, of which EUR 10.9 million was classified as debt. The bond carries a fixed interest coupon of 6.0% p.a. and is due for repayment in December 2018 provided no use is made of the conversion rights. The detailed arrangements are explained in the notes.

A total of EUR 1.3 million in current liabilities were reclassified from provisions to trade payables (change in presentation under IAS 1, prior year adjusted accordingly). The latter increased beyond this reclassification due to a purchase price liability for an investment property amounting to EUR 1.9 million and rose from EUR 1.1 million in the previous year to EUR 4.3 million in the fiscal year.

The increase in current financial debt from EUR 5.0 million in the previous year to EUR 9.8 million was primarily due to the initial recognition of an annuity loan (fixed interest, maturing on June 30, 2014) as well as a mezzanine loan. The mezzanine loan is secured and has a fixed interest rate. The collateral pledged can be utilised with an agreed repayment by DEMIRE in case of a default in payment. This will be the case at the end of July 5, 2015. With this loan, a one-year extension in the repayment period was agreed after the end of the reporting year. Both, non-current and current financial debt is denominated exclusively in euros and poses no currency risk.

Tax-loss carryforwards led to date-related deferred tax assets in the amount of EUR 0.9 million, which were offset by deferred tax liabilities in the amount of EUR 1.2 million. The latter resulted mainly from a fair value adjustment to property in Munich acquired during the reporting year.

The net asset value (NAV) calculated according to EPRA requirements decreased from EUR 14.3 million in the previous year to EUR 7.7 million as at March 31, 2014 due primarily to the aforementioned decline in equity. Based on 13.89 million shares outstanding, this is equivalent to a NAV of EUR 0.56 per share (previous year: EUR 1.04).

4. EMPLOYEES

With the closure of our office in Vienna and the concentration of all our activities at our German location, the number of permanent employees (excluding Executive Directors) declined to 4 employees as at the reporting date (previous year: 17).

5. COMPARISON OF FORECASTS WITH ACTUAL BUSINESS DEVELOPMENT

We fully achieved our forecasts and objectives for fiscal year 2013/2014.

A central and overriding objective was to secure liquidity. This objective was successfully achieved. The consistent reduction in operating expenses made a visible contribution, particularly when looking at the significant reduction in the number of employees from 17 in the prior year to 4 in fiscal year 2013/2014. General and administrative expenses and other operating expenses, however, were still influenced by the Group's realignment and restructuring and by additional costs for the convertible bond issue causing these two positions to increase compared to the prior year.

The placement of a convertible bond in the amount of EUR 11.3 million has not only helped to secure liquidity, but has also created the basis for the first acquisitions in line with DEMIRE's new strategy. We entered into our first new investment already in the second half of fiscal year 2013/2014, which was sooner than expected. Total cash and cash equivalents saw an overall rise from EUR 2.3 million on March 31, 2013 to EUR 4.0 million as at the reporting date.

One of the two new properties in Munich has already generated rental income of EUR 0.3 million in a period of just three months. Here our progress has been quicker than originally expected. Due to the expenses for the Group's realignment, the loss for the period was EUR –6.0 million or near the level of the previous fiscal year (EUR –5.9 million), and thus was in line with our expectation of another negative result.

With regard to the sale of our previous investments in Eastern Europe and the Black Sea region, we were able to initiate some important developments. However, since we are still not willing to resort to fire sales, and because of the continued difficult and significantly deteriorating market conditions in these countries – especially in the Ukraine – we were only able to complete the sale of our 32.44% interest in the Luxembourg investment company after the end of the reporting year. This investment company holds the properties in Turkey.

6. GENERAL STATEMENT CONCERNING THE GROUP'S BUSINESS PERFORMANCE AND FINANCIAL POSITION

Since the beginning of the Group's repositioning in the German commercial real estate market in the spring of 2013, we have achieved some important milestones: the stabilisation of the Group was successful; liquidity was secured throughout the entire reporting year; we have started to build an attractive portfolio; the commercial real estate rental income from one of the two acquisitions in the reporting year is already contributing positively to Group earnings. We will take another major step in the Company's development with the purchase of a total of seven commercial properties in several large German cities, which was already announced after the end of the reporting year. This transaction is expected to be completed in the third quarter of 2014.

We must still navigate a challenging road ahead in order to steer the DEMIRE Group into calmer waters. Thus, our current portfolio in Germany is still not large enough to support the current costs of the Group. In addition, further impairments, particularly of the previous investments in Eastern Europe and in the Black Sea region, cannot be ruled out and would depress the equity position of the Group. Nevertheless, we are confident that we have taken all of the necessary measures conceivable today and have initiated an entire range of important developments to lead the DEMIRE Group to a successful future.

III. Remuneration report

The following remuneration report summarises the basic principles of the Executive Board and Supervisory Board remuneration systems:

1. REMUNERATION OF THE EXECUTIVE BOARD

The Supervisory Board determines the appropriate remuneration for the Executive Board. The criteria for the appropriateness of the total remuneration are based on the responsibilities and performance of the Executive Board member, the position of the Company, as well as the sustainability of the Company's development. Overall remuneration may not exceed the usual remuneration without specific reasons. Here, the Supervisory Board takes into consideration the relationship between the remuneration of Executive Board members and the remuneration of senior management and the overall workforce, and also the development over time. The Supervisory Board establishes the definition of who is to be included in the categories of senior management and relevant workforce. The total remuneration of Executive Board members consists primarily of a fixed level of remuneration as well as a variable remuneration component with a short-term incentive component (performance bonus). The variable remuneration of Executive Board members is divided into a bonus for the past fiscal year as well as a bonus measured on multi-year factors.

Existing employment contracts
The fixed component of remuneration is paid out monthly in the form of a basic salary. The Executive Board member has a fixed-term employment contract.

Hon. Prof. Andreas Steyer is entitled to the customary contractual benefits in kind and fringe benefits. These include the provision of a company vehicle, the reimbursement of expenses and travel costs, the conclusion of a directors' and officers' liability insurance policy (D&O insurance), and continued payments in the case of illness or an accident, and death benefits.

Hon. Prof. Andreas Steyer receives a variable, performance-based remuneration which consists of an annual bonus and a multi-year bonus with long-term incentives. Annual bonus and multi-year bonus are determined based on the achievement of objectives which are set by the Supervisory Board in agreement with the Executive Board member. The Supervisory Board takes the Group's position at the beginning of each fiscal year into consideration when setting the objectives to be achieved for receiving the annual bonus. For the past fiscal year, the Executive Board member was guaranteed a third of the achievable annual bonus regardless of the degree to which targets have been met as the Group's success was primarily influenced by external factors which were beyond the control of the management.

Hon.-Prof. Andreas Steyer has a time-based pro rata entitlement to a multi-year bonus if the performance period for the determination of the multi-year bonus has persisted for twenty-four months.

If the employment contract of Hon.-Prof. Andreas Steyer is ended prematurely due to a change in control, the Executive Board member is entitled to the fixed salary and variable remuneration for the remaining term of his appointment, each based on the amount of his remuneration in the last full calendar year preceding his departure.

The variable and fixed components of the remuneration of Executive Board members have maximum limits in terms of absolute value. A higher compensation than the amount of remuneration expected for the remaining term of the employment contract will not be granted.

Employment contract of Dr. Lube

Dr. Marc-Milo Lube resigned as a member of the Executive Board effective April 19, 2013. According to his employment contract, Dr. Lube was entitled to the customary benefits in kind/fringe benefits. These benefits included the provision of a company vehicle, the conclusion of a directors' and officers' liability insurance policy (D&O insurance), accident insurance, the reimbursement of expenses and other costs as well as travel costs, and the supplementation of health and long-term care insurance policies. The variable and fixed remuneration of the employment contract have maximum limits in terms of absolute value.

Employment contract of Mr. Faè

Mr. Jürgen Faè resigned as a member of the Executive Board effective November 30, 2013. According to his employment contract, Mr. Faè was entitled to the customary benefits in kind/fringe benefits. These benefits included the provision of a company vehicle, the conclusion of a directors' and officers' liability insurance policy (D&O insurance), accident insurance, the supplementation of health and long-term care insurance policies, the reimbursement of expenses and other costs as well as travel costs, reimbursement of business travel and an annual medical examination. The variable and fixed remuneration of the employment contract have maximum limits in terms of absolute value.

2. COMPENSATION OF THE SUPERVISORY BOARD

The amount of remuneration received by the Supervisory Board is determined by the Annual General Meeting and is regulated in Section 16 ("Remuneration") of the Articles of Association. The most re-cent resolution on remuneration remains valid until the Annual General Meeting resolves a change in remuneration. Each member of the Supervisory Board receives fixed remuneration which is payable annually. The Chairman of the Supervisory Board receives three times the amount of base salary and the Deputy Chairman receives twice the amount of base salary. Supervisory Board members who were not members of the Supervisory Board for the entire fiscal year receive remuneration in accordance with the duration of their membership in the Supervisory Board.

In addition, the Company shall reimburse those Supervisory Board members who had incurred expenses in the exercise of their Supervisory Board mandate, including the VAT payable on their remuneration and expenses as long as this was billed separately.

At this point, we would like to refer to the corresponding explanations to be found in the Notes to the Consolidated Financial Statements.

IV. Changes in the composition of the governing bodies

On April 17, 2013 the District Court of Frankfurt/Main, appointed Prof. Dr. Hermann Anton Wagner as a new member of the Supervisory Board at the request of the Executive Board and to ensure the quorum of the Supervisory Board.

With effect from April 19, 2013 Dr. Marc-Milo Lube retired from the Company by mutual agreement to pursue new professional challenges after many successful years as Executive Board member. The Supervisory Board would like to thank Dr. Lube for his long-standing commitment to the Company and wish him well in his future endeavours.

At the Supervisory Board meeting on May 16, 2013 Hon.-Prof. Andreas Steyer was appointed as the Company's new Speaker of the Executive Board (CEO) with immediate effect.

The extraordinary Annual General Meeting on June 27, 2013 approved the proposal of the Executive Board and Supervisory Board and decided to reduce the number of Supervisory Board members elected by the Annual General Meeting from six to three. In addition, Prof. Dr. Hermann Anton Wagner was elected to the Supervisory Board by the extraordinary Annual General Meeting until the end of the Annual General Meeting that will resolve on the discharge for the fiscal year ended March 31, 2016. He was previously appointed by the District Court Frankfurt/Main at the request of the Executive Board as an additional member of the Supervisory Board of the Company by order of April 17, 2013.

Upon the conclusion of the Annual General Meeting on October 23, 2013 Prof. Dr. Werner Schaffer and Dr. Carsten Strohdeicher resigned from their offices as members of the Supervisory Board. The Executive Board is grateful for the many years of successful collaboration. A special thanks goes to Prof. Dr. Werner Schaffer for his leadership of the Board. Mr. Günther Walcher and Dr. Dirk Hoffmann were elected as new members of the Supervisory Board on the proposal of the Supervisory Board. Their terms of office will expire at the end of the Annual General Meeting that decides the discharge of the Supervisory Board members for the fiscal year ended March 31, 2016.

After many years of serving on the Executive Board, Mr. Jürgen Georg Faè resigned from the company by mutual agreement with effect from December 4, 2013 in order to pursue new professional challenges. The Supervisory Board thanks Mr. Faè for his important contributions to the Company and for his trust and wishes him all the best in his future endeavours. The duties of Mr. Faè were assumed by Hon.-Prof. Andreas Steyer.

V. Significant events subsequent to the end of the fiscal year

Between April 2014 and the date of the preparation of the financial statements, a total of EUR 184,000 in convertible bonds were converted into no-par value shares of DEMIRE Deutsche Mittelstand Real Estate AG with a notional interest in the share capital of 1.32%.

In May 2014, the Company's Supervisory Board approved the purchase of a real estate portfolio priced in mid double-digit EUR millions. The portfolio includes seven commercial properties with a total area of approximately 40,000 m² that at almost full occupancy generates annual actual net rental income (excluding ancillary costs) of EUR 4.4 million. This transaction is expected to be completed in the third quarter of 2014.

In June 2014, the Group successfully concluded its investment in Turkey and sold its 32.44% interest in the Luxembourg investment company holding the property in Turkey at a price of EUR 3.7 million.

The term of the loan from DKB amounting to EURk 3,274 was extended until September 30, 2014. The company expects to sell the loan's underlying portfolio or part of the portfolio or to extend the loan's maturity. The corresponding discussions with the bank are being conducted.

To finance further acquisitions, the Company is currently reviewing various financing options, including borrowing possibilities offered in the debt area, as well as examining options to issue equity-like instruments.

VI. Report on opportunities, risks, and outlook

1. OPPORTUNITIES REPORT

The macroeconomic and industry environment is currently favourable for DEMIRE and offers great opportunities for developing a value-creating property portfolio: Germany is exhibiting robust and sound economic development. As a result, the demand for commercial space in the areas we address remains stable. At the same time, the financing opportunities available for property acquisitions continue to be favourable and we expect it to remain so in the foreseeable future. Finally, there are still attractive entry-level prices allowing for substantial value appreciation following the careful and professional selection of properties.

We want to utilise this favourable environment to position the DEMIRE Group in Germany. We see significant opportunities therein to quickly propel the Group into a new dimension through portfolio purchases and to increase value with these real estate holdings via active and consistent asset and portfolio management.

We are convinced that within a few years we will be able to build a highly-focused and profitable portfolio of German commercial real estate possessing an attractive risk-reward profile and well-balanced cash flows. This is how we aim to strengthen DEMIRE's equity base. In the medium term, this will provide our shareholders not only the prospect of appreciation in the share price, but also an owner of a company which distributes dividends regularly.

2. RISK REPORT

The DEMIRE Group was able to improve its risk profile in the reporting year by acquiring two commercial properties in Germany in the course of the realignment. Nevertheless, we still encounter higher-than-average risk from our remaining portfolio in Eastern Europe and the Black Sea region. In these regions, disposals at suitable conditions are hindered, in particular, by the bleak economic situation, political unrest in the Ukraine, and the continued reluctance of foreign investors. Until the complete sale of the real estate projects in Eastern Europe and the Black Sea region, the risks associated with these projects will continue to exist.

However, the focus on the German commercial real estate market is gaining ground. For example, at the time of preparing this report, we were able to announce our decision to purchase another property portfolio in Germany, consisting of seven commercial properties and a total area of 40,000 m². The Company's Supervisory Board approved the transaction, which is expected to be completed in the third quarter of 2014. Upon its completion, the Company's risk profile will be even more influenced by the economic conditions in Germany.

Our strategy to continue expanding in the German commercial real estate market contributes significantly to limiting the risk to the DEMIRE Group's ongoing development. As explained in the chapter titled "Objectives and Strategies", we strive to achieve a balanced opportunity and risk profile, focus on properties that generate positive cash flows from the start, and create additional value through active asset and portfolio management.

2.1. Risk management system

The focus of risk management is still on securing the Group's realignment. Next to securing liquidity, the central task includes identifying and reducing the risk in the course of disposing of the remaining portfolio and identifying and utilising the opportunities in this process. Risk management also includes the management of existing investments, the evaluation of new investments in Germany, and the provision of the necessary funding.

The identification of risks is an ongoing task of the management, which in turn is supported by qualified external service providers. To facilitate this, jours fixes, controlling meetings, property discussions, and individual meetings are conducted regularly. Due to the flat organisational structure of the DEMIRE Group, the Executive Board is directly involved in all major decisions. It also monitors that the measures adopted for risk mitigation are both implemented and observed. The flat hierarchy allows for a risk management system with comparatively easy and less complex structures. The entire risk management process is defined in a risk management manual, which is regularly reviewed and revised as appropriate. Risk management is applied throughout the Group.

The Supervisory Board is regularly informed of any business developments and on the progress of investments as well as on the status of the risk management system and its development. In this case, the control activities of the Supervisory Board are an essential element of the risk management system. Thus, in the course of the reporting year, the Executive Board's rules of procedure were revised with particular attention being paid to the limits for transactions requiring approval.

2.2. Risks

The following section provides an overview of the key risks for the DEMIRE Group. The sequence of the risk categories – macroeconomic risks, market and sector risks, financial risks, operational and other risks – as well as the order within these categories, are in line, in descending order, with our current assessment of the relative magnitude of risk for DEMIRE. We base this assessment on a net perspective, i.e., after the implementation of risk-mitigating measures.

2.2.1. Macroeconomic, market, and sector risks

The portfolio of the DEMIRE Group is exposed to very different macroeconomic, market, and sector-related risks. In terms of the Group's previous commitments in Eastern Europe and the Black Sea region, the risks remain high in a majority of the countries and in the Ukraine they have risen even higher. A solution to the Ukraine crisis and a calming of the geopolitical situation are not foreseeable. This spreads to the other countries in the region. Rising capital inflows from abroad would be almost indispensable in order to stimulate the local real estate markets, however, in view of the current situation and the high risk aversion of investors, these flows can hardly be expected.

Thus, it will continue to be very difficult to execute transactions in these countries in the near future. In this environment, local market risks for this portion of the DEMIRE Group property portfolio are still seen as significant. Selling portfolio projects remains very challenging. At the time of sale, the prices achievable could fall below the respective carrying amounts. It is currently believed that the risks are already reflected in the valuations of the properties. This is evident at our properties in the Ukraine, where impairment in the reporting year, mainly due to the political situation, led to a decline in the carrying amounts from EUR 9.5 million in the previous year to EUR 6.0 million which at the same time essentially represents the level of risk for the Group.

In relation to the Group's portfolio of German commercial real estate, the risks are much lower. In addition, the inflow of funds from international investors depends on the relative attractiveness of Germany as a location, which is strongly characterised by the local legal and tax conditions. In the past, the German market often experienced significant fluctuations. Since the DEMIRE Group is concentrated on the German market, the risk cannot be offset by other regional real estate markets. Furthermore, DEMIRE's German portfolio is still rather small, so even local factors can have a disproportionately positive or negative affect. However, the macroeconomic environment, interest rates, and generally upbeat corporate expectations indicate a generally positive mood of the German market.

2.2.2. Financial risks

2.2.2.1. Liquidity risks

We are in the process of fundamentally realigning the DEMIRE Group – previous investments are being sold and at the same time a new portfolio is being constructed. This realignment is accompanied by higher liquidity risk. Proceeds from the sale of projects in Eastern Europe and the Black Sea region are not predictable and therefore cannot be included in our projections. At the moment, our new portfolio in Germany does not have a high enough volume to support the current costs of the Group.

Therefore, careful control of liquidity aimed at ensuring the Group's liquidity at all times is still one of the Executive Board's central tasks. Based on conservative assumptions, the necessary funds are budgeted and administered, especially for the Group's operational management.

During the past fiscal year, we have been able to significantly reduce our liquidity risk. The placement of convertible bonds and the acquisition of two real estate projects in Munich as well as the purchase of a real estate portfolio following the end of the fiscal year have all contributed. After the completion of this transaction, DEMIRE will receive recurring rental income of approximately EUR 6 million p.a. for the first time in the Company's history.

During the reporting year, we had sufficient access to debt financing in order to fund the targeted expansion in its entirety. In December 2013 and January 2014 our convertible bond was fully placed. This strong signal of confidence on the part of the subscribers along with the clearly foreseeable positive cash flow of our properties formed the basis for assuming the loans to finance their acquisition. After the end of the fiscal year, a mezzanine loan in the amount of approximately EUR 6.1 million, which was due in July 2014, was extended a further 12 months including partial repayments. This allowed for a significant reduction in the mezzanine loan's interest rate. The necessary liquidity has been and will continue to be generated from sales. An annuity loan in the amount of approximately EUR 3.3 million, which was due in June 2014, has been extended until September 2014. Thus, the Company's continued existence is not jeopardised.

Events that lie outside of DEMIRE's influence may result in additional liquidity requirements, particularly as a result of the operational and other risks listed below.

2.2.2.2. Currency risks

There are no foreign exchange risks for the German commercial real estate portfolio currently under construction, since all transactions are conducted in euros.

There will continue to be currency translation risks for the investments previously made outside of Germany until the complete disposal of these investments. In the case of the subsidiaries in the Ukraine, for which the euro was defined as the functional currency in the reporting year, potential currency risks arise only when these investments are sold.

To the extent possible and feasible, projects in Eastern Europe and the Black Sea region were concluded in a currency-congruent manner. A hedge of the remaining exchange rate risk, which is essentially limited to the equity invested and profit potential, was often carried out on only a partial basis due to the lack of suitable hedging instruments.

Generally, preference was given to hedging on an aggregated basis rather than on the basis of individual project-related risks. Here, a hedge was considered only when certain fluctuation ranges were exceeded and only for certain currencies and only to hedge equity (not potential profits). In summary, the management of currency risks was designed to accept this within certain ranges. The currency hedging strategy was and is set in close consultation with the Supervisory Board.

2.2.2.3. Interest rate risks

DEMIRE Group uses debt to finance German commercial real estate investments to the extent typical of this sector. This includes both loans with variable and fixed interest rates as well as capital market-related instruments containing an option to convert into shares of the Company. For loans with variable interest rates, rising interest rates place a higher burden on the Group. As at the balance sheet date, there were approximately EUR 5 million in variable interest rate loans and the remaining debt of around EUR 19.6 million had fixed interest rates.

The remaining investments in Eastern Europe and the Black Sea region are financed to a large extent with equity, since borrowing in these regions is considered a secondary option due to the lack of available funding. To the degree that these investments were financed with debt, this financing is recorded at the project level. An evaluation of the interest rate policy is carried out at regular intervals and in close consultation with the Supervisory Board.

2.2.3. Operating risks

The operational risks of investing in German commercial real estate differ fundamentally from those of the remaining projects in Eastern Europe and the Black Sea region. The former exhibit classic rental risks and valuation risks tend to be lower due to the currently favourable market conditions. In Eastern Europe and the Black Sea region, however, the development of the investments no longer takes place. The current liquidity position and liquidity planning of the project companies are created regularly and in a timely manner. Financial stability is monitored using this centralised process. Thus, valuation risks, disposal risks, and long-term liquidity risks are in the foreground.

2.2.3.1. Rental risks

Rental risks can generally arise in relation to the German commercial properties. In particular, high vacancy rates or the loss or reduction of rental income can lead to loss of revenue and additional costs that cannot be passed on to tenants. To counter these risks, DEMIRE takes a multi-tenant approach, i.e., we prefer to invest in real estate used by multiple tenants. This means, at the termination of a lease, it is still possible to generate cash flows through the remaining tenants. When an investment with a single-tenant is entered into, a long lease term is the criterion for the decision. Furthermore, all expiring leases in the portfolio are monitored to ensure a balance of lease expirations across all projects. Another criterion is a “good” to “very good” credit rating of the tenants. This is routinely checked before acquiring or re-letting a property. The active management of receivables to facilitate regular payments ensures that rental losses are identified early on so that measures can be promptly taken.

Furthermore, the focus of the Group is on a continuous reduction in vacancies via active asset management, whereby vacancy costs can be reduced and rents and the corresponding potential value can be raised. At the time of preparing this report, there were no material rental risks affecting the profitability of the Group in the current fiscal year 2014/2015.

2.2.3.2. Valuation risks

The real estate values reported in the consolidated financial statements are based on appraisals done at least once a year by independent and acknowledged experts. Various factors play a role in these expert reports: local conditions, such as a country’s economic and political development, the development of rents and vacancy rates, and qualitative factors, such as location and the state of the property being reviewed. An expert report may result in adjustments to the carrying amounts which may affect Group earnings. A direct effect on the Group’s liquidity, however, does not occur.

Currently, our German property portfolio does not contain any valuation risk. This is due to the comparatively short period of time that they have been a part of our portfolio. In making acquisition decisions, we carried out a comprehensive due diligence and a detailed analysis of the property, micro-location, tenants, and other factors. We also work hard to increase the value of these properties through active asset management and targeted maintenance activities.

In the remaining portfolios in Eastern Europe and the Black Sea region, the valuation risks due to the difficult economic and political situation in these countries are generally higher than the valuation risks for our German investments.

In recent years, we have made extensive adjustments to the carrying amounts in our balance sheet. However, due to the very difficult situation in Ukraine, further impairments were necessary which subsequently burdened the Group's earnings. In addition, the decline in the local currency resulted in further impairments to investments accounted for using the equity method that have affected the Group's equity. The losses from unrealised fair value adjustments in real estate inventory declined to EUR 1.1 million after EUR 1.5 million in the previous year. The losses were related to our properties in the Ukraine and in Romania. We believe that we have taken all identifiable risks into full account.

2.2.4. Other risks

2.2.4.1. Legal risks

While in the past DEMIRE was predominantly involved in countries with less developed and less stable legal systems compared to Germany, as the investments in Eastern Europe and the Black Sea region are sold the resulting risks will substantially decline. In these countries, the legal risks relate to jurisdiction in general as well as to de facto circumstances and business practices prevalent in property and land register law in particular. Hence, risks arise in particular with regard to the application and enforcement of existing laws and decrees. These risks are generally not avoidable and may pose a burden on the Company until it withdraws from its investment in these countries.

With regard to DEMIRE's future business model, the risks result primarily from any changes in the legal framework. However, changes in the commercial segment of the market are less frequent and less severe than in the housing segment where private tenants are the corresponding business partners. In addition, DEMIRE may have to pay for previously unrecognised contamination, environmental contaminants, or harmful building structures or be required to meet any unfulfilled legal construction requirements. Other legal risks can, in principle, arise from various conflicts, such as in rental or personnel matters. Currently, the probability is considered low that such conflicts will occur.

2.2.4.2. Personnel risks

The DEMIRE Group is leanly structured and will remain so in the future. Ongoing operational functions are also currently covered by external service providers, who are characterised, in part, by their long-standing business relationship, experience, and market success. The majority of monitoring activities, such as the commercial management, are the responsibility of internal executives. The current control of the remaining investments in Eastern Europe and the Black Sea region as well as the gradual rebuilding of a portfolio of commercial real estate is also well covered.

In the course of the Group's future expansion, it will be important to have additional employees and external service providers who have the necessary knowledge of the German market in order to sustainably establish the new business model. Due to the long-standing experience and excellent network of DEMIRE's management team in the German real estate market, we are confident that we can achieve this at the appropriate time and to the extent necessary. In early 2014, this was the manner in which we were able to fill a management position in the accounting department with experienced personnel.

2.2.4.3. IT risks

A loss of data or a longer period of a loss of DEMIRE's IT systems can lead to business disruptions and increased costs. An external service provider is responsible for the maintenance and further development of the IT infrastructure and for securing the IT-supported business processes, which includes the database. The service provider monitors the functionality of the IT systems, the timeliness of the programmes used to ward off malicious software safely, secures the Company's data in contractually agreed upon fixed intervals or more often if necessary. This is the way in which we effectively protect the system against a loss of date or prolonged outage.

2.3. Internal control and risk management system in the financial reporting process

The internal control and risk management system for the accounting and consolidation process is an essential component of the Group's risk management. It includes all accounting-related processes as well as all risks and controls with regard to accounting.

This system is aimed at achieving the following objectives:

» ensuring the efficiency of business activities and the protection of assets

» ensuring the accuracy and reliability of internal and external accounting

» compliance with the applicable legal regulations and the standard compliance of the consolidated financial statements and the combined management report

As the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG prepares the consolidated financial statements. Prior to this process, the accounting records and the preparation of the financial statements of the companies included in the consolidated financial statements are carried out primarily by specialised external service providers.

The required monthly evaluations and the prepared financial statements are fully and promptly communicated and monitored internally. Each process is based on a detailed time schedule. For the purposes of risk management, the plausibility, accuracy, and the completeness of the entries are monitored and reviewed by the Group's own employees. The employees involved in this process meet the quality requirements and are trained regularly. The four-eyes principle is also considered an essential control principle.

Additional key instruments for this purpose are:

» Uniform accounting principles through the selection of an external service provider for the majority of the Group's companies

» The clear separation of tasks and the allocation of responsibility between the internal and external areas concerned with the accounting process

» The involvement of external specialists when necessary, for example, in the valuation of properties

Together with our external service providers, new laws, accounting standards, and other official pronouncements are continuously analysed for their relevance and for their impact on the consolidated financial statements and the combined management report. If necessary, the accounting policies of the Group are adjusted accordingly.

To ensure the adequacy of the accounting and of the correct overall presentation of the financial statements, including the combined management report, the following measures and controls have been regularly implemented, evaluated, and developed in a structured process with our service providers:

» The identification and analysis of key risk and control areas

» The use of monitoring and plausibility checks to monitor the process and its results at the level of the Executive Board and the operational units

» The use of preventive control measures in finance and accounting as well as for the key operational business processes relevant for accounting

- The use of measures to ensure the orderly, complete, and timely computerised processing of accounting-related issues and data

- Measures for monitoring accounting-related internal controls and risk management systems and measures to remedy any control weaknesses

2.4. Summarised overview

The DEMIRE Group's risk situation and that of the Company have already been radically improved by the tremendous success in the implementation of the corporate strategy during the reporting year and thereafter. For one, the cost side was greatly relieved through the closure of our former office in Vienna and the associated downsizing. In addition, the two properties acquired in Munich in the reporting year strengthened the Group's profitability. With further portfolio purchases already announced (see "Significant events subsequent to the end of the fiscal year"), this development will continue to pick up significant momentum. And finally, at the same time, we have been able to reduce our liquidity risks.

Regardless of these developments, DEMIRE is still in an early phase of its realignment. The German commercial portfolio is still relatively small, making it difficult to compensate for any negative individual developments in other areas of the portfolio. Therefore, any currently unforeseeable, unanticipated events could lead to greater liquidity risk than at companies with a more broadly based portfolio.

The disposals targeted in Eastern Europe and the Black Sea region and the withdrawal from these countries will continue to be pursued intensively. This will not only bring a considerable improvement in the risk profile, but also substantially reduce the complexity of the Group. Until the complete disposal of all existing commitments, significant risks related to these investments will remain.

3. OUTLOOK

3.1. Expected earnings and financial situation

Fiscal year 2014/2015 will continue to be dominated by the repositioning of the Group, which we want to rapidly push ahead. This will include the gradual withdrawal from previous investments in Eastern Europe and in the Black Sea region. However, since we still do not want to consider resorting to a fire sale, we cannot estimate the time it will take to achieve the expected proceeds. Rather, we believe that at least the greater part of this real estate portfolio will remain with the DEMIRE Group in the forecasted reporting year. With regard to the financial needs of the portfolio, we do not expect to require any significant additional funds for maintaining the portfolio's current composition or for the preparation of disposals. Estimating the portfolio's profitability and thus the EBIT development of the Investments segment in fiscal 2014/2015, however, is fraught with a high degree of uncertainty, since a significant amount of the properties are located in the Ukraine and the future geopolitical development in this country is impossible to predict. Further impairments, which may impact the DEMIRE Group's equity position as a whole, cannot be excluded, even if we believe today that we have taken the necessary precautions.

In contrast, we expect our German commercial real estate portfolio to exhibit consistent growth. The two properties in Munich will contribute rental income for a full 12-month period and thus visibly strengthen the revenues of the Core Portfolio segment and the Group. The previously announced portfolio purchase is expected to close in the third quarter of 2014 and from that point on have a considerable positive effect on segment revenues.

Additional substantial property purchases are in preparation. Overall, we believe that our German portfolio will reach a volume of visibly more than EUR 100 million in the new fiscal year. This will represent the first stage in the rapid growth planned.

We expect our active asset management to lead to a slight increase in occupancy rates and visibly lower operating costs as early as in the current fiscal year. This should also lead to a sustainable value appreciation in the coming quarters which in turn is expected to have a positive impact on the profitability of the portfolio through fair value adjustments and disposals to optimise and focus the portfolio. Nevertheless, it is still unclear whether we will be able to implement the necessary measures in time for the planned value appreciation to occur in fiscal year 2014/2015 or whether these improvements will be achieved in the following fiscal year.

In addition, the development of the Group's expenses during the fiscal year just begun will be marked by additional burdens from funding our growth strategy since we do not generate enough cash flow internally for this purpose. Fundraising should take place shortly, especially with regard to debt. However, we will continue to review the option of issuing equity-like financing instruments.

Overall, we are aiming for a marked improvement in EBIT compared to the prior year to slightly positive EBIT for the Group in the fiscal year 2014/2015. Beyond the further expansion of the core portfolio, we expect income from rentals to rise significantly. The proceeds generated will contribute to achieving balanced cash flows for the Group. The goal is to reach the break-even point as quickly as possible, which in turn will significantly improve the return on equity and achieve a slightly positive return. Next, we are aiming at a slight improvement in net asset value. Above all, we want to take advantage of the current favourable market environment for the development of the Group. As such, our growth, measured by the volume of our German portfolio, is the short-term priority ahead achieving performance targets. Of course, this is to be achieved under the condition of ensuring constant sufficient liquidity.

VII. Disclosures required by takeover regulation

1. COMPOSITION OF SUBSCRIBED CAPITAL

The shares of DEMIRE Deutsche Mittelstand Real Estate AG are registered on the regulated market (General Standard) of the Frankfurt Stock Exchange. As at March 31, 2014, the Company had fully paid-in subscribed capital of EUR 13,894,651.00 which was divided into 13,894,651 no-par value bearer shares with a notional par value of EUR 1.00. Thereof, 5,000 shares are held by the Group.

2. RESTRICTIONS REGARDING VOTING RIGHTS OR THE TRANSFER OF SHARES

There are no restrictions concerning voting rights or the transfer of shares.

3. DIRECT OR INDIRECT INTERESTS IN THE COMPANY'S SHARE CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS

As at March 31, 2014 the following shareholders of DEMIRE Deutsche Mittelstand Real Estate AG held more than a 10% share of the voting rights of the Company:

» DeGeLog Deutsche Gewerbe-Logistik Holding GmbH, Berlin, 29.51%

As at March 31, 2014, the Company had no further notifications with regard to direct or indirect interests exceeding 10% of the voting rights.

4. HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

No such shares have been issued.

5. TYPE OF VOTING RIGHT CONTROL WHEN EMPLOYEES HOLD AN INTEREST IN SHARE CAPITAL AND DO NOT DIRECTLY EXERCISE THEIR CONTROLLING RIGHTS

No such interests exist.

6. STATUTORY REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING THE APPOINTMENT AND REMOVAL FROM OFFICE OF THE EXECUTIVE BOARD, AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

6.1. Executive Board appointments and dismissals

According to Section 84 AktG, members of the Executive Board are appointed by the Supervisory Board for a term of no longer than five years. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG consists of one or more persons. The number of Executive Board members is determined by the Supervisory Board. The Supervisory Board decides on the appointment of Executive Board members, the revocation of their appointment, as well as the conclusion, modification, and termination of the employment contracts concluded with Executive Board members. The Supervisory Board may appoint a chairman and deputy chairman of the Executive Board, and also appoint Deputy Executive Board members.

6.2. Changes to the Articles of Association

In accordance with Section 179, para. 1 AktG, changes to the Articles of Association require a resolution of the Annual General Meeting, which requires a three-quarters majority of the share capital represented at the vote pursuant to Section 179, para. 2 AktG, unless the Articles of Association provide for another majority. To the extent that the change of corporate purpose is effected, the Articles of Association may only specify a larger majority. In Section 20 para. 1, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association utilise the option to deviate in accordance with Section 179 para. 2 AktG and provide that, in principle, decisions may be taken on the basis of a simple majority of votes, or on the basis of a simple capital majority to the extent that a capital majority is necessary, unless mandatory legal regulations require a greater majority. The Supervisory Board is authorised to resolve amendments to the Articles of Association which only relate to their wording. Furthermore, the Supervisory Board is authorised to amend the wording of Section 5 of the Articles of Association which defines, among others, the amount and division of the share capital, in order to adjust the wording to the scope of the capital increases from authorised capital.

7. EXECUTIVE BOARD'S AUTHORISATION TO ISSUE AND REPURCHASE SHARES

7.1. Authorised Capital

The Executive Board is authorised, with the assent of the Supervisory Board, to increase the Company's share capital until October 22, 2018 through the issuance of up to 6,947,325 new, ordinary, no-par value bearer shares, each with a notional par value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts up to EUR 6,947,325 (Authorised Capital I/2013). Shareholders are generally entitled to subscription rights. Nevertheless, the Executive Board is authorised, with the assent of the Supervisory Board, to exclude shareholder subscription rights in the following instances:

- for fractional shares,
- if the capital increase is against cash contribution and the proportional amount of the share capital attributed to the new shares for which the subscription right is excluded does not exceed 10% of the share capital existing at the time the new shares are issued, and the issue price of the new shares is not significantly less than the stock market prices of the shares of the same class and entitlements already listed at the time of the final determination by the Executive Board according to Section 203 para. 1 and 2 and Section 186 para. 3 Sentence 4 AktG,
- to the extent necessary to grant holders or creditors of the bonds, with option or convertible rights issued by the Company or Group companies, subscription rights to new shares to the extent to which the holders or creditors would be entitled after exercising their option or convertible rights,
- in the case of capital increases against contribution in kind.

The Executive Board is also authorised, with the assent of the Supervisory Board, to determine the further details of the capital increase and the other conditions of the share issue. The Supervisory Board is authorised to amend the wording of the Articles of Association according to the scope of the capital increases from authorised capital.

7.2. Conditional Capital

The Company's share capital is conditionally increased up to EUR 6,947,325.00 divided into up to 6,947,325 ordinary no-par value bearer shares. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that are issued according to the respective resolution of the Annual General Meeting of October 23, 2013. New shares shall be issued in accordance with the option price or conversion price resolved as Item 8 of the agenda of the Annual General Meeting of the Company held on October 23, 2013. The contingent capital increase shall only be implemented to the extent that the holders and/or creditors of warrants and/or convertible bonds exercise their rights or the holders with conversion obligations meet their obligation to convert, unless cash settlement is granted or own shares or newly created shares from authorised capital are used for settlement. If the shares are created by conversion until the beginning of the ordinary Annual General Meeting of the Company, then they are entitled to dividends from the beginning of the preceding fiscal year, otherwise from the beginning of the fiscal year in which they are created by conversion. The Executive Board is authorised to determine the further details of implementing a conditional capital increase.

7.3. Authorisation to repurchase shares

On the basis of the resolution of the Annual General Meeting of October 29, 2009, the Company is authorised until October 28, 2014 to acquire up to a total of 10% of the share capital existing at the time of the passing of the resolution. The shares acquired on the basis of this authorisation and any other treasury shares that the Company has already acquired, or already owns, may not comprise more than 10% of the Company's existing share capital. This authorisation can be exercised in whole or in partial amounts on either one or several occasions.

Purchases are to be executed on the stock market or as part of a public share repurchase offer, or in the form of a public solicitation addressed to the Company's shareholders to issue selling offers:

If the purchase is executed on the stock market, the consideration per share paid by the Company (in each case excluding ancillary purchase costs) may neither be 10% more or 10% less than the average closing price of the Company's shares in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last three stock exchange trading days before the purchase. If the Company is listed on several stock exchanges, the respective last three closing prices of the Company's shares on the Frankfurt Stock Exchange are applicable.

If the purchase is performed by way of a public purchase offer to all Company shareholders, or by way of a solicitation addressed to the Company's shareholders to issue selling offers, the offered purchase or selling price or the limits of the offered purchase or selling price range per share, excluding ancillary purchase costs, may be neither 10% more nor 10% less than the average closing price of the Company's share in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last five stock exchange trading days before the date the offer is published, or the solicitation to issue selling offers is published. If the Company is listed on several stock exchanges, the respective last five closing prices of the Company's shares on the Frankfurt Stock Exchange before the publication of the offer are applicable.

If, after the publication of a purchase offer, or the publication of a solicitation to issue selling offers, there are significant price deviations from the offered purchase or selling price, or from the limits of the offered purchase or selling price range, the offer or solicitation to issue selling offers can be adjusted. In such instances, the relevant amount is determined according to the corresponding price before the publication of the adjustment; the 10% limit for exceeding or falling below is applied to this amount.

The volume of the offer can be restricted. If the total subscription to the offering exceeds this volume, acceptance must be according to quotas. A provision may be made for preferential acceptance of unit numbers of tendered shares of less than up to 100 shares.

Apart from disposal through the stock market, the Executive Board is authorised to utilise the shares acquired on the basis of this authorisation as follows:

With the assent of the Supervisory Board, the Executive Board may cancel the shares, while at the same time reduce the share capital, without such cancellation, or its performance, requiring a further resolution of the Annual General Meeting. It may also correspondingly adjust the stated number of shares in the Articles of Association. The Executive Board may diverge from the above stipulations and determine that the share capital is not reduced, but that the share of the remaining shares in the share capital is increased pursuant to Section 8 para. 3 AktG. In such an instance, the Executive Board is authorised to adjust the stated number of shares in the Articles of Association.

The Executive Board may offer and transfer shares to third parties as consideration as part of business combinations, or when purchasing companies, or interest in companies, or parts of companies. Shareholders' subscription rights to the Company's shares are excluded to such an extent.

The Executive Board may offer shares for purchase or transfer to Company staff or employees of associated companies in accordance with Section 15 ff. AktG. Shareholders' subscription rights for the Company's shares are excluded to such an extent.

The Executive Board may utilise shares to service bonds with options or conversion rights issued by the Company or dependent companies associated with it. Shareholders' subscription rights for the Company's shares are excluded to such an extent.

With the assent of the Supervisory Board, the Executive Board may sell shares in a manner other than through the stock market or through the unofficial market, or through an offer to all shareholders, if these shares are sold at a price, or transferred for consideration, that is not significantly less than the stock market price of the Company's shares. This authorisation is valid to the extent that the number of shares to be sold, together with the new shares which have been issued under the exclusion of subscription rights pursuant to Section 186 para. 3 Sentence 4 AktG since the issuing of this authorisation, do not total more than 10% of the share capital existing at the time of the resolution of the Annual General Meeting concerning this authorisation, or at the time when this authorisation is exercised, if the latter is lower. Shareholders' subscription rights for the Company's shares are excluded to such an extent.

The authorisation relating to the resale of the Company's repurchased shares can be exercised once or on several occasions either wholly or in partial amounts and in the pursuit of one or several purposes.

No utilisation was made of this authorisation in the past fiscal year.

8. MATERIAL COMPANY AGREEMENTS SUBJECT TO A CHANGE IN CONTROL FOLLOWING A TAKEOVER OFFER, AND RESULTANT EFFECTS

The Company has refrained from making these disclosures since the respective disclosures may result in considerable disadvantages to the Company.

9. COMPANY COMPENSATION AGREEMENTS THAT HAVE BEEN MADE WITH THE EXECUTIVE BOARD OR EMPLOYEES IN THE CASE OF A TAKEOVER OFFER

In the instance of a termination of employment as part of a change in control or acquisition of control, Mr. Andreas Steyer is to receive the existing contractual entitlements for the remainder of his term as an appointed Executive Board member in the form of a one-time payment which will be due at the time of his departure. The amount of this payment will be based on the fixed salary and the target bonus in the last full calendar year prior to the departure of Mr. Andreas Steyer and shall not exceed two years' remuneration.

VIII. Statement on Corporate Governance

DEMIRE Deutsche Mittelstand Real Estate AG is submitting a Statement on Corporate Governance pursuant to item 3.10 of the German Corporate Governance Code and pursuant to Section 289a HGB. The Declaration of Compliance regarding the German Corporate Governance Code pursuant to Section 161 AktG that is contained in this statement was made available to shareholders on the Company's website (www.demire.ag) under the section "Company".

Management Report for DEMIRE Deutsche Mittelstand Real Estate AG

In addition to reporting on the situation of the DEMIRE Group, we discuss the development of the Company below. The fundamental statements presented in the Group Management Report on the market, strategy, management, and the opportunities and risks of business activities, apply equally to the Company. However, in contrast to the Group, the Company only operates domestically and is therefore not exposed to currency risks.

The DEMIRE Deutsche Mittelstand Real Estate AG is the operational management unit of the DEMIRE Group. It did not generate revenue from its own activities with third parties in fiscal year 2013/2014, but only generated revenues from management services provided for or from project companies. The number of employees, excluding Executive Board members, increased in the reporting year to an average of 3 employees (previous year: 2 employees).

The Company's financial statements as at 31 March 2014 were prepared according to the German Commercial Code (HGB) and the provisions of the German Stock Corporation Act (AktG). The consolidated financial statements of the DEMIRE Group were prepared according to the principles of the International Financial Reporting Standards (IFRS).

RESULTS OF OPERATIONS, NET ASSETS, AND FINANCIAL POSITION

Results of operations

in EURk	2013/2014	2012/2013
Revenues	849	809
Other operating income	482	1,189
Staff costs	–1,281	–668
Other operating expenses	–5,079	–4,729
Write-downs of financial assets	–7,975	–24,927
Result of normal business activity	**–12,941**	**–28,082**
Net loss	**–12,853**	**–28,082**

The Company's revenues rose just slightly over the previous year by about 5% to EUR 0.8 million and many related to expenses passed on in connection with the real estate advice of project companies. The decrease in other operating income from EUR 1.2 million in the prior year to EUR 0.5 million was the result of write-ups in the previous year (EUR 1.0 million), which were not incurred during the reporting year, and mainly included payment of damages of EUR 0.3 million and amounts invoiced to affiliated companies for cost allocation agreements in the amount of EUR 0.1 million. Staff costs increased from EUR –0.7 million in the previous year to EUR –1.3 million in the reporting year mainly as a result of payments to former Executive Board members who had left the Company in the course of the year.

Other operating expenses also recorded an increase from EUR –4.7 million in the previous year to EUR –5.1 million in the reporting year. Compared to the previous year, legal and consulting costs rose from EUR –0.3 million to EUR –1.3 million resulting from costs for the business model's realignment and the issuance of a convertible bond. Expenses of EUR –0.4 million related to the preparation of the financial statements also formed one of the largest sub-items (previous year: EUR 0.2 million). The largest single item was again depreciation resulting from the impairment of receivables which amounted to EUR –2.1 million after EUR –2.5 million in the same period last year. Asset management fees invoiced by MAGNAT Asset Management GmbH on the other hand, declined significantly from EUR –0.8 million in the previous year to EUR –0.3 million.

At EUR 0.4 million, income from other securities and loans of financial assets remained unchanged compared to the previous year. Other interest and similar income decreased slightly from EUR 0.1 million in the previous year to EUR 0.0 million (EURk 46).

At EUR –8.0 million, write-downs of financial assets were significantly lower in the reporting year. In the previous year, they had a substantial impact of EUR –24.9 million on the Company's earnings. This was due to changes in the market values of real estate contained in indirectly held project company both in the reporting year and in the previous year which were the result of the continued weak economic development of the real estate markets in the former target regions. The reporting year also includes allowances for receivables from investees. The prior year included significant write-downs on the carrying amount of companies of the MAGNAT Asset Management Group.

The result of normal business activity amounted to EUR –12.9 million after EUR –28.1 million in the same period of the previous year. The net loss after extraordinary income and expenses (EUR 0.1 million, net) and taxes paid amounted to EUR –12.9 million after EUR –28.1 million in the previous year.

Financial position

The financial management of the Company is carried out according the guidelines adopted by the Executive Board. This applies to the control of funds as well to financing. The central liquidity analysis assists in optimising cash flows. The primary objective is to ensure liquidity. Regular information provided to the Supervisory Board with regard to the financial position is an integral part of DEMIRE's risk management system.

Liquidity position

As at the balance sheet date, cash and cash equivalents had increased by a total of EUR 2.4 million to EUR 3.1 million. In the course of the year, the Company generated cash flow from financing activities of EUR 11.3 million (previous year: EUR 0.0 million) through the issue of a convertible bond. Cash inflows were offset by a cash flow from operating activities of EUR –5.8 million after EUR 0.4 million in the previous year as well as a cash flow from investing activities of EUR –3.0 million after EUR –0.1 million in the previous year.

Cash flow from operating activities in the reporting year was negatively impacted particularly by higher legal and consulting costs (EUR 1.0 million) in the course of realigning the business model and by the issue of the convertible bond, as well as by a rise in staff costs (EUR 0.6 million). In the previ-ous year, cash flow from operating activities included, among others, cash inflows of EUR 2.3 million for operating expenses. Cash flow from investing activities related to loans issued in the reporting year amounting to EUR 2.1 million.

Net assets

As at the March 31, 2014 reporting date, the Company's total assets declined from EUR 28.4 million in the previous year to EUR 26.1 million. Fixed assets fell from EUR 21.8 million in the previous year to EUR 16.3 million at the year's end in the wake of impairments on interests in affiliated companies and investments. There was an increase in loans to affiliated companies, which rose to EUR 2.1 mil-lion (previous year: EUR 0.0 million). These concerned our first newly acquired property in Munich.

The largest item under current assets, receivables and other assets, declined slightly from EUR 6.0 million to EUR 5.6 million. A major contribution to this was made by the decline from EUR 1.9 million in the previous year to EUR 1.2 million in the reporting year in receivables from companies in which participating interests are held. This was offset by an increase from EUR 3.9 million to EUR 4.1 million in receivables from affiliated companies. Other assets increased from EUR 0.1 million to EUR 0.3 million. As at the reporting date, the liquidity position had increased from EUR 0.6 million in the previous year to EUR 3.1 million.

Prepaid expenses as at the reporting date increased from EUR 0.0 million in the previous year to EUR 1.2 million due to a discount related to the convertible bond issue.

On the liabilities side of the balance sheet, the Company's equity fell from EUR 22.3 million in the previous year to EUR 10.7 million as at 31 March 2014. This corresponds to an equity ratio of 40.9% after 78.5% in the previous year. While accumulated losses increased to EUR 106.0 million due to the net loss for the period, capital reserves rose by around EUR 1.2 million to EUR 102.8 million due to the convertible bond issues in December and January 2013/2014.

Provisions increased marginally from EUR 0.5 million in the previous year to EUR 0.8 million. They were recognised for obligations resulting from the preparation of the financial statements and con-solidated financial statements, for auditing, other personnel-related costs, and for outstanding invoices.

The Company's liabilities increased from EUR 5.6 million to EUR 14.6 million as at the reporting date. This was partly due to the initial placement of a convertible bond with a volume of EUR 11.3 million (previous year: EUR 0.0 million) mentioned above. The opposite development was seen in the liabilities to affiliated companies and other liabilities, which have a residual maturity of up to one year. The former fell from EUR 3.4 million in the previous year to EUR 2.7 million as at March 31, 2014 and other liabilities declined from EUR 2.0 million to EUR 0.1 million.

Outlook

The Company's revenues are expected to expand visibly in the current fiscal year. Above and beyond the previous management services, the Company will assume other services for project companies and will be compensated for these services. The aim is to achieve a break-even EBIT in fiscal year 2014/2015 and, consequently, improve the return on equity. However, as with the Group, we cannot rule out that there may be further impairments necessary of the Company's carrying amounts of investments – particularly when it concerns our investments in the Ukraine due to the country's current political situation. Therefore, achieving this objective will be a challenge.

Frankfurt/Main, August 27, 2014

DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board (CEO)

Consolidated financial statements

Consolidated statement of income

in EUR	Note	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Rental income	D.1	648,660	783,688
Operating expenses to generate rental income	D.2	–189,111	–507,429
Profit/loss from the rental of real estate		**459,549**	**276,259**
Revenue from the sale of real estate companies		402,989	2,233,251
Net assets from real estate companies sold		–16,606	56,415
Profit/loss from the sale of real estate companies	**D.3**	**386,383**	**2,289,666**
Revenue from the sale of real estate		0	1,045,620
Expenses relating to real estate sales		0	–743,445
Profit/loss from the sale of real estate	**D.4**	**0**	**302,175**
Revenue from asset management		81,980	193,676
Expenses for asset management		–43,720	–127,026
Profit/loss from asset management	**D.5**	**38,260**	**66,650**
Profits from investments accounted for using the equity method		23,487	420,328
Losses from investments accounted for using the equity method		–761,274	–566,312
Unrealised fair value adjustments in equity investments		–950,165	–1,142,263
Profit/loss from investments accounted for using the equity method	**D.6**	**–1,687,952**	**–1,288,248**
Profit/loss of fair value adjustments in investment properties	D.7	2,904,810	0
Unrealised fair value adjustments in real estate inventory	D.8	–1,139,995	–1,519,980
Impairment of goodwill and receivables	D.9	–1,211,739	–1,483,898
Other operating income	D.10	1,518,352	1,060,330
Other operating income and other effects		**2,071,428**	**–1,943,548**
General and administrative expenses	D.11	–4,656,040	–3,809,327
Other operating expenses	D.12	–2,164,126	–836,959
Profit/loss before interest and taxes		**–5,552,498**	**–4,943,332**
Financial income		1,134,628	844,762
Financial expenses		–1,316,761	–1,552,499
Financial result	**D.13**	**–182,133**	**–707,738**
Profit/loss before taxes		**–5,734,631**	**–5,651,070**
Income taxes	D.14	–251,122	–278,486
Net profit/loss for the period		**–5,985,753**	**–5,929,556**
Of which, attributable to:			
Non-controlling interests	**D.15**	**–51,249**	**–2,896**
Parent company shareholders		**–5,934,504**	**–5,926,660**
Basic earnings per share / diluted earnings per share	D.16	–0.43	–0.43

Statement of comprehensive income

in EUR	Note	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Net profit/loss for the period		**–5,985,753**	**–5,929,556**
Share of other comprehensive income attributable to associated companies accounted for using the equity method, before taxes	E.1.4	–1,019,015	12,696
Currency translation differences, before taxes		455,977	37,583
Total of other comprehensive income which may be reclassified to profit and loss in future periods, before taxes		**–563,038**	**50,280**
Income taxes on the share of other comprehensive income attributable to associated companies accounted for using the equity method which may be reclassified to profit and loss in future periods	D.14	0	–99,002
Total other comprehensive income	**G.1/G.2**	**–563,038**	**–48,722**
Total comprehensive income		**–6,548,791**	**–5,978,278**
Of which, attributable to:			
Non-controlling interests		**–22,921**	**–12,546**
Parent company shareholders		**–6,525,870**	**–5,965,732**

Consolidated balance sheet (assets)

in EUR	Note	31/03/2014	31/03/2013
Assets			
Non-current assets			
Intangible assets	E.1.1	1,200	19,920
Property, plant, and equipment	E.1.2	209,751	40,989
Investment properties	E.1.3	20,526,382	0
Investments accounted for using the equity method	E.1.4	4,694,231	6,643,764
Other financial assets	E.1.5	694,633	49,318
Loans to investments accounted for using the equity method	E.1.6	2,490,210	2,058,981
Other loans	E.1.7	351,482	342,498
Deferred tax assets	E.5.1	927,506	0
Total non-current assets		**29,895,395**	**9,155,470**
Current assets			
Real estate inventory	E.2.1	7,783,845	10,173,832
Trade accounts receivables and other receivables	E.2.2	1,743,632	3,419,974
Financial receivables and other financial assets	E.2.3	1,148,792	2,184,970
Tax refund claims		71,195	72,400
Cash and cash equivalents	E.2.4	3,954,663	2,333,381
Total current assets		**14,702,127**	**18,184,556**
Investments accounted for using the equity method available for sale	**E.3**	**3,802,647**	**3,802,647**
Total assets		**48,400,169**	**31,142,675**

Consolidated balance sheet (shareholders‘ equity and liabilities)

in EUR	Note	31/03/2014	31/03/2013
Shareholders' equity and liabilities			
Shareholders' equity			
Subscribed capital		13,894,651	13,894,651
Reserves		–6,061,225	466,012
Equity attributable to parent company shareholders		**7,833,426**	**14,360,663**
Interest of non-controlling shareholders		–131,664	–108,550
Total shareholders' equity	**E.4**	**7,701,762**	**14,252,113**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	E.5.1	1,210,981	46,249
Non-current financial debt	E.5.2	24,646,158	9,158,883
Total non-current liabilities		**25,857,139**	**9,205,132**
Current liabilities			
Provisions	E.6.1	786,883	809,674
Trade payables and other liabilities	E.6.2	4,257,040	1,600,564
Tax liabilities	E.6.3	18,586	234,088
Current financial debt	E.6.4	9,778,759	5,041,104
Total current liabilities		**14,841,268**	**7,685,430**
Total liabilities		**40,698,407**	**16,890,562**
Total equity and liabilities		**48,400,169**	**31,142,675**

* The previous year's presentation of balance sheet items changed in accordance with IAS 1, for discussion see Note E.6.1.

Consolidated statement of cash flows

in EURk	Note	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Group profit/loss before taxes		**–5,735**	**–5,651**
Interest expenses paid for financial debt		363	423
Change in real estate inventory		0	728
Change in trade accounts receivable and other receivables		1,612	535
Change in deferred tax assets		–928	0
Change in income tax receivables		1	741
Change in financial receivables and other financial assets		–830	183
Change in intangible assets		0	0
Change in provisions		–518	–507
Change in trade payables and other liabilities		3,192	–374
Change in deferred tax liabilities		1,165	0
Other non-cash items		–222	2,740
Cash flow from operating activities	**F**	**–1,900**	**–1,181**
Payments for investments in property, plant, and equipment		–221	–34
Purchase of investment properties		–17,621	0
Proceeds from the disposal of property, plant, and equipment		30	0
Proceeds from the capital reduction of investments accounted for using the equity method and other investments		363	565
Payments for the acquisition of interests and for increasing the capital reserve of investments accounted for using the equity method and other investments		–1,085	0
Payments for granting loans to investments accounted for using the equity method and to other investments		–104	–92
Proceeds from the repayment of loans from investments accounted for using the equity method and other investments		0	460
Payments for the acquisition of subsidiaries and for the purchase of net assets (net of cash acquired)		–2	448
Payments for the disposal of subsidiaries (net of cash sold)		–75	–20
Cash flow from investing activities	**F**	**–18,715**	**1,327**
Change in financial debt resulting from the acquisition of shell companies		13,248	0
Proceeds from the issuance of convertible bonds		11,300	0
Proceeds from the issuance of financial debt		67	46
Interest paid on financial debt		–349	–428
Payments for the redemption of financial debt		–2,026	–1,011
Cash flow from financing activities	**F**	**22,239**	**–1,394**
Net change in cash and cash equivalents		**1,624**	**–1,247**
Change due to currency translation		–2	–8
Cash and cash equivalents at the start of the period		2,333	3,589
Cash and cash equivalents at the end of the period	**F**	**3,955**	**2,333**
Supplementary information concerning the statement of cash flows:			
Income taxes received (+) / paid (-)		–39	745
Interest received		9	33
Interest paid		364	437

Consolidated statement of changes in equity

in EURk		Share capital	Reserves							
	Note	Subscribed capital	Capital reserves	Retained earnings including Group profit/loss	Reserves for treasury shares	Currency translation	Other reserves	Equity attributable to parent company shareholders	Interests of non-controlling shareholders	Total equity
01/04/2013	**G**	**13,895**	**7,455**	**–1,266**	**–310**	**–2,115**	**–3,299**	**14,361**	**–109**	**14,252**
Reclassification of other reserves	G			–3,299			3,299			**0**
Change in scope of consolidation	G	0	0	0	0	0	0	**0**	0	**0**
Change in deferred taxes recognised directly in equity	G	0	0	0	0	0		**0**	0	**0**
Proportional transfer of earnings-neutral changes in equity in investments accounted for using the equity method	G	0	0	0	0	–1,019	0	**–1,019**	0	**–1,019**
Currency translation differences	G	0	0	0	0	428	0	**428**	27	**455**
Total other comprehensive income	**G**	**0**	**0**	**0**	**0**	**–591**	**0**	**–591**	**27**	**–564**
Net profit/loss for the period	G	0	0	–5,935	0	0	0	**–5,935**	–51	**–5,986**
Total comprehensive income	G	**0**	**0**	**–5,935**	**0**	**–591**	**0**	**–6,526**	**–24**	**–6,550**
31/03/2014	**G**	**13,895**	**7,455**	**–10,500**	**–310**	**–2,706**	**0**	**7,835**	**–133**	**7,702**
01/04/2012	**G**	**13,895**	**7,455**	**4,660**	**–310**	**–2,174**	**–3,200**	**20,326**	**–98**	**20,228**
Changes in ownership interests in subsidiaries that do not result in a loss of control	G	0	0	0	0	0	0	**0**	2	**2**
Change in deferred taxes recognised directly in equity	G	0	0	0	0	0	–99	**–99**	0	**–99**
Proportional transfer of earnings-neutral changes in equity in investments accounted for using the equity method	G	0	0	0	0	13	0	**13**	0	**13**
Currency translation differences	G	0	0	0	0	47	0	**47**	10	**37**
Total other comprehensive income	**G**	**0**	**0**	**0**	**0**	**60**	**–99**	**–39**	**–10**	**–49**
Net profit/loss for the period	G	0	0	–5,927	0	0	0	**–5,927**	–3	**–5,930**
Total comprehensive income	G	**0**	**0**	**–5,927**	**0**	**60**	**–99**	**–5,966**	**–12**	**–5,978**
31/03/2013	**G**	**13,895**	**7,455**	**–1,266**	**–310**	**–2,115**	**–3,299**	**14,361**	**–109**	**14,252**

Notes to the consolidated financial statements

for the fiscal year from April 1, 2013 to March 31, 2014

A. General information

1. CORPORATE INFORMATION

DEMIRE Deutsche Mittelstand Real Estate AG (hereinafter also referred to as the "Company" or "DEMIRE") is recorded in the commercial register in Frankfurt/Main, Germany which is the location of the Company's headquarters. MAGNAT Real Estate Opportunities GmbH & Co. KGaA was formed on April 6, 2006 and recorded in the commercial register in Frankfurt/Main, Germany on May 31, 2006. On September 17, 2010 the Company's legal form was changed from that of a GmbH & Co. KGaA to a public stock corporation ("Aktiengesellschaft") and was recorded in the commercial register (HRB 89041). The Extraordinary General Meeting of June 27, 2013 passed the resolution to change the Company's name to "DEMIRE Deutsche Mittelstand Real Estate AG". The registration of the name change was recorded in the Company's commercial register on July 30, 2013. The Company's headquarters are located at Lyoner Strasse 32 in Frankfurt/Main. All of the Company's fiscal years end on March 31.

The Company was originally listed on the open market in July 2006. On October 30, 2007 the Company switched stock exchange segments. Since this time, the Company's shares have been listed in the General Standard segment of the Frankfurt Stock Exchange. As a result of this segment change, DEMIRE is subject to the stringent EU-wide transparency requirements of the regulated market.

To date, DEMIRE Deutsche Mittelstand Real Estate AG itself has not carried out any investments in real estate or real estate projects. Generally, investments are processed through project companies. Interests in these project companies are either directly or indirectly held (through intermediate holding companies) by DEMIRE Deutsche Mittelstand Real Estate AG.

These consolidated financial statements prepared in the name of the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG, are to be attributed economically to the economic acquirer identified as MAGNAT Asset Management GmbH, Vienna, Austria (formerly: R-QUADRAT Immobilien GmbH), within the context of a reverse acquisition in fiscal year 2009/2010 (see A.5). The total of the consolidated subsidiaries and the joint ventures and associated companies accounted for using the equity method will be referred to hereinafter as the "DEMIRE Group".

MAGNAT Asset Management GmbH, Vienna, Austria carries out the real estate asset management within the Group, and also for third parties to a limited extent.

As a result of the strategic realignment towards a clear focus on commercial real estate in Germany, DEMIRE's business model has changed from a "develop & sell" to a "buy & hold" strategy with active portfolio management.

Today, DEMIRE's investment portfolio is distributed among nine countries. Based on the new focus on Germany, DEMIRE is pursuing an accelerated withdrawal from the remaining regions.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

DEMIRE prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS) in line with Article 4 of the EC Directive number 1606/2002 of the European Parliament and Council from July 19, 2002 regarding the application of international financial reporting standards. The consolidated financial statements of the DEMIRE Group, which are prepared for DEMIRE Deutsche Mittelstand Real Estate AG as the legal parent company, are prepared according to uniform accounting principles. This takes into account all IFRS standards that require mandatory application as of the reporting period ending on March 31, 2014 – including currently valid International Accounting Standards (IAS) – and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – including the currently valid interpretations of the former Standing Interpretations Committee (SIC) – as applicable in the EU. The consolidated financial statements prepared by DEMIRE Deutsche Mittelstand Real Estate AG fully comply with the IFRS guidelines in their currently valid version as far as they were adopted by the European Union according to Article 6 para. 2 IAS VO 1606/2002 by comitology procedure in accordance with European Union regulations. They also give consideration to the supplementary German commercial law provisions, applicable in accordance with Section 315a para. 1 of the German Commercial Code (HGB).

3. NEW ACCOUNTING STANDARDS THAT REQUIRE MANDATORY APPLICATION

The applied accounting methods generally correspond to the methods applied in the previous year with the following exceptions:

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC) have approved standards and interpretations (which have already passed the EU recognition procedure) and require mandatory first-time application in the reporting period.

IAS 1 "Amendment: Presentation of Other Comprehensive Income"
According to the amendment, companies must present items in the other comprehensive income according to two categories dependent upon whether or not a future recognition through profit or loss is expected (known as recycling). Components which are not recycled must be presented separately from the components which will be recycled in the future e.g., differences resulting from currency translations from subsidiaries, joint ventures, and associated companies. If the components of other comprehensive income are shown before tax, then the companies must identify the corresponding tax amount separately and according to the two categories. The amendment is mandatorily applicable retrospectively for the first time for fiscal years commencing on or after July 1, 2012. Early application is permitted. The amendment to IAS 1 was adopted by the EU on June 5, 2012 and was published on June 6, 2012. The prior year figures were reported accordingly.

IAS 12 "Amendments: Deferred Taxes – Recovery of Underlying Assets"
The amendment includes a partial clarification of the treatment of temporary tax differences in connection with the application of the fair value model of IAS 40. As a result of this amendment, a refutable presumption is introduced that the recovery of the carrying amount of an asset in the case of real estate measured at fair value and held as a financial investment will normally occur through the sale of the asset. With real estate that is held as a financial investment, it is often difficult to judge whether existing differences will reverse through continued use or through sale. The amendment is applicable retrospectively to fiscal years beginning on or after January 1, 2013. The amendment was adopted by the EU on December 11, 2012 and was published on December 29, 2012. The amendment has no effect on the consolidated financial statements.

IAS 19 "Amendments: Employee Benefits"
The key amendment is that future unexpected fluctuations in pension obligations and any plan assets (actuarial gains and losses) must be immediately recognised in other comprehensive income. The option of recognising actuarial gains and losses in profit or loss will be abolished and any changes in the value of defined benefit obligations are to be recognised in the current reporting period. A further amendment states that the return on plan assets is no longer aligned according to the composition of the asset portfolio but according to the income resulting from the expected return on the plan assets based on the level of the discount rate. The amendments mentioned lead to comprehensive disclosures in the notes. Among other requirements, the average time to maturity of the pension obligations must be specified in the future. The amendments are applicable as of January 1, 2013. The amendment was adopted by the EU on June 5, 2012 and published on June 6, 2012. Since DEMIRE does currently not report any pension obligations and has no obligation to do so, the amendments to IAS 19 have no effect on the consolidated financial statements.

IFRS 1 "Amendments: Severe Hyperinflation and Removal of Fixed Dates"
This amendment provides application guidelines for procedures when presenting financial statements complying with IFRS in cases where the company was unable to comply with IFRS regulations for a period of time because its functional currency was exposed to severe hyperinflation. Accordingly, a company subject to severe hyperinflation is permitted to measure its assets and liabilities at fair value and to apply these figures as assumed acquisition cost in its opening balance sheet. A further amendment replaces the references to the fixed transition date of "January 1, 2004" with "time of transition to IFRS". The amendments require mandatory application to reporting periods ending on or after January 1, 2013. Earlier application is permissible. The amendments were adopted by the EU on December 11, 2012 and published on December 29, 2012. The amendments have no effect on the consolidated financial statements.

IFRS 1 "Amendments: Government Grants"

This amendment relates to the accounting of a granted government loan at a below-market interest rate by a first-time IFRS adopter. For government loans existing at the time of transition to IFRS, the measurement according to the previous accounting policies can be maintained. Thus, the valuation provisions of IAS 20.10A in connection with IAS 39 only apply to government loans granted after the date of transition. Subject to the still outstanding adoption into EU legislation, the amendments are to be applied for the first time for fiscal years beginning on or after January 1, 2013. The amendment was adopted by the EU on March 4, 2013 and published on March 5, 2013. The amendment has no effect on the consolidated financial statements.

IFRS 7 "Amendments: Offsetting Financial Assets and Financial Liabilities"

The new information which was incorporated into IFRS 7 should provide a reconciliation of the gross to net risk exposure of financial instruments. Reconciliation should be used in order to provide information on the effect or potential effect of netting agreements. The gross amount of the financial assets which have not been offset will be compared with the corresponding financial liabilities. This will yield the net amount which is presented on the balance sheet. The information should be presented according to the nature of the financial instruments. The amendments to IFRS 7 are effective for fiscal years beginning on or after January 1, 2013. The amendments were adopted by the EU on December 13, 2012 and published on December 29, 2012. The application must be made retrospectively. The amendment has no effect on the consolidated financial statements.

IFRS 13 "Measurement at Fair Value"

In IFRS 13 the term "fair value" is defined, a framework for measuring fair value in a single IFRS is ascertained, and disclosures for the measurement at fair value are determined. IFRS 13 is applied when another IFRS requires or permits a measurement at fair value or requires disclosures as to the measurement at fair value, whereby exceptions are provided (e.g., IFRS 2 or IFRS 17). Fair value is defined as the price that would be achieved in the course of an orderly transaction between market participants on the day of an asset's sale or of a payment for the transfer of a liability. IFRS 13 standardises a so-called "Fair Value Hierarchy" which states that the input factors used in a valuation process are divided into three levels, describes valuation methods, and also standardises and expands the necessary disclosures in the notes. IFRS 13 is applicable for fiscal years beginning on or after January 1, 2013. The standard is to be applied prospectively. The standard was adopted by the EU on December 11, 2012 and published on December 29, 2012. The application of the standard resulted in additional disclosures in the notes. We refer to the notes C. "Measurement at Fair Value", E.1.3, E.5.2, and I.1. The presentation of previous year's disclosures is waived upon the first time application of IFRS 13, as permitted.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

IFRIC 20 regulates the accounting for stripping disposal costs which occur in the process of opencast mining of ore and minerals. The material won through the stripping activities can contain low concentrations of ore or minerals which are to be considered as generated inventory. In addition, the stripping disposal activities can provide better access to further raw material deposits which can be mined in the future. In any case, inventories or a long term assets are achieved through stripping disposal activities. The classification as a tangible or intangible asset is based on the existing asset to which this new long-term asset will be allocated to. The interpretation takes effect for fiscal years beginning on or after January 1, 2013. Early adoption is permissible. IFRIC 20 was adopted by the EU on December 11, 2012 and published on December 29, 2012. This new interpretation has no impact on DEMIRE's consolidated financial statements.

Improvements to IFRS (2009-2011)

As part of its annual "Improvements Project", the IASB has implemented a large number of minor content-related and editorial amendments to various standards:

» IFRS 1 First-time Adoption of International Financial Reporting Standards

» IAS 1 Presentation of Financial Statements

» IAS 16 Property, Plant, and Equipment

» IAS 32 Financial Instruments: Presentation

» IAS 34 Interim Financial Reporting

These provisions are applicable retrospectively for all fiscal years commencing after December 31, 2012. The amendments were adopted by the EU on March 27, 2013 and published on March 28, 2013. The amendments have no effect on the consolidated financial statements.

4. FUTURE CHANGES TO ACCOUNTING POLICIES

The IASB and the IFRIC have approved standards and interpretations that did not yet require mandatory application in the reporting period. Voluntary prior application generally presupposes that the current and partially still outstanding recognition by the EU has occurred. The Company has not utilised the option to make voluntary prior application.

	Adopted by the EU	
	YES	NO
IAS 19 „Employee Contributions“		x
IAS 27 „Separate Financial Statements“	x	
IAS 28 „Investments in Associated Companies and Joint Ventures“	x	
IAS 32 „Amendments: Offsetting Financial Assets and Financial Liabilities“	x	
IAS 36 „Impairment of Assets“	x	
IAS 39 „Financial Instruments: Recognition and Measurement“	x	
IFRS 9 „Financial Instruments“ (2014)		x
IFRS 10 „Consolidated Financial Statements“	x	
IFRS 11 „Joint Arrangements“	x	
IFRS 12 „Disclosures of Interests in Other Entities“	x	
IFRS 14 „Regulatory Deferral Accounts“		x
IFRS 15 „Revenue from Contracts with Customers“		x
Transitional Provision (Amendments to IFRS 10, IFRS 11, and IFRS 12)	x	
Amendments to IFRS 10, IFRS 11 and IAS 27: Investment Entities	x	
IFRIC 21 „Levies“	x	
Improvements to IFRS (2010 – 2012)		x
Improvements to IFRS (2011 – 2013)		x

IAS 16 and IAS 38 “Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation”
On May 12, 2014 the International Accounting Standards Board (IASB) adopted amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”. The amendments provide additional guidelines as to which methods of depreciation and amortisation of tangible and intangible assets may be used. The amendments will enter into force for fiscal years beginning on or after January 1, 2016. The provisions of IAS 16 were amended to clarify that depreciation and amortisation methods which are based on revenues and, in turn, result from operating activities utilising the asset are not appropriate. The IASB noted that revenue represent the generation of expected economic benefits rather than the consumption of economic benefits. The provisions of IAS 38 were amended to include a refutable presumption that revenue-based depreciation and amortisation methods are not appropriate for the same reasons as stated in IAS 16. The impact of the future application to DEMIRE’s consolidated financial statements is currently being assessed.

IAS 16 and IAS 41 "Amendments: Agriculture: Bearer Plants"

On June 30, 2014 the International Accounting Standards Board (IASB) adopted amendments to IAS 16 and IAS 41 IFRS 11 "Amendments: Agriculture: Bearer Plants". The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same manner as property, plant and equipment. The amendments will enter into force for fiscal years beginning on or after January 1, 2016. The amendments will have no effect on the consolidated financial statements.

IAS 19 "Employee Contributions"

On November 20, 2013 the IASB adopted an amendment to IAS 19 "Employee Benefits" regarding the accounting of contributions to defined benefit plans by employees or third parties. If employees (or third parties) contribute to defined benefit plans this in turn reduces the costs to the employer. The amendment clarifies that the accounting of such contributions is dependent upon whether or not the contributions are linked to the service period. The amendment is applicable to fiscal years beginning on or after January 1, 2014. EU endorsement is still pending. The amendment will have no effect on the consolidated financial statements.

IAS 27 "Separate Financial Statements"

In the future, the new version of IAS 27 will only govern the accounting of investments in subsidiaries, joint ventures, and associated companies in separate IFRS financial statements. The provisions are to be applied to fiscal years beginning on or after January 1, 2013 whereby for IFRS adopters in the EU, the mandatory effective date is delayed by one year. The amendments were adopted by the EU on December 11, 2012 and published on December 29, 2012. The amendment has no effect on the consolidated financial statements.

IAS 28 "Investments in Associated Companies and Joint Ventures"

The objective of IAS 28 (revised in 2011) is to define the accounting of interests in associated companies and to issue provisions as to the application of the equity method when interests in associated companies and joint ventures are to be accounted for. The revised version of IAS 28 is to be applied for fiscal years beginning on or after January 1, 2013. For IFRS adopters in the EU, the effective date is January 1, 2014. IAS 28 was adopted by the EU on December 11, 2012 and published on December 29, 2012. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

IAS 32 "Amendments: Offsetting Financial Assets and Financial Liabilities"

Offsetting in accordance with IAS 32 continues to be possible only if a legal right exists at that time which allows the recognised amounts to be offset and offsetting is intended to be carried out on a net basis or to offset the realised financial assets with the corresponding financial liabilities at the same time. The amendments relate to the clarification of the terms "current time" and "at the same time". For the assessment of the current time, today's circumstances are to be drawn upon. In order to consider performance and disposal as being at the same time, certain conditions must be met. The clarifications described are to be applied from January 1, 2014. The amendments were adopted by the EU on December 13, 2012 and published on December 29, 2012. The amendment will have no effect on the consolidated financial statements.

IFRS 9 "Financial Instruments" (2014)

The IASB issued IFRS 9 "Financial Instruments" on July 24, 2014. The new standard is the result of the completion of different phases of a comprehensive IASB project on financial instruments and contains provisions on the recognition, measurement, and derecognition of financial instruments as well as on hedge accounting. IFRS 9 (2014) replaces all previously issued (previous) versions of IFRS 9 and combines those with the new provisions on the recognition of impairments and minor amendments with regard to the classification and measurement of financial assets. Thus, the new standard will replace the accounting provisions for financial instruments previously governed by IAS 39 "Financial Instruments: Recognition and Measurement".

IFRS 9 is to be applied for the first time for fiscal years beginning on or after January 1, 2018. Subject to the final approval during the EU endorsement process, early application might be permissible. DEMIRE is currently assessing the impact of the future application on the consolidated financial statements.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 replaces the existing provisions of IAS 27 for consolidated financial statements and the provisions of SIC 12 for the consolidation of special purpose entities. The provisions of IFRS 10 establish a unified consolidation concept under IAS 27 and SIC 12. IFRS 10 sets out a new definition of the point at which a parent company assumes control of an investee. The term control combines the power to direct the relevant activities of the investee with the right to variable returns from its involvement with the investee; i.e. to receive or to be exposed to variable returns from the investee and to have the ability to determine those returns. In addition, IFRS 10 includes provisions relating to potential voting rights, protective rights of third parties, and power without a majority of voting rights ("de facto control"). The new definition of the term control may change the scope of consolidation, particularly due to the discretion when assessing the parent company's economic influence over the investee. IFRS 10 is to be applied for fiscal years beginning on or after January 1, 2013 whereby for IFRS adopters in the EU the mandatory effective date is delayed by one year. IFRS 10 was adopted by the EU on December 11, 2012 and published on December 29, 2012. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

IFRS 11 "Joint Arrangements"

IFRS 11 governs the accounting in situations where several companies control a joint venture or joint operation. The contract partners should account for the respective contractual rights and obligations of the joint arrangement depending upon whether the corresponding agreement is to be considered a joint venture or joint operation. IFRS 11 eliminates the previous option of recognising joint ventures according to proportionate consolidation; application of the equity method is mandatory. The distinction between joint operation and the classification of as a joint venture is specified. In the case of a joint operation, the partners have immediate rights and obligations with respect to the assets, liabilities, expenses, and income. In the case of a joint venture, the partners have rights to the net assets of the joint venture. IFRS 11 is to be applied for fiscal years beginning on or after January 1, 2013 whereby for IFRS adopters in the EU the mandatory effective date is delayed by one year to January 1, 2014. IFRS 11 was adopted by the EU on December 11, 2012 and published on December 29, 2012. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

IFRS 11 "Amendments: Acquisition of an Interest in a Joint Operation"

On May 6, 2014 the International Accounting Standards Board (IASB) adopted amendments to IFRS 11 "Acquisition of an Interest in a Joint Operation". With the accounting of the acquisition of interests in a joint operation (amendments to IFRS 11) IFRS 11 is changed so that the acquirer of interests in a joint operation, which represents an operation as defined by IFRS 3, must apply all principles for the accounting of business combinations in IFRS 3 and other IFRSs, provided they do not contradict with the guidelines of IFRA 11. The amendments will enter into force for fiscal years beginning on or after January 1, 2016. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

IFRS 12 "Disclosures of Interests in Other Entities"

IFRS 12 defines the required disclosures for companies which carry out their accounting in accordance with both of the new standards, IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In accordance with IFRS 12, companies must disclose information which allows the assessment as to the nature, risk, and financial impact related to investments in subsidiaries, associated companies, joint arrangements, or special purpose entities. Among others, the disclosures particularly include discretionary decisions and assumptions in determining the scope of consolidation. The new standard is to be applied for fiscal years beginning on or after January 1, 2013 whereby for IFRS adopters in the EU the mandatory effective date is January 1, 2014. IFRS 12 was adopted by the EU on December 11, 2012 and published on December 29, 2012. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

IFRS 14 "Regulatory Deferral Accounts"

On January 30, 2014 the International Accounting Standards Board (IASB) adopted IFRS 14 "Regulatory Deferral Accounts". The IFRS standard currently does not contain any provisions regarding rate-regulated sales activities. The objective of IFRS 14 is to improve the comparability of financial statements of such entities that conduct rate-regulated sales activities. Rate regulations can lead to economic benefits or disadvantages if expenses in the current reporting period have an impact on the required prices in future reporting periods. The national accounting standards in individual countries allow for or require the capitalisation/deferral of such economic benefits. The impact of the future application on the consolidated financial statements of DEMIRE is currently being assessed.

IFRS 15 "Revenue from Contracts with Customers"
On May 28, 2014 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) issued the joint accounting standard IFRS 15 ("Revenue from Contracts with Customers"). The objective of the new standard on revenue recognition is to combine the numerous provisions previously included in several standards and interpretations. At the same time, unified principles are established that are applicable for all industries and for all categories of revenue transactions. According to IFRS 15, revenue is recognised in the amount that is expected as consideration for the transfer of goods or services to customers. With regard to determining the time or time period, revenue is recognised as control of the goods or services is passed to the customer (control approach). Control is defined as the ability to direct the use of the goods or services and to obtain the economic benefits from the goods or services. The impact of the future application on the consolidated financial statements of DEMIRE is currently being assessed.

Transitional Provision (Amendments to IFRS 10, IFRS 11, and IFRS 12)
The IASB has issued a supplement to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. This supplement clarifies the date of the first application of the new standards. It specifies that when there are differing results when consolidating companies according to IFRS 10 and according to IAS 27/SIC 12, the immediately preceding comparable period must be restated. In addition, there are provisions as to differences in carrying amounts, to disclosures in the notes, and to companies which are or are not be consolidated according to IFRS 10 as well as IAS 12/SIC 12. According to the IASB, the transitional provision enters into force on January 1, 2013 whereby for IFRS adopters in the EU the mandatory effective date is January 1, 2014. The guideline was adopted by the EU on April 4, 2013 and published on April 5, 2013. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

IFRS 10, IFRS 11, and IAS 27 Amendments: Investment Entities
In October 2012, the IASB published amendments to IFRS 10, IFRS 11, and IAS 27 relating to investment entities. The amendments include a definition of investment entities as well as provisions relating to the consolidation of subsidiaries of these investment entities. Investment entities include investment funds, among others. Such companies measure the investment in subsidiaries at fair value through profit or loss according to IFRS 9 "Financial Instruments" and according to IAS 39 "Financial Instruments: Recognition and Measurement" rather than consolidating these subsidiaries. In addition, the provisions specify the disclosure requirements in the notes and requirements for separate financial statements of investment entities. The amendments are to be applied for fiscal years beginning on or after January 1, 2014. Early application is permitted. The amendments will have no effect on DEMIRE's future consolidated financial statements.

Improvements to IFRS (2010-2012) and IFRS (2011-2013)
As part of its annual "Improvements Project", the IASB has implemented a large number of minor content-related and editorial amendments to various standards:

IFRS 1	Applicable IFRS
IFRS 2	Definition of vesting conditions
IFRS 3	Exceptions to scope of application for joint arrangements and accounting of contingent considerations in the context of business combinations
IFRS 8	Information on the aggregation of operating segments and the requirement of a reconciliation of segment assets

IFRS 13	Application of the so-called portfolio exception and the waiving of discounting of current receivables and liabilities in measuring the fair value, if the effect is immaterial.
IAS 16 / IAS 38	Revaluation Method: determination of accumulated depreciation at the time of the revaluation
IAS 24	Extended definition of related parties to include so-called management entities and regulation of the accompanying disclosure requirements
IAS 40	Interrelationship of IFRS 3 and IAS 40 when classifying property as "investment property" or owner-occupied property.

The amendments require first time mandatory application for fiscal years commencing after January 1, 2014. EU endorsement is expected for the first quarter of 2015. The improvements will have no effect on DEMIRE's future consolidated financial statements.

IFRIC 21 "Levies"
IFRIC 21 concerns the accounting of levies charged by public authorities other than income taxes in the meaning of IAS 12 "Income Taxes" and specifically when the liability to pay such a levy should be recognised as a liability in the financial statements. The interpretation was issued on May 20, 2013. The amendments require first time mandatory application for fiscal years commencing after July 1, 2014, whereby early adoption is permitted. EU endorsement took place on June 13, 2014. IFRIC 21 will not have a material impact on DEMIRE's future consolidated financial statements.

5. REVERSE ACQUISITION

On October 29, 2009, the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG (at that time MAGNAT Real Estate Opportunities GmbH & Co. KGaA) resolved the contribution of the interest in R-QUADRAT Immobilien GmbH (now known as MAGNAT Asset Management GmbH), Vienna, Austria, and its subsidiaries (to be referred to hereinafter as "R-QUADRAT Group") by way of a capital increase in kind. The first-time consolidation of R-QUADRAT Group in DEMIRE's consolidated financial statements as of March 31, 2010, became effective on August 31, 2009.

In the consolidated financial statements of 2009/2010, the legal acquirer, DEMIRE Deutsche Mittelstand Real Estate AG (formerly named MAGNAT Real Estate Opportunities GmbH & Co. KGaA), was also incorrectly classified as the economic acquirer. However, from an economic standpoint, R-QUADRAT Immobilien GmbH (now named MAGNAT Asset Management GmbH), Vienna, Austria, must be regarded as the economic acquirer according to IFRS 3.21 (2004). Therefore, the consolidated financial statements must be prepared from the standpoint of the economic acquirer ("reverse acquisition"). In the context of the purchase price allocation, hidden reserves and hidden liabilities must be disclosed at the economically acquired company and not at the legally acquiring company. In fiscal year 2011/2012, the following adjustments according to IAS 8.42 were retroactively made:

» The consolidated financial statements are formally prepared under the name of the legal parent company DEMIRE Deutsche Mittelstand Real Estate AG but are in fact a continuation of the consolidated financial statements of R-QUADRAT Immobilien GmbH (now named MAGNAT Asset Management GmbH).

» The goodwill of the R-QUADRAT Group, which had arisen from the initial transaction, had to be eliminated.

» The initial hidden reserves and liabilities which were disclosed at the level of the R-QUADRAT Group were to be corrected. The assets and liabilities of the R-QUADRAT Group were recognised at their carrying amounts according to IFRS.

» For the interests in MAGNAT AM GmbH, Vienna, Austria, and Altira ImmoFinanz GmbH, Frankfurt/Main, the legal holders of the economic acquirer, which are held by DEMIRE Deutsche Mittelstand Real Estate AG, an offsetting of capital was carried out. As a result, an amount of EUR 310k was recorded as a reserve for treasury shares.

» The date of the Annual General Meeting (October 29, 2009) was determined as the date of the acquisition. As per this date, hidden reserves and liabilities were disclosed at the economically acquired company.

» The stock market price of DEMIRE Deutsche Mittelstand Real Estate AG on the date of the acquisition was used in order to determine the acquisition costs of the net assets of DEMIRE Deutsche Mittelstand Real Estate AG. This revealed acquisition costs of EUR 21,160k.

» DEMIRE Deutsche Mittelstand Real Estate AG‘s subscribed capital in the amount of EUR 13,895k was unchanged and was reported as such. The capital reserves increased by the difference of DEMIRE Deutsche Mittelstand Real Estate AG‘s subscribed capital and the sum of the subscribed capital of R-QUADRAT Immobilien GmbH in an amount of EUR 160k and the revealed acquisition costs for the acquisition of DEMIRE Deutsche Mittelstand Real Estate AG in an amount of EUR 21,160k at the date of the acquisition.

» Since the former carrying amounts of DEMIRE‘s assets exceeded the acquisition costs of these assets, the assets were to be recognised as to the maximum amount of the total purchase price. This was carried out using a method in accordance with IAS 36.

» Due to the purchase price allocation at the economically acquired company, the existing interests of non-controlling shareholders were also restated.

6. KEY DISCRETIONARY DECISIONS, JUDGMENTS, AND ESTIMATES

Discretionary decisions

When applying the accounting methods, the Company‘s management has made the following discretionary decisions. This applies in particular to the following items:

» For assets to be sold, it must be determined as to whether they can be sold in their current condition and if a sale is highly probable. If this is the case, the assets, and where applicable the corresponding liabilities, are to be reported and measured as assets and liabilities available for sale.

» For real estate, it must be determined whether these assets are to be allocated to real estate inventory or to investment properties. The classification is based on the following assessment:

» Real estate inventory: The primary goal with regard to these properties is either a “buy & sell” or “develop & sell” strategy. Thus, these properties are held in the course of ordinary business.

» Investment properties: The primary goal with regard to these properties is sustainable management. Thus, these properties are held with the intention of generating rental income and/or for capital appreciation.

» Upon assuming control of a subsidiary or upon the acquisition of assets, it must be determined as to whether this transaction should be classified as a business combination according to IFRS 3, or as an acquisition of a group of assets or net assets.

Estimates and assumptions

For the preparation of the consolidated financial statements according to IFRS, various items require making forward-looking assumptions. These assumptions may have a material impact on the carrying amounts of the assets and the liabilities as at the balance sheet date as well as the level of income and expenses in the reporting year. The most important forward-looking assumptions and other material sources of estimate uncertainty as of the closing date that could result in a considerable risk of significant adjustments to the carrying amounts of assets and liabilities in the next fiscal year are discussed below.

Investment properties

In the Group, investment properties are held by DEMIRE Real Estate München I GmbH and Munich ASSET Vermögensverwaltung GmbH. The carrying amounts of the investment properties are based on valuation reports of renowned external independent experts and have been ascertained in accordance with international valuation standards. The valuation is based on discounted earnings models in accordance with the German ordinance on the valuation of property/real estate and on the basis of comparable prices or market prices, if available. When calculating fair values, assumptions are made concerning rental trends, maintenance costs, vacancies, remaining useful lives, and property yields (discount rates). Due to their long-term nature, these valuation assumptions are subject to uncertainties that can lead to both positive and negative valuation changes in the future.

Real estate inventory

Estimates of the net realisable value of the real estate inventory are based on the most reliable substantial indicators at the time when the estimates are made and take into consideration the amount expected to be received for the inventory. These estimates take into account price or cost changes directly related to transactions after the reporting period insofar as these transactions shed light on circumstances that already existed at the end of the reporting period. Estimates of net realisable value also take into account the purpose for which the real estate inventory is held. The determination of the net realisable value is based either on the comparative value method in the context of valuation reports by renowned external independent experts in accordance with international valuation standards or on internal estimates of the market value. The carrying amount of the respective real estate inventory amounts to EUR 7,784k (previous year: EUR 8,923k). Of this amount, a total of EUR 5,648k of real estate inventory has been valued using internal estimates of the market value. The remaining EUR 2,136k are based on valuation reports using the comparative value method. Regarding the result of the valuations, we refer to Note D.8.

Deferred tax assets on tax-loss carryforwards

Deferred tax assets are recognised for all unutilised tax-loss carryforwards to the extent that it is likely that taxable income will be available so that the tax-loss carryforwards can actually be utilised. Deferred tax assets for tax-loss carryforwards were recognised in the amount of EUR 928k (previous year: EUR 0k). The determination of the amounts of the deferred tax assets depends mainly on the management‘s assessment, the amount and expected timing of future taxable income, and future tax structuring options. Based on these estimates, the amount of deferred tax assets recognised for the tax-loss carryforwards is reviewed annually to conform to the current conditions. For further explanations, please see Note D.14 and E.5.1.

Obligations from operating leases – The Group as lessor

The Group has entered into commercial property lease agreements for its real estate inventory and its investment properties. Hereby, it was agreed that the Group should retain all the significant risks and opportunities connected with the ownership of these properties which are rented on the basis of an operating lease. Consequently, the Group accounts for these properties as operating leases. A material assumption was made with regard to the evaluation of the recoverability of outstanding receivables arising from lease agreements from commercial rentals.

B. Scope of consolidation and consolidation methods

1. SCOPE OF CONSOLIDATION

In addition to the Group's economic parent company, MAGNAT Asset Management GmbH (see explanations under A.5.), the consolidated financial statements generally include all German and foreign subsidiaries. The subsidiaries included in the consolidated financial statements as well as the joint ventures and associated companies which are accounted for using the equity method, are listed below:

Group company			Group share	Date of foundation/ acquisition	Acquisition cost EURk	Fiscal year
Directly held interests:						
Germany						
DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main	Subsidiary	acquired	100.00%	29/10/2009	21,160	01/04/2013 – 31/03/2014
DEMIRE Commercial Real Estate GmbH (formerly: MAGNAT Asset Management Deutschland GmbH), Frankfurt/Main	Subsidiary	acquired	100.00%	21/10/2008	25	01/01/2013 – 31/12/2013
Foreign countries						
MAGNAT Capital Markets GmbH, Vienna, Austria	Subsidiary	acquired	100.00%	05/05/2009	35	01/01/2013 – 31/12/2013
MAGNAT Asset Management Ukraine LLC/, Kiev, Ukraine	Subsidiary	formed	100.00%	05/05/2010	453	01/01/2013 – 31/12/2013
Indirectly held interests:						
Germany						
Erste MAGNAT Immobiliengesell-schaft mbH, Frankfurt/Main	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Zweite MAGNAT Immobiliengesell-schaft mbH, Frankfurt/Main	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Dritte MAGNAT Immobiliengesell-schaft mbH, Frankfurt/Main (merged with Zweite MAGNAT Immobilien-gesellschaft mbH)	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Vierte MAGNAT Immobiliengesell-schaft mbH, Frankfurt/Main (merged with Zweite MAGNAT Immobilien-gesellschaft mbH)	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt/Main	Associated company	acquired	24.78%[1]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
DEMIRE Real Estate München I GmbH, Frankfurt/Main	Subsidiary	acquired	100.00%[1]	27/11/2013	27	01/01/2013 – 31/12/2013
MUNICH ASSET Vermögensver-waltung GmbH, Frankfurt/Main	Subsidiary	acquired	100.00%[1]	05/02/2014	26	01/01/2014 – 31/03/2014
MUNICH ASSET Vermögensver-waltung 1 GmbH, Frankfurt/Main	Subsidiary	acquired	100.00%[1]	03/02/2014	26	01/01/2014 – 31/03/2014
Foreign countries						
MAGNAT Investment I B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64%[1]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
MAGNAT Investment IV B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	100.00%[1]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
R-QUADRAT Polska Alpha Sp. z o.o., Warsaw, Poland	Joint venture	acquired	50.00%[1]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013

Group company			Group share	Date of foundation/ acquisition	Acquisition cost EURk	Fiscal year
Hekuba S.à.r.l., Luxembourg, Luxembourg	Joint venture	acquired	32.44%[1]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Russian Land AG, Vienna, Austria	Associated company	acquired	40.34%[1]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Lumpsum Eastern European Participations C.V., Osterhout, Netherlands	Subsidiary	formed	94.00%[1]	29/01/2012	N/A[4]	01/04/2013 – 31/03/2014
MAGNAT Real Estate UA III B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
MAGNAT Real Estate UA VI B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
MAGNAT Real Estate UA X B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
MAGNAT Real Estate UA XI B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/04/2013 – 31/03/2014
SC VICTORY Consulting International s.r.l., Bucharest, Romania	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
R-Quadrat Bulgaria EOOD, Sofia, Bulgaria	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
OXELTON ENTERPRISES Limited, Limassol, Cyprus	Joint venture	acquired	59.78%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Irao MAGNAT Digomi LLC, Tbilisi, Georgia	Subsidiary	acquired	74.73%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
Irao MAGNAT 28/2 LLC, Tbilisi, Georgia	Joint venture	acquired	49.82%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
MAGNAT Tbilisi Office 1 LLC, Tbilisi, Georgia	Subsidiary	acquired	99.64%[2]	29/10/2009	N/A[4]	01/01/2013 – 31/12/2013
IRAO Magnat Gudiashvili LLC, Tbilisi, Georgia	Joint venture	formed	50.00%[3]	04/04/2011	N/A[4]	01/01/2013 – 31/12/2013
Forum-2000 Ltd., Kiev, Ukraine	Joint venture	acquired	50.00%	29/02/2012	N/A[4]	N/A
Kappatrade Ltd., Kiev, Ukraine	Subsidiary	acquired	99.64%[2]	19/10/2010	N/A[4]	01/01/2013 – 31/12/2013
Polartrade Ltd., Kiev, Ukraine	Subsidiary	acquired	99.64%[2]	19/10/2010	N/A[4]	01/01/2013 – 31/12/2013

1) Interests are held indirectly through DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main.
2) Interests are held indirectly through MAGNAT Investment I B.V., Hardinxveld Giessendam, Netherlands, and Lumpsum Eastern European Participations C.V., Osterhout, Netherlands.
3) Interests are held indirectly through MAGNAT Investment IV B.V., Hardinxveld Giessendam, Netherlands.
4) No disclosure was made because the relevant companies were acquired indirectly as part of the reverse acquisition.

Despite an interest of less than 20%, SQUADRA Immobilien GmbH & Co. KGaA was classified as an associated company in the DEMIRE Group since the management bodies, as well as, in part, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG and of SQUADRA Immobilien GmbH & Co. KGaA were composed of the same individuals during fiscal year 2012/2013. Through the purchase of additional shares during the reporting period, the interest was raised to 24.78% and the company was continued to be classified as an associated company in the DEMIRE Group.

Hekuba S.à.r.l., Luxembourg, and OXELTON ENTERPRISES Limited, Cyprus, were classified as joint ventures because strategic financial and business policies connected with business activities can be determined only by all partner companies jointly according to the agreements under the Articles of Association. Effective June 2014, DEMIRE sold its interest in Hekuba S.à.r.l. at a price of EUR 3,700k. We refer to Note I.4.

In the reporting period, by way of an agreement dated July 29, 2013 Magnat Development GmbH was merged with DEMIRE Deutsche Mittelstand Real Estate AG effective April 1, 2013. By way of an agreement dated July 15, 2013 Magnat Development GmbH withdrew as a general partner of Magnat First Development GmbH & Co. KG. Upon the withdrawal of the general partner, Magnat First Development GmbH & Co. KG ceased to exist. The company's assets and liabilities accrued to DEMIRE Deutsche Mittelstand Real Estate AG.

MAGNAT Investment II B.V. and its subsidiaries which hold the Chmelnitzky and Vitaly projects were also included in the consolidated financial statements with their assets and liabilities since the acquisition of these interests in fiscal year 2011/2012 did not constitute operations as defined by IFRS 3.

Despite an interest of 59.78%, OXELTON ENTERPRISES Limited, Cyprus, is not fully consolidated but rather accounted for using the equity method since, under the Articles of Association, the decisions of both shareholders must be unanimous.

As at the acquisition date of November 27, 2013, the assets and liabilities of DEMIRE Real Estate München I GmbH, Frankfurt/Main were recognised as follows (EUR 27k were recognised as acquisition cost in the financial statements):

EURk	Amounts recognised as at the acquisition date
Assets	
Called-in, outstanding capital contribution	25
Total assets	**25**
Liabilities	
Subscribed capital	25
Total liabilities	**25**

As at the acquisition date of February 5, 2014, the assets and liabilities of MUNICH ASSET Vermögensverwaltung GmbH, Frankfurt/Main were recognised as follows (EUR 26k were recognised as acquisition cost in the financial statements):

EURk	Amounts recognised as at the acquisition date
Assets	
Land & buildings	6,908
Outstanding capital contribution	13
Cash and cash equivalents	12
Total assets	**6,933**
Liabilities	
Subscribed capital	25
Loss carried forward	–1
Trade payables	1
Financial debt	6,908
Total liabilities	**6,933**

As at the acquisition date of February 3, 2014, the assets and liabilities of MUNICH ASSET VERMÖGENSVERWALTUNG 1 GMBH, Frankfurt/Main were recognised as follows (EUR 26k were recognised as acquisition cost in the financial statements):

in EURk	Amounts recognised as at the acquisition date
Assets	
Cash and cash equivalents	13
Total assets	**13**
Liabilities	
Subscribed capital	25
Outstanding contribution to subscribed capital, not called-in	–12
Total liabilities	**13**

DEMIRE Real Estate München I GmbH, MUNICH ASSET Vermögensverwaltung GmbH and MUNICH ASSET VERMÖGENSVERWALTUNG 1 GMBH are included in the consolidated financial statements with their assets and liabilities since the acquisition of these interests in the reporting year 2013/2014 did not constitute business combinations as defined by IFRS 3 (non-business transactions).

The following companies were disposed in the course of the fiscal year:

	Date of disposal	Proceeds from disposal in EURk
MAGNAT Immobilien GmbH & Co. Schumanngasse 16 KG, Vienna, Austria	13/06/2013	42
MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG, Vienna, Austria	13/06/2013	334
MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG, Vienna, Austria	13/06/2013	27

Summarised financial information on the disposed companies (amounts in EURk):

	MAGNAT Immobilien GmbH & Co. Schumann-gasse 16 KG, Vienna, Austria	MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG, Vienna, Austria	MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG, Vienna, Austria
Aggregated assets	349	1,307	31
Of which cash and cash equivalents	25	23	27
Aggregated liabilities	360	1,305	5

As at the acquisition date of January 31, 2013, the assets and liabilities of MAGNAT Development GmbH and MAGNAT First Development GmbH & Co. KG were recognised as follows:

in EURk	Amounts recognised as at the acquisition date
Assets	
Current assets	
Trade accounts receivables and other receivables	11
Financial receivables and other financial assets	150
Cash and cash equivalents	505
Total assets	**666**
Liabilities	
Provisions	75
Trade payables and other liabilities	22
Tax liabilities	23
Financial debt	15
Total liabilities	**135**

The fair value of the acquired receivables totalled EUR 11k. The gross amounts of the acquired receivables corresponded to the carrying amounts as at the acquisition date and were measured as fully recoverable as at the acquisition date.

The following companies were disposed in the previous fiscal year:

	Date of disposal	Proceeds from disposal in EURk
R-QUADRAT Immobilien Management GmbH & Co. Grazer Straße 59-61 KG, Vienna, Austria	11/07/2012	277
SC Teo Impex Consulting International s.r.l., Bucharest, Romania	01/03/2013	2,025
Fünfte MAGNAT Immobiliengesellschaft mbH, Frankfurt/Main	18/03/2013	3

Summarised financial information on the disposed companies (amounts in EURk):

	R-QUADRAT Immobilien Management GmbH & Co. Grazer Straße 59-61 KG, Vienna, Austria	SC Teo Impex Consulting International s.r.l., Bucharest, Romania	Fünfte MAGNAT Immobiliengesellschaft mbH, Frankfurt/Main
Aggregated assets	685	1,372	3,022
Of which cash and cash equivalents	6	0	2
Aggregated liabilities	863	5	5,327

2. CONSOLIDATION METHODS

Consolidation methods

The consolidated financial statements comprise the financial statements of MAGNAT Asset Management GmbH, Vienna, Austria, and its subsidiaries as of March 31 of each fiscal year. The financial statements and interim financial statements of the subsidiaries are prepared by applying uniform accounting methods on the same balance sheet date as that of the parent company.

Capital is consolidated applying the purchase method by offsetting the acquisition costs of the interests with the proportional re-valued equity of the subsidiaries at the date of acquisition. Upon first-time consolidation, the conditions prevailing on the date when the interests in the consolidated subsidiary are acquired are generally taken into consideration. Any resulting differences are allocated to the assets and liabilities insofar as there fair values differ from the carrying amounts shown in the financial statements. In subsequent periods, identified hidden reserves are carried in line with the corresponding assets and liabilities. Where non-controlling shareholders hold an interest in the subsidiary's equity on the balance sheet date, this item is allocated to non-controlling interests.

Transactions through which the share of interest in a subsidiary changes without giving up control over the subsidiary are recorded directly in equity as equity transactions not affecting profit or loss.

Intragroup revenues, expenses and income, and all receivables and liabilities between consolidated companies are eliminated.

Associated companies and joint ventures are consolidated in the Group using the equity method.

Currency translation

The reporting currency is the euro. Where figures have been rounded to EURk, this has been stated. When rounding to EURk, discrepancies may occur.

The functional currency concept is applied for consolidated companies whose financial statements are prepared in foreign currencies. Pursuant to IAS 21 (The Effects of Changes in Foreign Exchange Rates), assets and liabilities denominated in foreign currencies are translated into the euro reporting currency at the rate prevailing on the balance sheet date, and expenses and income are translated on the basis of year-average exchange rates.

For subsidiaries and companies accounted for using the equity method that prepare their financial statements in foreign currencies, the functional currency is determined on the basis of the economic environment in which the respective company operates.

In contrast to the previous year, management has determined the EUR as the functional currency for the Ukrainian subsidiary (previous year: local currency UAH). The change was due to the expectation that future transactions with regard to these subsidiaries will presumably be settled in EUR and that meanwhile only an irrelevant portion of revenues and costs are settled in the local currency UAH

In the period under review, the financial statements of some companies accounted for using the equity method were not prepared in the reporting currency of the euro. Insofar as these companies were included in the consolidated financial statements using the equity method, the proportional equity was translated into the reporting currency applying the functional currency concept. Proportional profits/losses were translated at year-average rates.

Currency translation differences are recognised in other comprehensive income and totalled EUR –2,706k (previous year: EUR –2,115k) on an accumulated basis, including non-controlling interests.

C. Accounting policies

The consolidated financial statements were prepared on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue the business activity. The following assumptions were discussed in detail by the Company's governing bodies:

» The profitability largely depends on the economic situation of the countries in which DEMIRE is engaged.

» Based on the new focus and realignment of the business model towards a classical "buy & hold" strategy with active portfolio management, continuous and stable cash inflow should contribute to strengthen the liquidity following the respective execution of future investments.

» The Company's liquidity depends on disposals due to DEMIRE's former business model.

» For this reason, the establishment and monitoring of liquidity management is a key focal point of the Company's governing bodies

» The budgeted figures applied are based on management's assumptions and measures initiated by the management.

» Alternative measures are planned and initiated in order to ensure that the budget is achieved.

» A key component of this is the measures currently being implemented for further cost containment.

» A further significant deterioration in the economic situation in Eastern Europe will require a new assessment of the assumptions with regard to accelerated disposals.

Assets and liabilities are presented according to their terms (due in more than/less than one year). Deferred taxes are generally reported as non-current.

The statement of income was structured according to the recommendations of the European Public Real Estate Association (EPRA) as of August 2011 and January 2013.

Assets are generally measured at the cost of acquisition or production. The assets and liabilities identified at MAGNAT Development GmbH, MAGNAT First Development GmbH & Co. KG, and MAGNAT Investment II B.V., as well as their subsidiaries were recognised at fair value as at the acquisition date. The subsequent measurement of these assets and liabilities is carried out according to the following accounting policies.

Intangible assets
Intangible assets include goodwill in an amount of EUR 0k (previous year: EUR 10k).

Goodwill arises from business combinations or acquisitions. It represents the difference between the acquisition costs and the proportional and corresponding net present value of the identifiable assets, liabilities, and certain contingent liabilities. Pursuant to IAS 36, goodwill is not subject to scheduled amortisation.

Other intangible assets include acquired software and other purchased intangible assets, which are amortised on a straight-line basis over a period of three to four years according to their useful economic life.

Property, plant, and equipment
All property, plant, and equipment are recognised at cost less scheduled straight-line depreciation. Property, plant, and equipment is depreciated over a period of three to fifteen years according to their useful economic life.

Impairment of non-financial assets
Assets within the meaning of IAS 36.1 are tested for impairment if circumstances or changes to circumstances suggest that their carrying amounts may no longer be recoverable. An impairment loss is recognised in profit or loss if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of either the asset's net realisable value or its value in use. Net realisable value is the amount achievable when an asset is sold on normal market terms less selling costs. Value in use is the present value of estimated future cash flows expected from the continued utilisation of an asset and its disposal at the end of its useful life. The recoverable amount is calculated for each asset individually, or, if this not possible, for the cash-generating unit to which the asset belongs.

A reversal of impairment loss of previously impaired assets is mandatory if the reason for the impairment loss no longer exists. The only exception to this regulation is an impairment loss applied to goodwill, where reversals of impairment losses are expressly prohibited.

Financial assets and liabilities
Financial assets and financial liabilities are classified upon initial recognition and in line with the categories of IAS 39. The Company primarily holds financial instruments at amortised cost under the categories of loans and receivables and financial liabilities. Financial assets and financial liabilities are initially recognised in the balance sheet when a Group company becomes a contracting party of the instrument. The initial recognition of a financial instrument is carried out at fair value, including possible transaction costs.

"Loans and receivables" contain non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Subsequent measurement is at amortised cost. If there is objective evidence that such an asset is impaired, an impairment loss is directly recognised in profit or loss. Subsequent reversals of impairment losses are recognised in profit or loss up to the level of the asset's amortised cost which would have resulted without impairment. Non- and low-interest-bearing non-current receivables are carried at their present value. At DEMIRE, this category contains loans to investments accounted for using the equity method, trade accounts receivables and other receivables, as well as financial receivables. Certain trade accounts receivables and other receivables (taxes) do not constitute financial instruments.

"Financial assets and financial liabilities measured at fair value through profit or loss" may constitute both primary and derivative financial instruments. Items in this category are subsequently measured at fair value. Gains and losses on financial instruments in this measurement category are to be recognised directly in profit or loss. The allocation to the measurement category "held for trading" only contains derivatives, which are currently not held by the DEMIRE Group.

"Other financial liabilities" are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are recorded over the term in profit or loss. DEMIRE allocates financial debt, trade payables and other liabilities to this category.

Loans to investments accounted for using the equity method, loans, trade accounts receivables and other receivables (with the exception of receivables arising from income tax and value added tax), as well as financial receivables are allocated to the "loans and receivables" category. These are initially measured at fair value including possible transaction costs. Subsequently, they are measured at amortised cost applying the effective interest method. Default risks are reflected through impairments. Non-interest-bearing and low-interest receivables are recognised at their present value.

Interests in affiliated companies and associated companies, which are neither fully consolidated nor consolidated using the equity method due to their minor significance, are recognised pursuant to IAS 39.

Hedge accounting is currently not applied since the IAS 39 preconditions do not apply. The Company does not utilise the option to designate financial assets or liabilities upon initial recognition as at fair value through profit or loss.

The Company derecognises a financial asset if it has expired due to payment or the payment is no longer anticipated. If a financial asset is transferred, the asset is derecognised when the contractual right to receive the cash flows of this asset is transferred. Financial liabilities are derecognised if these are redeemed, i.e. if the contractual obligations have been settled, waived, or have expired.

Impairment of financial assets
On each balance sheet date, the Group determines whether a financial asset or a group of financial assets is impaired.

If there are objective indications that an impairment of loans and receivables recognised at amortised cost has occurred, the amount of the impairment is assessed as the difference between the carrying amount of the asset and the present value of the expected future cash flows (with the exception of expected future loan defaults that have not yet occurred), discounted applying the original effective interest rate of the financial assets (in other words, the effective interest rate calculated upon initial recognition).

The asset's carrying amount is reduced utilising the valuation adjustment account. The impairment loss is recognised in profit or loss.

It is first determined whether there is an objective indication of impairment to financial assets which are considered to be significant individually, and to financial assets which are not considered to be significant, individually or collectively. If the Group determines that no objective indication of impairment exists for an individually tested financial asset, whether significant or not, it assigns the assets to a group of financial assets with similar default risk characteristics and collectively tests them for impairment. Assets that are tested individually for impairment and for which an impairment loss is reported are not included in the collective impairment assessment.

If the amount of impairment loss decreases in one of the subsequent reporting periods and the decrease can be related objectively to a circumstance arising after the impairment was recognised, the previously recorded impairment loss is reversed. The amount of the reversal is limited to the amortised cost at the date of the reversal. The reversal is recognised through profit or loss in the loans and receivables category. If for trade accounts receivables there are objective indications (such as probability of insolvency or significant financial difficulties on the part of the debtor) that not all amounts due under the original payment terms will be collected, an impairment loss is applied using a valuation adjustment account. The amounts in the valuation adjustment account are derecognised against the carrying amounts of the impaired financial asset if they are classified as uncollectible.

The classification of net gains and losses
Net gains and losses from loans and receivables primarily comprise interest income. In addition, they also comprise the corresponding impairments and impairment reversals on these financial assets as well as gains and losses from currency translation. Net gains and losses from financial liabilities include gains and losses from currency translation next to interest expenses.

Investments accounted for using the equity method
Interests in companies in which DEMIRE can exert significant influence, but does not possess control, are recognised applying the equity method pursuant to IAS 28. Interests in joint ventures are also recognised applying the equity method pursuant to IAS 31. Interests in investments accounted for using the equity method are initially recognised at cost. The difference between the acquisition costs and the proportionate share of equity represents goodwill. The carrying amount of the interest subsequently increases or decreases according to the owner's interest in the net profit for the period (including currency translation) of the investments accounted for using the equity method. The equity method is no longer applied when the significant influence ends, or if the company is no longer classified as an associated company or joint venture. If at the same time, assets exist against investments accounted for using the equity method for which settlement is neither planned nor likely, then these assets are allocated, according to their economic substance, to the net investment in the investments accounted for using the equity method.

After applying the equity method, the Group determines whether an additional impairment is required for the Group's interest in the investments accounted for using the equity method. On each balance sheet date, the Group determines the extent to which there are objective indications that an interest in an investment accounted for using the equity method has been impaired. If this is the case, a positive difference between the carrying amount and the recoverable amount (the higher of either value in use and fair value less costs to sell) is reported through profit or loss as an impairment loss. If the reasons for a previously recognised impairment loss no longer exist, such an impairment loss is reversed accordingly.

Investment properties
Properties which are held or constructed to generate rental income and/or for capital appreciation are classified as "investment properties". Currently, the investment properties solely consist of commercial properties.

The initial recognition of investment properties is carried out at the cost of acquisition or production, including incidental acquisition costs. Following initial recognition, investment properties are measured at fair value. Gains and losses resulting from the adjustments are recognised as income or an expense in the consolidated statement of income.

Within the Group, investment properties are held by DEMIRE Real Estate München I GmbH and Munich ASSET Vermögensverwaltung GmbH. The fair values were calculated by an independent external expert. When calculating fair values, assumptions are made concerning rental trends, maintenance costs, vacancies, remaining useful lives, and property yields (discount rates).

The optimum use of the respective objects is assumed when calculating the value of properties.

Investment properties are derecognised when they are sold or are no longer permanently used and a disposal is not expected to yield a future economic benefit. Any resulting gains or losses are recognised in the year of disposal or retirement. Investment properties are transferred when a change in utilisation through owner-occupation occurs or the start of the disposal process is initiated.

Measurement at fair value
For the purpose of financial reporting, certain assets and liabilities of the Group are measured at fair value. The fair value is the amount to be achieved upon the sale of an asset in an orderly business transaction between market participants on the transaction date or the amount to be paid for the transfer of a liability. Hereby, it is irrelevant whether the price is directly observable or determined by applying a valuation method.

If fair value is determined using a valuation method, the fair value is to be assigned to one of the following three levels in the fair value hierarchy dependent upon the available observable parameters and the respective importance of these parameters for the overall measurement:

- Level 1: Input factors are quoted (unadjusted) prices in active markets for identical assets or liabilities that are available as of the valuation date.
- Level 2: Other input factors than the quoted prices in Level 1 and factors which are either directly observable or can be indirectly derived for the asset or liability.
- Level 3: Input factors for the asset or liability are not observable.

Details regarding the valuation techniques and input factors used in the measuring fair value of the individual assets and liabilities can be found in Note E and Note I. 1.

Real estate inventory

Real estate inventory is recognised pursuant to IAS 2 (see note A.6). Real estate inventory is recognised at the lower of acquisition or production cost and net realisable value. Net realisable value is the estimated sales proceeds achievable in the normal course of business, less the estimated costs until completion, and estimated sales costs. Acquisition or production cost includes general overhead costs attributable to the production process along with directly attributable specific costs.

The net realisable value is newly determined in each subsequent period. If the circumstances no longer exist which had previously led to an impairment of the inventory's value to a level below its acquisition or production cost, or if there is a substantive indication of an increase in the net realisable value due to a change in economic circumstances, then the amount of the impairment is reversed insofar as the new carrying amount equals the lower of acquisition or production cost or adjusted net realisable value (in other words, the reversal is limited to the amount of the original impairment). For example, this would be the case if the real estate inventory which is recognised at net realisable value due to a decline in its selling price would remain in the portfolio and in subsequent periods its selling price would rise again.

Taxes

Actual tax assets and liabilities for the past period are measured as the amount expected to be recovered from or paid to the taxation authorities. The amounts are calculated on the basis of the tax rate and tax laws applicable on the balance sheet date.

Deferred taxes

Deferred taxes are recognised using the liability method for temporary differences between the carrying amount of an asset or liability in the consolidated balance sheet and its tax valuation as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of deferred tax liabilities arising from taxable temporary differences connected with interests in subsidiaries, associated companies, and joint ventures, if the timing of the reversal of the temporary differences can be controlled, and it is likely that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, as yet unutilised tax-loss carryforwards, and unutilised tax credits, to the extent that it is likely that taxable income will be available against which the deductible temporary differences, unutilised tax-loss carryforwards, and unutilised tax credits can be offset, with the exception of:

» Deferred tax assets relating to deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination, and which, at the time of the transaction, affects neither the profit/loss for the period under commercial law, nor the taxable profit/loss, and

» Deferred tax assets arising from taxable temporary differences connected with interests in subsidiaries, associated companies, and joint ventures, if it is likely that the temporary differences will not be re-versed in the foreseeable future, and that there will be insufficient taxable income available against which the temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at each balance sheet date, and reduced insofar as it is no longer likely that sufficient taxable income will be available against which at least part of the deferred tax asset can be offset. Unrecognised deferred tax assets are reviewed at each balance sheet date, and recognised insofar as it has become likely that future taxable income will allow the deferred tax assets to be realised.

Deferred tax assets and liabilities are measured applying the tax rates expected to be valid in the period in which the asset is realised or the liability is satisfied. The amounts are calculated on the basis of the tax rates (and tax laws) applicable on the balance sheet date. The subsidiaries' deferred tax assets and liabilities are calculated using the tax rates of the respective country.

Deferred taxes relating to items that are recognised in other comprehensive income are not recognised through profit or loss but instead in the statement of comprehensive income. Deferred tax assets and liabilities are offset against each other if the Group has an enforceable right to offset current tax assets against current tax liabilities, and these assets and liabilities relate to income taxes levied by the same taxation authority against the same taxable entity.

Value added tax

Revenues, expenses, and asset are recognised after deducting the value added tax with the exception of the following instances:

- If the value added tax incurred on the purchase of assets or services cannot be recovered from the taxation authorities, the value added tax is recognised as part of the asset's acquisition or production cost, or as part of the expense item.
- Receivables and liabilities are recognised with the value added tax included.

The amount of value added tax recovered from, or paid to, the taxation authority is recognised in the consolidated balance sheet under receivables or liabilities, respectively.

Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits and are recognised at their nominal amount. Cash and cash equivalents denominated in foreign currencies are translated at the rate prevailing on the reporting date.

Investments available for sale accounted for using the equity method

Interests in investments accounted for using the equity method are classified as available for sale if the carrying amount can be largely realised by a sale and if the sale is highly probable. These are recognised at the lower of their carrying amounts and fair values less selling costs. The disposal costs are not recognised at their present value assuming that the disposal will take place within one year. Impairments from subsequent measurements will be recognised in profit or loss. A subsequent rise in the fair value will be recognised as a gain to the maximum extent of the previous impairment.

Trade payables and other liabilities

Following initial recognition, liabilities are measured at amortised cost.

Financial debt

Convertible bonds to be converted by the debtee and be redeemed by DEMIRE by way of cash settlement or in shares and for which a fair value can be derived based on a quoted price are measured at fair value upon initial recognition that corresponds to their nominal value. The transaction costs resulting from the issuance are recognised as financial expenses. In the application of the category "at fair value through profit or loss", any conversion rights embedded in the convertible bond are not separated from the debt instrument but are also measured at the fair value of the convertible bond as uniform financial debt. Subsequent measurement is carried out at the market price on the relevant reporting date. Gains and losses from the mark-to-market valuation are recognised in profit or loss.

Upon initial recognition, financial debt is recognised at fair value taking into account all transaction costs directly incurred and attributable in this connection, as well as any discounts. Transaction costs and discounts are amortised in subsequent periods applying the effective interest rate method. Financial debt is then recognised at amortised cost. Financial debt is derecognised if it has been redeemed or has reached final expiration.

Provisions

During the fiscal year, provisions are recognised for obligations to third parties for which it is likely that there will be an outflow of resources in future periods. Provisions for obligations that will likely not result in a burden on assets in the subsequent year are recognised in the amount of the present value of the expected outflow of assets. The measurement of provisions is reviewed on each balance sheet date.

Interest of non-controlling shareholders

The interests in net assets of non-controlling shareholders are recognised and are reported separately from the parent company shareholders' interests in the Group equity. The interests in net assets of non-controlling shareholders are composed of the amount of the interests of non-controlling shareholders as of the balance sheet date of the previous year, and the interests of non-controlling shareholders in the equity changes in the year under review.

Leasing

a) Determining whether an agreement contains a lease

Determining whether an agreement constitutes a lease, or contains a lease, is performed on the basis of the economic contents of the agreements at their start based on an assessment as to whether the satisfaction of the agreement depends on the utilisation of a particular asset, and whether the agreement transfers a right to utilise the asset.

After the start of a lease, a renewed assessment as to whether an agreement contains a lease is only performed if one of the following conditions has been satisfied:

» Contractual terms are changed to the extent that the amendment relates not only to the renewal or extension of the agreement,

» A renewal option is exercised, or an extension is granted, unless the renewal or extension terms were originally taken into consideration in the term of the lease,

» A change occurs to the determination as to whether satisfaction depends on the specific asset, or,

» The asset undergoes a significant change.

b) The Group as lessor

Leases, through which not all of the opportunities and risks connected with ownership are essentially transferred by the Group to the lessee, are classified as operating leases. Initial direct costs incurred in negotiating and entering into an operating lease are added to the carrying amount of the leased asset, and recognised as an expense over the lease term in line with the rental income. Contingent rental payments are recognised as income in the period in which they are generated.

c) The Group as lessee

Lease payments for operating leases are expensed through the statement of income on a straight-line basis over the term of the lease agreement.

Revenue recognition

Revenues comprise proceeds from the sale of real estate companies, proceeds from the sale of real estate, proceeds from asset management services, net rents, and ancillary rental costs. Net rents and ancillary rental costs are reported as rental income in the consolidated statement of income. Revenues are reported on an accrual basis in accordance with the terms of the underlying contract and when it is likely that the Company will receive the economic benefit from the transaction. However, if there is doubt concerning the collectability of an amount that has already been recognised as revenues, the uncollectible or doubtful amount is expensed, and is not offset against revenues.

Revenue is recognised on sales transactions when

» all significant opportunities and risks connected with the ownership have transferred to the acquirer,

» the Group retains neither rights of disposition nor effective control over the object of sale,

- the amount of revenue and the costs arising in connection with the sale can be determined reliably,
- it is sufficiently likely that the Group will receive an economic benefit from the sale, and
- expenses incurred, or to be incurred, in connection with the sale can be determined reliably.

Profit/loss from asset management
The profit/loss from asset management includes revenues from asset management mandates from non-Group companies. The corresponding expenses are allocated accordingly. The expenses related to inter-company asset management mandates are included under general administrative expenses.

D. Notes to the consolidated statement of income

1. RENTAL INCOME

The Group's rental income is composed as follows:

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Net rents	558	730
Income from ancillary rental costs	91	54
	649	**784**

Rental income arises from the rental of land with residential buildings.

2. OPERATING EXPENSES TO GENERATE RENTAL INCOME

In the reporting year, operating expenses to generate rental income amounted to EUR 189k (previous year: EUR 507k). Operating expenses of EUR 177k (previous year: EUR 54k) are allocable and can be passed on to tenants. Of this amount, an amount of EUR 86k could not be passed on due to vacancies during the reporting year. Operating expenses of EUR 12k (previous year: EUR 453k) are not allocable.

3. PROFIT/LOSS FROM THE SALE OF REAL ESTATE COMPANIES

In the reporting period, the Group had disposed of MAGNAT Immobilien GmbH & Co. Schumanngasse 16 KG, MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG, and MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG (see Note B.1).

4. PROFIT/LOSS ON SALE OF REAL ESTATE

In the reporting period, no real estate was sold.

In the prior year, the Group sold properties located in Austria. The revenues amounted to EUR 1,046k mainly from the sale of German residential portfolio. The expenses related to disposals of real estate were EUR 743k.

5. PROFIT/LOSS FROM ASSET MANAGEMENT

During the reporting period, the Group achieved revenues of EUR 82k (previous year: EUR 194k) from the asset management of real estate for third parties. The expenses allocated to this segment were mainly comprised of staff costs and other expenses (of the group companies MAGNAT Asset Management GmbH and DEMIRE Commercial

Real Estate GmbH (formerly: MAGNAT Asset Management Germany GmbH)) amounting to EUR 44k (previous year: EUR 127k).

6. PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Profits from investments accounted for using the equity method in an amount of EUR 23k (previous year: EUR 420k) include the results of Russian Land AG (EUR 23k, previous year: loss of EUR 529k) and R-Quadrat Polska Alpha Sp. z o.o. (EUR 0k, previous year: EUR 124k).

Losses from investments accounted for using the equity method in an amount of EUR 761k (previous year: EUR 566k) primarily include the results of OXELTON ENTERPRISES Limited (EUR 644k, previous year EUR 241k), SQUADRA Immobilien GmbH & Co. KGaA (EUR 108k, previous year: EUR 126k) and Irao MAGNAT 28/2 LLC (EUR 9k, previous year: profit of EUR 296k).

The item unrealised fair value adjustments in equity investments comprises recognised impairment losses on the carrying amounts of investments accounted for using the equity method as well as the proportionate results of these companies based on the market value changes of their real estate inventory. This includes impairment losses of EUR 817k (previous year: EUR 771k) on OXELTON ENTERPRISES Limited. The impairment was based on the lower net realisable value. The net realisable value is the estimated sales proceeds achievable in the normal course of business less the estimated costs until completion and estimated sales costs. The impairment loss applied to OXELTON ENTERPRISES Limited is the result of fair value less selling costs. In order to calculate the fair value, a value assessment was performed on the Peremogi project which is held by a subsidiary of OXELTON ENTERPRISES. The estimation of the market value of this project is based on the residual value method. As part of the residual value method, the property‘s market value after completion was first calculated using the discounted earnings method. Subsequently, all costs required for the realisation of the construction measures, and other costs arising in connection with the project development, were deducted. A net initial discount rate of 10% was applied for determining the discounted earnings value. Irao MAGNAT Gudiashvili LLC was measured on the basis of the corrected fair value since an impairment loss regarding the net investment was taken into account. In addition to the impairment losses, the prior year also included negative fair value adjustments on real estate inventory of EUR 372k.

DEMIRE‘s share in the transferred profit or loss in investments accounted for using the equity method is listed under E.1.4.

At R-QUADRAT Polska Alpha Sp. z o.o., which is an investment accounted for using the equity method, proportionate accumulated losses of EUR 3,469k (previous year: EUR 3,108k) were not recognised. EUR 362k of these proportionate losses had occurred in the reporting period (previous year: EUR 655k). Additionally, proportionate losses of EUR 37k of Irao MAGNAT Gudiashvili LLC were not recognised. At this company, the share of losses exceeded the value of the investment and therefore no further losses were recognised.

7. PROFIT/LOSS OF FAIR VALUE ADJUSTMENTS IN INVESTMENT PROPERTIES

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Profit/loss of fair value adjustments in investment properties	2,905	0
	2,905	**0**

The profit/loss of fair value adjustments in investment properties of EUR 2,905k (previous year: EUR 0k) concerns a property in Munich acquired during the reporting year. The fair value of the property was determined by a valuation report of an external independent expert as of March 31, 2014 for the first time. The appreciation in value since the acquisition was largely the result of the initiated optimisation measures and the fact that the purchase price of this property had already been agreed upon in 2013 and was part of the price for a package deal.

8. UNREALISED FAIR VALUE ADJUSTMENTS IN REAL ESTATE INVENTORY

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Profits from unrealised fair value adjustments in real estate inventory	0	0
Losses from unrealised fair value adjustments in real estate inventory	–1,140	–1,520
	–1,140	**–1,520**

Profits and losses from unrealised fair value adjustments in real estate inventory include effects from the valuation being based on the assessment of market values. We refer to Note E.2.1.

9. IMPAIRMENT OF GOODWILL AND RECEIVABLES

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Impairment of goodwill	0	24
Impairment of receivables	1,212	1,460
	1,212	**1,484**

Impairment of receivables is composed as follows:

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Trade accounts receivables and other receivables	14	1,460
Financial receivables and other financial assets	1,198	0
	1,212	**1,460**

10. OTHER OPERATING INCOME

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Gains from foreign currency differences	664	618
Compensation for damages	326	0
Derecognition of liabilities	201	16
Benefits in kind	34	0
Income from the reversal of provisions	32	0
Reversal of impairment losses on receivables	14	0
Income from expenses passed on	11	284
Insurance compensation	0	5
Other rental income	0	4
Others	236	133
	1,518	**1,060**

The income from expenses passed on relates to the offsetting of other operating expenses to third parties, among others.

11. GENERAL AND ADMINISTRATIVE EXPENSES

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Legal and consulting fees	1,617	741
Expenses for asset management	1,393	2,017
Staff costs	1,331	677
Advertising and travel expenses	181	226
Supervisory Board compensation	40	57
Others	94	91
	4,656	**3,809**

12. OTHER OPERATING EXPENSES

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Losses from foreign currency differences	1,291	11
Non-deductible input taxes	231	222
Expenses for Annual General Meeting and investor relations	79	59
Impairments	77	0
Fees and incidental costs of monetary transactions	63	138
Third-party services	51	23
Occupancy costs	39	57
Insurance fees	35	36
Legal and consulting fees	0	30
Others	298	261
	2,164	**837**

13. FINANCIAL RESULT

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Financial income	1,135	845
Financial expenses	–1,317	–1,552
	–182	**–708**

Financial income stems mainly from loans granted to companies accounted for using the equity method.

Detailed information regarding net gains and losses from loans and receivables and financial debt are to be found in Section I.1.

Financial expenses primarily include interest expenses paid to banks and other lenders resulting from the Group‘s investment activity. We refer to I.1.

14. INCOME TAXES

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Current income taxes	15	–7
Deferred income taxes	236	286
Total income taxes (– = income / + = expense)	**251**	**278**

The current tax expenses include corporate and trade taxes of domestic companies and the asset management companies based in Austria.

The current income tax expense of EUR 253k contains adjustments for non-periodic income tax benefits. In the prior year, current income tax benefits (EUR –7k) did not include adjustments for actual taxes of prior periods. Deferred tax income of EUR 2k is the cumulative balance from the origination and reversal of temporary differences.

Income taxes are distributed among domestic and foreign companies as follows:

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Germany	9	–204
Foreign countries	242	483
	251	**278**

As at the balance sheet date, there were unutilised tax-loss carryforwards from consolidated companies totalling EUR 27,611k (previous year: EUR 26,323k). Of this amount, EUR 22,143k were non-lapsable tax-loss carryforwards. Of the remaining tax-loss carryforwards, EUR 17k will lapse next year. In subsequent years, the following amounts will lapse: 2015: EUR 28k; 2016: EUR 124k; 2017: EUR 66k; 2018: EUR 21k; 2019: EUR 54k; 2020: EUR 5,041k. Deferred tax assets are capitalised for these loss carryforwards only when it is likely that they will be offset with earnings achieved within the foreseeable future. In the DEMIRE Group, deferred tax assets on tax-loss carryforwards are only capitalised to the extent that deferred tax liabilities were recognised.

Deferred taxes in the amount of EUR 99k recognised in other comprehensive income in the previous year were reclassified to “Retained earnings including Group profit/loss” in the reporting year.

Distributions to shareholder by DEMIRE AG have neither a corporate nor a trade tax effect on the Company. Nevertheless, the Company is generally liable for German capital gains tax plus the Solidarity Surcharge (withholding tax), which the Company is required to withhold from the distribution approved and transfer to the relevant German tax office.

The distributions generally require that shareholders pay income and corporate taxes unless the distributions are not subject to taxation due to the shareholders‘ tax status or other circumstances. Withholding tax that the Company withholds and transfers can generally be offset with its income and corporate tax liability, independently of the shareholders‘ tax status, and is reimbursable.

Tax reconciliation statement

The tax reconciliation statement between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 31.93% (previous year: 31.93%). The Group tax rate of 31.93% includes a 15% corporate tax rate valid from January 1, 2008, a 5.5% solidarity surcharge, and a 16.1% trade tax. The calculation of deferred taxes for the German companies is based on the tax rate of 31.93%. Country-specific tax rates were applied to each of the calculations when calculating deferred tax for the foreign companies.

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Profit/loss before taxes	**–5,735**	**–5,651**
Group tax rate	**31.93%**	**31.93%**
Expected tax income	**–1,831**	**–1,804**
Tax differences among foreign subsidiaries	6	9
Tax effect arising from non-deductible operating expenses	632	581
Tax effect of tax-free income	–137	–1,260
Tax effects arising from non-utilised losses and non-recognised temporary differences for which no deferred tax assets were capitalised	1,556	2,478
Release due to impairment on deferred taxes	0	302
Others	25	–27
Effective income taxes	**251**	**278**

Tax-free income resulted primarily from the profits of companies accounted for using the equity method and the positive result from the sales of real estate companies. Income from companies accounted for using the equity method is included in profit/loss from investments accounted for using the equity method in the statement of income. The tax effect arising from non-deductible operating expenses mainly results from a loss from the investments accounted for using the equity.

15. NET PROFIT/LOSS FOR THE PERIOD – OF WHICH ATTRIBUTABLE TO NON-CONTROLLING SHAREHOLDERS

Net profit/loss for the period attributable to non-controlling shareholders of EUR –51k (previous year: EUR –3k) primarily relates to non-controlling interests in MAGNAT Investment I B.V., Netherlands.

16. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net profit/loss for the period attributable to the parent company shareholders by the weighted average number of shares outstanding.

	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Net profit/loss for the period attributable to the parent company shareholders (in EURk)	–5,935	–5,927
Weighted average number of shares outstanding	13,894,651	13,889,651
Basic earnings per share (EUR)	**–0.43**	**–0.43**

For the calculation of the diluted weighted average number of shares as of March 31, 2014, the convertible bonds in the amount of EUR 11,300k were excluded as their effect would have been antidilutive.

17. STAFF COSTS

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Salaries	1,742	1,741
Statutory social expenses	193	300
	1,935	**2,041**

The total amount of staff costs is included in general and administrative expenses.

18. SCHEDULED DEPRECIATION AND AMORTISATION

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
of other intangible assets	8	9
of property, plant, and equipment	22	25
	30	**34**

Scheduled depreciation and amortisation is included in both general and administrative expenses and other operating expenses.

E. Notes to the consolidated balance sheet

1. NON-CURRENT ASSETS

1.1 Intangible assets

1.1.1 Goodwill

This includes goodwill recognised as part of the capital consolidation of the MAGNAT Asset Management GmbH and MAGNAT Investment I B.V. subsidiaries.

in EURk	2013/2014	2012/2013
Acquisition cost as at April 1 of the fiscal year	1,039	1,015
Cumulative impairment charges as at April 1 of the fiscal year	1,029	1,005
Carrying amounts as at April 1 of the fiscal year	**10**	**10**
Additions	0	24
Disposals	10	0
Acquisition cost as at March 31 of the fiscal year	1,029	1,039
Cumulative impairment charges as at March 31 of the fiscal year	1,029	1,029
Carrying amounts as at March 31 of the fiscal year	**0**	**10**

in EURk	2013/2014	2012/2013
Additions to impairment charges	0	24

Impairment losses are reported in the statement of income in the line item impairment of goodwill and receivables. The change to the carrying amount of goodwill during the reporting period resulted from disposals in the context of the sale of MAGNAT Immobilien GmbH & Co. Schumanngasse 16 KG.

The positive differences arising from the initial consolidation of the subsidiaries acquired in the reporting year totalling EUR 5k were immediately recognised as an expense through profit or loss since those represented acquisition-related costs (primarily notaries' fees) for the respective subsidiaries. The amounts recognised through profit or loss are included in other operating expenses (D. 12).

1.1.2 Other intangible assets

A useful life of three to four years is applied to other intangible assets. This primarily includes computer software. The amortisation is reported in the statement of income in the line item “general and administrative expenses” (EUR 8k; previous year: EUR 9k).

in EURk	2013/2014	2012/2013
Acquisition cost as at April 1 of the fiscal year	51	51
Cumulative amortisation as at April 1 of the fiscal year	41	32
Carrying amounts as at April 1 of the fiscal year	**10**	**19**
Additions	0	0
Disposals	1	0
Amortisation	8	9
Acquisition cost as at March 31 of the fiscal year	50	51
Cumulative amortisation as at March 31 of the fiscal year	49	41
Carrying amounts as at March 31 of the fiscal year	**1**	**10**

1.2 Property, plant, and equipment

Office and operating equipment

Property, plant, and equipment include office and operating equipment. A useful life of 3 to 15 years is applied for their depreciation. The depreciation is reported in the statement of income in the in the line item “general and administrative expenses” (EUR 22k; previous year: EUR 25k).

in EURk	2013/2014	2012/2013
Acquisition cost as at April 1 of the fiscal year	145	137
Cumulative depreciation as at April 1 of the fiscal year	104	79
Carrying amounts as at April 1 of the fiscal year	**41**	**58**
Additions	221	34
Disposals	30	26
Depreciation	22	25
Acquisition cost as at March 31 of the fiscal year	336	145
Cumulative depreciation as at March 31 of the fiscal year	126	104
Carrying amounts as at March 31 of the fiscal year	**210**	**41**

1.3 Investment properties

Investment properties are measured at fair value. During the fiscal year, the fair value has changed as follows.

In EURk	2013/2014	2012/2013
Fair value as of April 1 of the fiscal year	**0**	**0**
Additions	17,621	0
Unrealised gains from fair value measurement (included in item D.7 of the statement of income)	2,905	0
Fair value as of March 31 of the fiscal year	**20,526**	**0**

The additions to investment properties concern two properties in Munich which were acquired in the current fiscal year. In the prior year period, the Group did not directly account for any investment properties. However, investment properties were held by companies accounted for using the equity method and investments available for sales. The properties are commercial properties which are intended to be rented over the long term. The fair value of the properties newly acquired in the fiscal year was determined by an external independent expert as at March 31, 2014 for the first time. The value appreciation in the current fiscal year was largely the result of the optimisation measures initiated and the fact that the purchase price had already been agreed to in 2013 and was part of the price for a package deal.

In the period under review, no reclassifications between hierarchy levels 1, 2, and 3 have been carried out when measuring at fair value.

The table below presents information regarding the fair value measurement of the Group's investment properties as of March 31, 2014 according to IFRS 13.

in EURk		Measurement hierarchy		
	Fair value 31/03/2014	Quoted prices in active markets for identical assets (Level 1)	Other material, observable input factors (Level 2)	Material, non-observable input factors (Level 3)
Commercial properties in Germany	20,526	0	0	20,526

The fair values determined are fully based on the results of external experts which have been commissioned to carry out an assessment according to the German ordinance on the valuation of property/real estate [ImmoWertV]. Hereby, to the extent possible, market-based valuation parameters have been used as input factors. The market values determined correspond to the fair values according to IFRS 13.

Market values are determined on the basis of discounted earnings models in accordance with the ImmoWertV. The earnings value is comprised of the sum of the land value and the earnings value of the premises while taking special values into consideration.

The determination of the earnings value is dependent upon material, non-observable input factors such as rents, cost of maintenance, current vacancies, residual remaining useful lives, and property yields (discount rates).

In the current fiscal year, the market rent was EUR 8.40/m2 per month on average and was in a range of EUR 8.25 to EUR 8.50. The average market rent was determined based on the space rented as of March 31, 2014. Maintenance costs amounted to 3.0% of the annual gross income in the current fiscal year. The average vacancy rate was 39.0% in the reporting period with a range of 31.8% to 49.3%. The average vacancy rate was determined based on the space rented.

The calculation of property yield is based on the average market property yield and takes into account the macro and micro conditions, competing properties, tenant's creditworthiness, vacancies, and the remaining term of the lease contract. The average property yield amounted to 6.8%. Depending on the quality, location, and structure of the objects, the applied property yields range from 6.5% to 7.3%.

A sensitivity analysis of the material, non-observable input factors yields the following impact on the measurement of investment properties.

A significant increase in market rents or in the remaining useful lives and the assumptions regarding all other input factors unchanged, would result in an increase of the fair value. A significant increase in the cost of maintenance, vacancy rate, or property yield and unchanged assumptions regarding all other input factors, would result in a decrease in the property's fair value.

The presentation of comparative information for fair value measurement was waived, as permitted by the transitional provisions of IFRS 13.

All of the Group's investment properties are rented on the basis of operating lease agreements. The resulting rental income amounted to EUR 310k (previous year: EUR 0k). The expenses relating to investment properties amounted to EUR 102k (previous year: EUR 0k).

Planned purchase of properties

In the first quarter of calendar year 2014, DEMIRE AG acquired an additional property in Munich for a purchase price of EUR 8 million. As of the reporting date, the acquisition is subject to a condition precedent. The seller has not yet met the condition precedent. Hence, the economic ownership has not yet been transferred to the Company. The Company anticipates that it is highly likely, that the condition precedent will be met in fiscal year 2014/2015.

1.4. Investments accounted for using the equity method

Interests in investments accounted for using the equity method (EUR 4,694k; previous year: EUR 6,644k) include interests in associated companies (EUR 1,741k; previous year: EUR 1,104k) and joint ventures (EUR 2,952k; previous year: EUR 5,540k).

1.4.1 Investments in associated companies

in EURk	Carrying amount as at 31/03/2014	Carrying amount as at 31/03/2013
Company		
SQUADRA Immobilien GmbH & Co. KGaA	1,718	741
Russian Land AG	23	363
Total	**1,741**	**1,104**

DEMIRE's interest in the transferred profit or loss according to the annual or interim financial statements of the associated companies is as follows:

in EURk	Profit/loss per 31/03/2014	Profit/loss per 31/03/2013
Company		
SQUADRA Immobilien GmbH & Co. KGaA	–108	–128
Russian Land AG	23	–369
Total	**–85**	**–497**

In the reporting year, the increase of the interest in SQUADRA Immobilien GmbH & Co. KGaA from 16.13% to 24.78% resulted in an increase of the carrying amount of EUR 1,085k. In addition, an impairment of EUR 363k was recognised on the interest in Russian Land AG (we refer to D.6).

The following table provides a summary of the associated companies' assets, liabilities, revenues, and profit or loss for the period.

Summarised financial information of the associated companies:

in EURk	31/03/2014	31/03/2013
Aggregated assets	13,923	15,661
Aggregated liabilities	353	1,408
Aggregated revenues	216	492
Aggregated profit/loss for the period	–606	–3,019

The Russian Land AG has a reporting date which differs from the Group's reporting date. DEMIRE exercises significant influence over the associated company together with other shareholders. Therefore, the company's reporting date cannot be adjusted to DEMIRE Deutsche Mittelstand Real Estate AG's fiscal year. For the preparation of the consolidated financial statements, this company prepares interim financial statements as per the Group's reporting date.

1.4.2 Investments in joint ventures

in EURk	Carrying amount as at 31/03/2014	Carrying amount as at 31/03/2013
Company		
OXELTON ENTERPRISES Limited	2,823	5,292
R-QUADRAT Polska Alpha Sp. z o.o.	0	0
Irao MAGNAT 28/2 LLC	129	248
Irao MAGNAT Gudiashvili LLC	0	0
Total	**2,952**	**5,540**

A subsidiary of DEMIRE holds 60% of OXELTON ENTERPRISES Limited (interest of the DEMIRE Group: 59.78%). The underlying project includes the building rights to a corresponding property in Kiev with an existing permission for the construction of an office building and commercial property. Construction work has not yet started.

DEMIRE holds a 50% interest in R-QUADRAT Polska Alpha Sp. z o.o. The underlying project is located in the centre of Katy Wrocıawskie. Initially planned was the construction of residential dwellings and commercial areas in three construction steps with a total of around 77,700 m² of usable residential area. Two of the three construction sections have been completed.

A subsidiary of DEMIRE holds a 50% interest in Irao MAGNAT 28/2 LLC (interest of the DEMIRE Group: 49.82%). A building comprising apartments, a penthouse, and commercial units, was constructed together with a local partner.

DEMIRE has a 50% interest in Irao MAGNAT Gudiashvili LLC. The intention was to develop the "Gudiashvili Square" project in Tbilisi together with a local partner. For this purpose, the project company acquired the existing building and started with the revitalisation. In the reporting period, DEMIRE and the local partner jointly decided to exit the project.

DEMIRE's interest in the transferred profit or loss according to the annual or interim financial statements of the joint ventures is as follows:

in EURk	Profit/loss per 31/03/2014	Profit/loss per 31/03/2013
Company		
R-QUADRAT Polska Alpha Sp. z o.o.	0	0
Irao MAGNAT 28/2 LLC	–9	296
Irao MAGNAT Gudiashvili LLC	0	–191
MAGNAT Investment II B.V.	0	0
Hekuba S.à.r.l.	0	0
OXELTON ENTERPRISES Limited	–645	–241
Total	**–654**	**–136**

BAt the joint venture R-QUADRAT Polska Alpha Sp. z o.o., an amount of EUR 0k (previous year: EUR 124k) was recognised as income from the release of the net investment according to IAS 28.29 and was recorded in the line item "profits from investments accounted for using the equity method".

In the reporting year, impairment losses were recognised in profit or loss amounting to EUR 817k (previous year: EUR 771k) primarily concerning the interest in OXELTON ENTERPRISES Limited as well as currency translation differences of EUR 1,007k (previous year: EUR 0k) in other comprehensive income. An impairment loss of EUR 110k (previous year: reversal of impairment of EUR 248k) was recognised on the interest in Irao Magnat 28/2 LLC. In the prior year, an impairment of EUR 372k was recognised on the interest in Irao MAGNAT Gudiashvili LLC.

Since the end of the prior year, Hekuba S.à.r.l. is included in the line item "investments accounted for using the equity method available for sale". In the prior year, the interest in MAGNAT Investment II B.V., recognised at equity, was replaced by the assets included in MAGNAT Investment II B.V. in the course of the acquisition of the assets of the former co-investor R-QUADRAT Capital Beta GmbH.

Summary financial information on the joint ventures (proportional amounts for subgroups as of the balance sheet date):

in EURk	31/03/2014	31/03/2013
Aggregated non-current assets	100	124
Aggregated current assets	5,207	6,890
Aggregated non-current liabilities	8,924	5,707
Aggregated current liabilities	2,400	5,226
Aggregated income	680	4,319
Aggregated expenses	–1,732	–4,519
Aggregated net profit/loss for the period	–1,052	–200

The following joint ventures and subgroups apply a reporting date that differs from the Group reporting date: R-QUADRAT Polska Alpha Sp. z o.o., Irao MAGNAT 28/2 LLC, Irao MAGNAT Gudiashvili LLC, and OXELTON ENTERPRISES Limited. For the preparation of the consolidated financial statements, these companies prepare interim financial statements as per the Group's balance sheet date.

The projects of the Irao MAGNAT 28/2 LLC and the R-QUADRAT Polska Alpha Sp. z o.o. joint ventures are nearly completed. As a result, it is not expected that the DEMIRE Group will be obliged to provide further funds.

Currently, OXELTON ENTERPRISES Limited is not generating operating cash flows from which the operating expenses can be paid. As a result, the Group is providing an adequate amount of funds in proportion to its interest in the joint venture in order to cover the operating expenses which occur.

As a result of Irao MAGNAT Gudiashvili LLC's withdrawal from the "Gudiashvili Square" project, this company is not generating operating cash flows from which the operating expenses can be paid. The Group is providing this joint venture company an adequate amount of funds in order to cover the operating expenses which occur. In the reporting year, no further loans were granted.

1.5. Other financial assets

The carrying amounts of other financial assets amounted to EUR 695k (previous year: EUR 49k). This included non-current receivables arising from value added tax of EUR 669k. In the previous year, impairments totalling EUR 2k were recognised under financial expenses in the statement of income.

1.6. Loans to investments accounted for using the equity method

Loans to companies accounted for using the equity method amounted to EUR 2,490k (previous year: EUR 2,059k) and relate primarily to loans to OXELTON ENTERPRISES Limited (EUR 2,466k). The due date of a large portion of the loan (EUR 1,965k) from OXELTON ENTERPRISES Limited is based upon the occurrence of certain future conditions. The loan yields interest of 10 percent p.a. The loan is to be repaid by December 31, 2014 at the latest.

1.7. Other loans

A significant portion of other loans are due at the end of 2021 and consist of receivables from the partial sale of a property.

2. CURRENT ASSETS

2.1 Real estate inventory

The reported real estate inventory of EUR 7,784k (previous year: EUR 10,174k) concerns developed and undeveloped properties which are destined for resale. In the reporting period, impairments of EUR 1,140k (previous year: EUR 1,520k) were recognised which are included under "unrealised fair value adjustments in real estate inventory" in the statement of income. In the reporting period, real estate inventory amounting to EUR 0k (previous year: EUR 5,491k) were recognised as an expense due to their disposal. The expenses are included in the line items "expenses relating to real estate sales" and "net assets from real estate companies sold".

The impairments in real estate inventory are based on the results of the underlying valuations. Of the EUR 1,140k in impairments, EUR 1,009k can be attributed to Ukrainian properties. The Ukrainian and Romanian real estate sectors are still in the midst of a crisis; this has also had an impact on the market values of the respective properties.

The following real estate inventory has been pledged as collateral for liabilities:

in EURk	Carrying amount 31/03/2014	Carrying amount 31/03/2013	Property
Company			
Erste MAGNAT Immobiliengesellschaft mbH	2,536	2,657	Worms,Parchim, Halle Peissen
MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG	0	981	Vienna, Austria
MAGNAT Immobilien GmbH & Co. Schumanngasse 16 KG	0	269	Vienna, Austria
	2,536	**3,907**	

2.2 Trade accounts receivables and other receivables

in EURk	31/03/2014 Gross	31/03/2014 Net	31/03/2013 Gross	31/03/2013 Net
Receivables from processing value added tax	322	322	1,065	1,065
Purchase price receivables	73	73	584	584
Trade accounts receivables against third parties	2,254	603	2,154	488
Receivables from the invoice of building projects	0	0	428	428
Administrator accounts	95	95	104	104
Others	1,513	651	1,612	751
	4,257	**1,744**	**5,947**	**3,420**

All receivables are due on a short-term basis of less than 3 months. Impairment charges of EUR 2,513k (previous year: EUR 2,528k) were recognised. Their development is presented in the following table. None of the receivables are significantly overdue. Expenses for additions to impairment charges are included in "impairment of goodwill and receivables" in the statement of income. The table below illustrates the development of accumulated impairment.

in EURk	2013/2014	2012/2013
Accumulated impairment at the start of the fiscal year	**2,527**	**1,707**
Disposal of companies	0	–67
Impairment of the current year	0	1,310
Realisation of impairments	0	–423
Reversal of impairments	14	0
Accumulated impairment at the end of the fiscal year	**2,513**	**2,527**

If the collection of the receivable becomes doubtful, they are recognised at their lower realisable value. In addition to the individual allowances required for bad debt, account has also been taken of identifiable risks relating to general credit risk in the form of fixed-sum allowances.

2.3 Financial receivables and other financial assets

Financial receivables and other financial assets mainly include short-term loans to R-QUADRAT Polska Alpha Sp. z o.o. in the amount of EUR 995k (previous year: EUR 759k). Additionally, the item also includes other receivables from R-QUADRAT Polska Alpha Sp. z o.o. in the amount of EUR 5k (previous year: EUR 1,185k).

Within financial receivables and other financial assets and taking into account the respective impairments, there are no receivables significantly overdue. The impairment charges are included in "impairment of goodwill and receivables" in the statement of income. The table below illustrates the development of accumulated impairment.

in EURk	2013/2014	2012/2013
Accumulated impairment at the start of the fiscal year	**2,127**	**0**
Reclassifications	0	2,127
Impairment of the current year	1,198	0
Realisation of impairments	0	0
Reversal of impairments	0	0
Accumulated impairment at the end of the fiscal year	**3,325**	**2,127**

2.4 Cash and cash equivalents

Cash and cash equivalents of EUR 3,955k (previous year: EUR 2,333k) are related to cash in hand and bank accounts.

3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AVAILABLE FOR SALE

This item includes the interests held in investments accounted for using the equity method available for sales in the following joint ventures.

in EURk	Carrying amount per 31/03/2014	Carrying amount per 31/03/2013
Company		
Hekuba S.à.r.l.	3,533	3,533
„Forum-2000" LLC	270	270
Total	**3,803**	**3,803**

The interest in Hekuba S.à.r.l. was classified as available for sale due to its intended sale.

DEMIRE holds a stake of 32.44% in Hekuba S.à.r.l. DEMIRE was originally in a consortium with its project partners, Adama Holding Public Ltd. (lead manager), Bucharest, Romania, and Immoeast AG, Vienna, Austria, and had acquired one of the most extensive real estate portfolios of the Turkish bank Bank Yapı KredıBankası A.S. ("YKB"). This portfolio consisted of around 400 individual interests in properties having various uses and a regional focus on the greater metropolitan region of Istanbul. The development and resale of the individual properties progressed favourably overall and as a result only a small portion of the properties remained. At the end of June 2014, DEMIRE disposed of its interest in Hekuba S.à.r.l. at a purchase price of EUR 3,700k. We refer to Note I.4.

As of February 29, 2012, the 50% interest in the "Forum-2000" LLC joint venture was classified as available for sale due to the intended termination of the joint venture. The Ukrainian Vitaly project is a property with single-family homes in Kryachy in the Vasylkivskyi district in the region of Kiev. As a result of delays in the sales process when providing substantiated proof of rights in properties as part of the planned asset swap and the economic and political situation in the Ukraine, the interest was not yet sold within a one year time period. The interest continues to be held as available for sale.

The interests in investments accounted for using the equity method available for sales are allocated to the "Investments" segment (see section H).

4. SHAREHOLDERS' EQUITY

In reference to the explanations in section A.5, the subscribed capital amounting to EUR 13,895k remains unchanged. The capital reserves contain a EUR 7,425k difference in the subscribed capital of EUR 13,895k and the sum of the subscribed capital of MAGNAT Asset Management GmbH in an amount of EUR 160k as the economic parent company. It also includes the acquisition costs for the acquisition of DEMIRE Deutsche Mittelstand Real Estate AG in an amount of EUR 21,160k following the reverse acquisition. A description of the other reserves can be found in Note G.1.

As in the previous year, the subscribed capital of the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG, amounted to EUR 13,894,651.00. It is divided into 13,894,651 non-par value bearer shares with a notional par value of EUR 1.00. All shares are fully paid-in.

If there is a capital increase, the profit participation of new shares may deviate from Section 60 para. 2 of the German Stock Corporation Act (AktG).

Shareholders are not entitled to share certificates to the extent this is permitted by law.

Reconciliation to the number of shares outstanding:	31/03/2014	31/03/2013
Number of non-par bearer shares issued	13,894,651	13,894,651
of which fully paid in	13,894,651	13,894,651

With the assent of the Supervisory Board, the Executive Board was given authorisation to increase the Company's share capital by October 28, 2014 through issuing up to 6,947,325 new ordinary bearer shares in the form of non-par shares, each with a notional value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions, in partial amounts up to a total of EUR 6,947,325 (Authorised Capital 2009). Shareholders are generally entitled to subscription rights; the Company may exclude subscription rights in certain circumstances.

The Company's share capital is conditionally increased by up to EUR 6,947,325, divided in up to 6,947,325 ordinary bearer shares, each with a notional value of EUR 1.00. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that are issued according to the respective resolutions of the Annual General Meeting of August 30, 2007.

The Company is authorised to purchase up to a total of 10% of the existing share capital until October 28, 2014. In this context, the shares acquired on the basis of this authorisation, together with other treasury shares that the Company has already acquired or already holds, may not comprise more than 10% of the Company's existing share capital in each case.

5. NON-CURRENT LIABILITIES

5.1 Deferred tax assets and liabilities

The entire amount of recognised deferred taxes will be due after more than 12 months.

The deferred tax assets and liabilities are composed of temporary differences in the following balance sheet items:

in EURk	31/03/2014	31/03/2013
Tax-loss carryforwards	928	0
Deferred tax assets	**928**	**0**
Real estate inventory	238	0
Investment properties	928	0
Others	44	46
Deferred tax liabilities	**1,210**	**46**

The requirements pursuant IAS 12.74 have been fulfilled with regard to EUR 928k (previous year: EUR 0k). According to IAS 12.36, deferred tax assets of EUR 928k are recognised to the extent of the amount of deferred tax liabilities:

The changes in deferred taxes and their recognition can be represented as follows:

in EURk	31/03/2013	Statement of income	Other comprehensive income	Disposals	31/03/2014
Investment properties	0	-928	0	0	-928
Real estate inventory	0	-238	0	0	-238
Tax-loss carryforwards	0	928	0	0	928
Others	-46	2	0	0	-44
	-46	**-236**	**0**	**0**	**-282**

Tax-loss carryforwards and deductible temporary differences, which were not taken into account for determining deferred taxes, amount to EUR 22,774k (previous year: EUR 23,829k). Of this, an amount of EUR 14,885k (previous year: EUR 23,044k) is attributable to Germany, an amount of EUR 5,067k (previous year: EUR 1,470k) is attributable to Romania, and an amount of EUR 1,931k (previous year: EUR 785k is attributable to the Ukraine. In the reporting year, non-recognised deferred tax assets amount to EUR 2,661k (previous year: EUR 3,771k).

5.2 Non-current financial debt

The following table summarises the financial debt. The nominal interest rate nearly corresponds with the effective interest rate as only minimal transaction costs were incurred.

Upon initial recognition of the loan, the financial debt of DEMIRE Real Estate München I GmbH was recognised at fair value including all directly incurred and attributable transaction costs. In subsequent periods, the transaction costs have been accounted for by applying the effective interest rate method.

	Nominal interest rate %	Due	31/03/2014 EURk	31/03/2013 EURk
Non-current portion of financial debt				
IBB amortising loan for DEMIRE Real Estate München I GmbH	3.00	31/12/2016	8,248	0
Hypo Landesbank Vorarlberg amortising loan for Munich ASSET Vermögensverwaltung GmbH	3M EURIBOR + 1.5	31/08/2018	5,000	0
Mezzanine loan	12.00	06/07/2014	0	5,401
DKB annuity loan for 1. MAGNAT Immobilienges. mbH	4.57	30/06/2014	0	3,218
Loan from holders of profit participation certificates for MAGNAT Capital Markets GmbH	interest-free	31/12/2022	483	483
Profit participation certificates for MAGNAT Capital Markets GmbH	interest-free	31/12/2021	22	22
Other financial debt	interest-free	diverse	0	35
Convertible bonds	6.00	30/12/2018	10,893	0
			24,646	**9,159**

In fiscal year 2011/2012, the subsidiary, MAGNAT Capital Markets GmbH, had issued profit participation certificates. These profit participation certificates are composite financial instruments pursuant to IAS 32.28 and include an equity component as well as a debt component. Due to the existing redemption clause available to the holders of these profit participation certificates, the profit participation capital has been classified as a debt component. However, the entitlement to net profits is classified as an equity component or dividend.

Of the non-current financial debt, an amount of EUR 13,248k (previous year: EUR 8,618k) is collateralised by assets.

Convertible bonds

In December 2013, DEMIRE Deutsche Mittelstand Real Estate AG issued convertible bonds with a total nominal amount of EUR 11,300,00.00 and a term until December 30, 2018. The convertible bonds are divided into 11,300,000 fractional bonds each with a nominal amount of EUR 1.00.

The details of the convertible bonds are as follows:

» They are divided in up to 11,300,000 bearer fractional bonds each with a nominal amount of EUR 1.00 and carrying equal rights.

» In addition to settlement in cash, the holders have the irrevocable right to convert each convertible bond with a nominal amount of EUR 1.00, within the conversion period, initially into one no-par value share of DEMIRE Deutsche Mittelstand Real Estate AG with a notional interest in subscribed capital of EUR 1.00 each.

» In case of the effective exercise of the conversion right, the conversion price will amount to EUR 1.00 per ordinary bearer share each with a notional interest in the subscribed capital of EUR 1.00. The conversion price may be subject to adjustments due to adjustment provisions included in the terms and conditions of the bonds. This corresponds to a conversion ratio of 1:1.

» The issuance price per convertible bonds is EUR 1.00 and corresponds to the nominal value and initial conversion price.

» The convertible bonds bear a 6.00% interest per annum. The interest is payable on March 30, June 30, October 30, and December 30 of each year during the term of the convertible bonds.

According to the terms and conditions, the convertible bonds (WKN: A1YDDY / ISIN: DE000A1YDDY4) are measured at fair value based on the price as at March 31, 2014. The costs of EUR 249k, occurring in the context of the issuance of the convertible bonds, are recognised in profit or loss.

Financial liabilities designated at fair value through profit or loss

The convertible bonds were consistently categorised as financial liability designated at fair value through profit or loss.

in EURk	31/03/2014	31/03/2013
Change in fair value substantially impacted by credit-worthiness	407	0
Cumulative changes in fair value substantially impacted by credit-worthiness	407	0
Difference between carrying amount and redemption amount		
Convertible bonds measured at fair value	10,893	0
Redemption amount at maturity	11,300	0
	–407	**0**

6. CURRENT LIABILITIES

6.1 Provisions

in EURk	31/03/2014	31/03/2013
Staff costs	283	346
Others	504	464
	787	**810**

in EURk	31/03/2013	Utilisation	Release	Additions	31/03/2014
Staff costs	346	257	5	199	283
Others	464	191	3	234	504
	810	**448**	**8**	**433**	**787**

The Company anticipates that provisions will be utilised in the following 2014/2015 fiscal year.

Provisions related to staff costs primarily consist of obligations resulting from the performance-related, variable remuneration of the Executive Board. Other provisions primarily include a provision related to asset management services provided to third parties and a warranty provision.

Provisions for accounting and audit costs of EUR 463k (previous year: EUR 340k), Supervisory Board compensation of EUR 48k (previous year: EUR 32k), and invoices outstanding of EUR 118k (previous year: EUR 132k) were reclassified from provisions to trade payables and other liabilities according to IAS 37. The prior year amounts as at March 31, 2013 were restated pursuant to IAS 1.

6.2 Trade accounts payable and other liabilities

in EURk	31/03/2014	31/03/2013
Trade accounts payable	2,899	487
Accounting and audit costs	463	340
Liabilities from value added taxes	162	105
Invoices outstanding	118	132
Personnel-related expenses	92	44
Supervisory Board compensation	48	32
Liabilities from the invoice of building projects	0	241
Others	475	220
	4,257	**1,601**

Trade accounts payable amounting to EUR 2,899k (EUR 487k) are entirely to third parties and are short-term in nature. Of this amount, EUR 1,908k relates to a purchase price liability for an investment property.

The liabilities for accounting and audit costs include the costs for the preparation, audit, and publication of the financial statements and the consolidated financial statements.

The liabilities for invoices outstanding are recognised for services received. As at March 31, 2014, the primary portion of the liabilities included follow-up costs related to a German residential property which has already been sold.

6.3 Tax liabilities

Current income tax liabilities in the amount of EUR 19k (previous year: EUR 234k) relate to trade taxes (EUR 11k; previous year EUR 24k), corporate taxes (EUR 7k; previous year: EUR 1k), and withholding taxes (EUR 1k; previous year: EUR 210k).

6.4 Current financial debt

Current financial debt is comprised of bank borrowings amounting to EUR 3,274k (previous year: EUR 915k) and liabilities to companies in which participating interests are held and other companies amounting to a total of EUR 6,505k (previous year: EUR 4,126k). Of the EUR 6,505k (previous year: EUR 4,126k), EUR 6,088k (previous year: EUR 0k) are attributable to loans.

Of the total amount of EUR 9,779k (previous year: EUR 5,041k), current bank borrowings amounted to EUR 3,274k (previous year: EUR 915k).

Liabilities to companies in which participating interests are held are short-term in nature and primarily relate to liabilities to investments accounted for using the equity method.

Current financial debt contains EUR 0k (previous year: EUR 1,843k) relating to dividend liabilities on the part of MAGNAT Asset Management GmbH to former shareholders.

As at March 31, 2014, the financial debt related to the DKB annuity loan for 1. MAGNAT Immobilienges. mbH and the mezzanine loan, are recognised under current financial debt for the first time. In the prior year, the corresponding amount of EUR 8,619k was recorded under non-current financial debt.

	Nominal interest rate %	Due	31/03/2014 EURk	31/03/2013 EURk
Current portion of bank borrowings				
Loan for MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG	n/a	n/a	0	637
Loan for MAGNAT Immobilien GmbH & Co. Schumanngasse 16 KG	n/a	n/a	0	164
DKB loan for 1. MAGNAT Immobilienges. mbH	4.57	30/06/2014	3,274	112
Current account overdraft 1. MAGNAT Immobilienges. mbH	n/a	n/a	0	2
			3,274	**915**

	Nominal interest rate %	Due	31/03/2014 EURk	31/03/2013 EURk
Current portion of loans from diverse lenders				
Mezzanine loan	12.00	06/07/2014	6,088	0
			6,088	**0**

Of the current financial debt, the liability from the mezzanine loan is secured. If the loan is overdue, the pledged collateral can be liquidated through an agreed repayment of DEMIRE, which will be the case on July 5, 2015. Subsequent to end of the fiscal year, the amortisation period of the mezzanine loan was extended by 18 months.

The nominal interest rate nearly corresponds with the effective interest rate as only minimal transaction costs were incurred.

7. LEASES

7.1 Operating leases – The Group as lessee

As at the reporting date, lease agreements for vehicles resulted in future minimum lease payments of EUR 29k (up to one year) and EUR 42k for the period of one to five years. In addition, there were leases for office premises from which future minimum lease payments will result in the amount of EUR 60k (up to one year) and EUR 241k (between one and five years). In the reporting period, the following amounts were recorded as lease expenses:

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Vehicles	44	48
Office premises	55	206

7.2 Operating leases – The Group as lessor

The fixed future rights to minimum lease payments relating to long-term operating leases of rented commercial properties amounted to EUR 6,933k (previous year: EUR 245k). Of this amount, EUR 1,886k (previous year: EUR 242k) is due within one year, EUR 4,547k (previous year: EUR 3k) is due within one and five years, and EUR 500k (previous year: EUR 0k) is due after more than five years. Rent agreements are usually concluded over fixed minimum terms of up to ten years. In some cases, tenants are entitled to extension options. In these cases, contractual rent escalation clauses effectively reduce the market risk of a long-term commitment.

In the reporting period, the following amounts were recognised as lease income:

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Rental income	558	735

F. Notes to the consolidated statement of cash flows

Cash flow from operating activities is calculated using the indirect method. Cash flows from investing and financing activities are calculated on a payment-related basis.

Cash flow includes interest received in an amount of EUR 9k (previous year: EUR 33k) and interest paid in the amount of EUR 364k (previous year: EUR 437k). Interest paid and received is allocated as follows:

in EURk	31/03/2014	31/03/2013
Interest received		
Cash flow from operating activities	9	33
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
	9	**33**

in EURk	31/03/2014	31/03/2013
Interest paid		
Cash flow from operating activities	1	14
Cash flow from investing activities	0	0
Cash flow from financing activities	363	423
	364	**437**

Cash flow from operating activities includes both, income tax payments and reimbursements. The net balance of income tax payments and reimbursements amounted to EUR –39k in the reporting period (previous year: EUR 738k).

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities totalled EUR –1,900k (previous year: EUR –1,181k). This amount includes a change in real estate inventory of EUR 0k (previous year: EUR 728k), in trade accounts receivables and other receivables of EUR 1,612k (previous year: EUR 535k), and in financial receivables and other financial assets of EUR –830k (previous year. EUR 183k). The change in trade payables and other liabilities as well as the change in provisions amounts to a total of EUR 2,674k (previous year: EUR –881k). This change was largely the result of the purchase of real estate property in the reporting year. Other non-cash income and expenses were EUR –222k (previous year: EUR 2,740k). A split of the significant items is presented separately and can be found in the section “non-cash items”.

CASH FLOW FROM INVESTING ACTIVITIES

The investments in property, plant, and equipment resulted in payments of EUR 221k (previous year: EUR 34k) and the acquisition of investment properties resulted in payments of EUR 17,621k (previous year: EUR 0k). The proceeds from the reduction in capital at investments accounted for using the equity method and other investments led to a cash inflow of EUR 363k (previous year: EUR 565k). The acquisition of interests in investments accounted for using the equity method resulted in cash outflows of EUR 1,085k (previous year: EUR 0k). Cash flow includes cash outflows of EUR 2k (previous year: EUR –448k) for the acquisition of subsidiaries as well as for the purchase of net assets pursuant to IFRS 3.2(b) and a reduction in cash of EUR 75k (previous year: EUR 20k) from the sale of subsidiaries.

CASH FLOW FROM FINANCING ACTIVITIES

The cash inflow from financing activities amounting to EUR 22,239k (previous year: EUR –1,394k) is impacted by the repayment of financial debt totalling EUR 2,026k (previous year: EUR 1,011k) and proceeds from the issuance of financial debt of EUR 67k (previous year: EUR 46k). The change in financial debt from the acquisition of real estate inventory amounted to EUR 13,248k (previous year: EUR 0k). The issuance of convertible bonds resulted in proceeds of EUR 11,300k (previous year: EUR 0k).

NON-CASH ITEMS

Non-cash items resulted primarily from fair value adjustments in real estate inventory of EUR –2,908k (previous year: EUR 0k), impairment losses (EUR 2,352k; previous year: EUR 738k), the result of investments accounted for using the equity method (EUR 1,688k), and changes related to disposals (EUR –386k; previous year: EUR 738k). Changes in currency reserves and other reserves amounted to EUR –565k (previous year: EUR 738k). Non-cash items resulting from impairment losses include impairments of real estate inventory of EUR –1,140k (previous year: EUR 738k) and impairments of trade accounts receivables and other receivables of EUR 1,212k (previous year: EUR 738k). The changes related to disposals result from the sales of real estate companies (see Note D.3).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents of EUR 3,955k (previous year: EUR 2,333k) are equal to those reported in the consolidated balance sheet. This item of the consolidated balance sheet comprises cash in hand and current accounts at banks.

G. Notes to the consolidated statement of changes in equity

1. NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM APRIL 1, 2013 TO MARCH 31, 2014

Capital reserves represent the amount that was received through a capital increase in kind and the difference in subscribed capital to the sum of the share capital of the economic parent company and the acquisition cost for the acquisition of DEMIRE Deutsche Mittelstand Real Estate AG (see A.5).

Retained earnings including consolidated net profit/loss for the period contains the accumulated results and other components of equity which are accounted for on a proportionate basis from companies accounted for using the equity method. In addition, retained earnings also include the earnings neutral impact from the increase in the share of interest in the subsidiary MAGNAT Investment I B.V in prior periods. In the reporting year, other reserves are reported together with retained earnings including consolidated net profit/loss for the period. In the previous year, other reserves had been reported separately. The currency translation reserves include currency differences from fully consolidated companies and of companies accounted for using the equity method whose functional currency is not the euro. The reserves for treasury shares resulted from the reverse acquisition (see A.5).

Capital transactions with shareholders
There were no distributions to shareholders either in the year under review or in the subsequent year until the date when these financial statements were prepared.

Changes in equity recognised in other comprehensive income
Additional changes in other comprehensive income of in total EUR 564k arise from positive currency translation differences and the transfer of earnings-neutral changes in equity from investments accounted for using the equity method.

Net profit/loss for the period
The net loss for the period attributable to parent company shareholders amounted to EUR 5,935k. A negative amount of EUR 51k is attributable to non-controlling shareholders.

2. NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM APRIL 1, 2012 TO MARCH 31, 2013

Capital reserves represent the amount that was received through a capital increase in kind and the difference in subscribed capital to the sum of the share capital of the economic parent company and the acquisition cost for the acquisition of MAGNAT Real Estate AG (see A.5).

Retained earnings including consolidated net profit/loss for the period contain the accumulated results. The currency translation reserves include currency differences from fully consolidated companies and of companies accounted for using the equity method whose functional currency is not the euro. The reserves for treasury shares resulted from the reverse acquisition (see A.5). Other reserves include those other equity components that are included proportionally from companies accounted for using the equity method. In addition, retained earnings also include the earnings neutral impact from the increase in the share of interest in the subsidiary MAGNAT Investment I B.V in the prior period.

Capital transactions with shareholders
There were no distributions to shareholders either in the year under review or in the subsequent year until the date when the financial statements were prepared.

Changes in equity recognised in other comprehensive income
Additional changes in other comprehensive income of in total EUR –49k arise from positive currency translation differences, the transfer of earnings-neutral changes in equity from investments accounted for using the equity method, and from taxes on other comprehensive income.

Net profit/loss for the period
The net loss for the period attributable to parent company shareholders amounted to EUR 5,927k. A negative amount of EUR 3k is attributable to non-controlling shareholders.

H. Group segment reporting

The segmentation of the data of the annual financial statements is based on the internal alignment according to strategic business segments and geographic considerations pursuant to IFRS 8 “Operating Segments”. In accordance with the management approach, the segment information provided represents the information to be reported to the Executive Board of DEMIRE. The reportable information was subject to a change in fiscal year 2013/2014 as a result of the newly created segment “Core Portfolio” in the context of the strategic realignment of the Company (“buy and hold” strategy combined with active portfolio management). Starting with the year under review, segment information is provided on a net amount basis, net of the consolidation effects. The prior year presentation was adjusted accordingly.

The Group is split into the business segments: Investments, Asset Management, Core Portfolio, and Central Functions. The Investments segment contains all information relating to non-current assets as well as the business areas of revitalisation, project development, and land banking. The Investments segment also includes the activities of the respective project holdings. The Asset Management segment represents the asset management activities including the co-proprietor‘s building schemes and participation schemes. The Core Portfolio segment includes domestic subsidiaries focusing on commercial real estate for entrepreneurial medium-sized companies in Germany which were founded in the reporting year. The Central Functions segment mainly contains DEMIRE Deutsche Mittelstand Real Estate AG‘s activities in its function as the Group holding which does not represent an independent segment.

April 1, 2013 - March 31, 2014	Segments by business areas				
EURk	Investments	Asset Manage-ment	Core Portfolio	Central Functions	Group
Revenues	338	486	310	0	1,134
Profit/loss from fair value adjustments in investment properties	0	0	2,905	0	2,905
Other income	735	228	17	538	1,518
Profits from investments accounted for using the equity method	23	0	0	0	23
Segment revenues	**1,096**	**714**	**3,232**	**538**	**5,580**
Net assets from sold real estate companies	0	–17	0	0	–17
Expenses on real estate sales	0	0	0	0	0
Other expenses	–3,163	–1,357	–531	–4,354	–9,405
Losses from investments accounted for using the equity method	–1,711	0	0	0	–1,711
Segment expenses	**–4,874**	**–1,374**	**–531**	**–4,354**	**–11,133**
EBIT	**–3,778**	**–660**	**2,701**	**–3,816**	**–5,553**
Financial income	357	4	0	774	1,135
Financial expenses	–928	–28	–98	–263	–1,317
Income taxes	–244	–3	–949	946	–250
Net profit/loss for the period	**–4,593**	**–687**	**1,654**	**–2,359**	**–5,985**
Significant non-cash items	**1,671**	**–31**	**25**	**1,018**	**2,683**
Impairment losses in net profit/loss for the period	**3,027**	**274**	**0**	**0**	**3,301**
Additional information					
Segment assets	**20,151**	**1,866**	**21,509**	**4,874**	**48,400**
of which investments accounted for using the equity method	4,694	0	0	0	4,694
of which loans to investments accounted for using the equity method	2,490	0	0	0	2,490
of which financial receivables and other financial assets	101	478	0	570	1,149
of which tax refund claims	1	22	20	28	71
of which assets available for sales in investments accounted for using the equity method	3,970	0	0	0	3,970
Segment liabilities	**10,449**	**1,090**	**16,863**	**12,296**	**40,698**
of which non-current financial debt	0	505	13,247	10,893	24,645
of which current financial debt	9,398	1	0	380	9,779
of which tax liabilities	0	1	18	0	19

April 1, 2013 - March 31, 2014	Geographic segments			
EURk	D / A / NL [1]	CEE/SEE [1]	CIS [1]	Group
Revenues	1,134	0	0	1,134
Other income	841	6	671	1,518
Profits from investments accounted for using the equity method	0	0	23	23
Profit/loss from fair value adjustments in investment properties	2,905	0	0	2,905
Segment revenues	**4,880**	**6**	**694**	**5,580**
Additional information				
Segment assets	**33,024**	**5,157**	**10,219**	**48,400**
of which investments accounted for using the equity method	1,718	0	2,976	4,694
of which loans to investments accounted for using the equity method	20	0	2,471	2,491
of which financial receivables and other financial assets	1,051	0	98	1,149
of which tax refund claims	71	0	0	71
of which assets available for sales in investments accounted for using the equity method	0	3,533	270	3,803
Total liabilities	**39,902**	**10**	**786**	**40,698**
of which non-current financial debt	24,646	0	0	24,646

1) CEE = Central & Eastern Europe; SEE = South - Eastern Europe; CIS = Commonwealth of Independent States
D / A / NL = Germany, Austria, and the Netherlands

April 1, 2012 - March 31, 2013	Segments by business areas			
EURk	Investments	Asset Manage-ment	Central Functions	Group
Revenues	2,812	1,445	0	4,257
Other income	716	200	144	1,060
Profits from investments accounted for using the equity method	420	0	0	420
Segment revenues	**3,948**	**1,645**	**144**	**5,737**
Net assets from sold real estate companies	–120	176	0	56
Expenses on real estate sales	0	–743	0	–743
Other expenses	–4,147	–2,264	–1,873	–8,284
Losses from investments accounted for using the equity method	–1,709	0	0	–1,709
Segment expenses	**–5,976**	**–2,831**	**–1,873**	**–10,680**
EBIT	**–2,028**	**–1,186**	**–1,729**	**–4,943**
Financial income	768	73	4	845
Financial expenses	–925	–212	–416	–1,553
Income taxes	–294	–8	23	–279
Net profit/loss for the period	**–2,478**	**–1,333**	**–2,118**	**–5,930**
Significant non-cash items	**2,632**	**–206**	**315**	**2,740**
Impairment losses in net profit/loss for the period	**4,105**	**41**	**0**	**4,146**
Additional information				
Segment assets	**24,415**	**5,024**	**1,703**	**31,143**
of which investments accounted for using the equity method	6,644	0	0	6,644
of which loans to investments accounted for using the equity method	2,059	0	0	2,059
of which financial receivables and other financial assets	866	460	859	2,185
of which tax refund claims	3	21	49	72
of which assets available for sales in investments accounted for using the equity method	3,803	0	0	3,803
Segment liabilities	**9,538**	**4,428**	**2,925**	**16,891**
of which non-current financial debt	8,634	525	0	9,159
of which current financial debt	166	2,649	2,225	5,041
of which tax liabilities	0	211	23	234

April 1, 2012 - March 31, 2013	Geographic segments			
EURk	D / A / NL [1]	CEE/SEE [1]	CIS [1]	Group
Revenues	2,231	2,025	0	4,256
Other income	1,020	17	23	1,060
Profits from investments accounted for using the equity method	0	124	296	420
Segment revenues	**3,252**	**2,166**	**319**	**5,737**
Additional information				
Segment assets	**11,252**	**5,941**	**13,950**	**31,143**
of which investments accounted for using the equity method	741	0	5,903	6,644
of which loans to investments accounted for using the equity method	6	0	2,053	2,059
of which financial receivables and other financial assets	1,335	759	90	2,185
of which tax refund claims	72	0	0	72
of which assets available for sales in investments accounted for using the equity method	0	3,533	270	3,803
Total liabilities	**16,405**	**12**	**474**	**16,891**
of which non-current financial debt	9,124	0	35	9,159

1) CEE = Central & Eastern Europe; SEE = South - Eastern Europe; CIS = Commonwealth of Independent States
D / A / NL = Germany, Austria, and the Netherlands

April 1, 2013 - March 31, 2014	Geographic segments – additional information about Germany
EURk	D
Revenues	649
Other income	595
Profit/loss from fair value adjustments in investment properties	2,905
Profits from investments accounted for using the equity method	0
Segment revenues	**4,149**
Additional information	
Segment assets	**30,931**
of which investments accounted for using the equity method	1,718
of which loans to investments accounted for using the equity method	0
of which financial receivables and other financial assets	570
of which tax refund claims	49
Total liabilities	**32,634**
of which non-current financial debt	24,141

April 1, 2012 - March 31, 2013	Geographic segments – additional information about Germany
EURk	D
Revenues	791
Other income	185
Profits from investments accounted for using the equity method	0
Segment revenues	**976**
Additional information	
Segment assets	**5,506**
of which investments accounted for using the equity method	741
of which loans to investments accounted for using the equity method	0
of which financial receivables and other financial assets	859
of which tax refund claims	56
Total liabilities	**6,553**
of which non-current financial debt	3,218

Revenues for the fiscal year resulted from the rental of real estate which were generated in the Investments and Core Portfolio segments. Revenue was also generated from the sale of real estate companies which occurred in the Investments and in the Asset Management segments and revenues from asset management.

The Core Portfolio segment contains investment properties and serves to develop domestic real estate projects. The focus of the respective properties is on sustainable management. Hence, these properties are held for the generation of rental income and/or for the purpose of value appreciation.

The activities of the companies in the non-operating areas and within the primary segment Central Functions are largely limited to the activities of DEMIRE Deutsche Mittelstand Real Estate AG.

The carrying amounts of the companies accounted for using the equity method (EUR 4,694k; previous year: EUR 6,644k) are allocated in their entirety to the Investments segment.

The carrying amounts of the companies accounted for using the equity method of EUR 4,694k (previous year: EUR 6,644k) are divided into the following regional segments: Germany/Austria/Netherlands: EUR 1,718k (previous year: EUR 741k); the CIS region: EUR 2,976k (previous year: EUR 5,903k).

The investments available for sale accounted for using the equity method are allocated to the Investments segment in their entirety and are divided into the following regional segments: the CEE/SEE region: EUR 3,533k (previous year: EUR 3,533k); the CIS region: EUR 270k (previous year: EUR 270k).

Scheduled depreciation and amortisation of property, plant, and equipment and of other intangible assets are divided among the Investments segment with EUR 1k (previous year: EUR 7k), the Asset Management segment with EUR 29k (previous year: EUR 24k), and Central Functions with EUR 3k (previous year EUR 4k).

Non-cash items mainly include fair value adjustments in investment properties of EUR 2,908k (Core Portfolio segment), impairment losses (Investments segment with EUR 620k), the operating results of companies accounted for using the equity method (Investments segment with EUR 1,688k), as well as effects from disposals (Investments segment with EUR 54k and Asset Management segment with EUR 332k).

The impairment losses of EUR 3,028k in the Investments segment are comprised of EUR 1,140k from real estate inventory, EUR 950k from companies accounted for using the equity method, and EUR 938k from trade accounts receivables and other receivables. The impairment losses of EUR 274k in the Asset Management segment exclusively concerns trade accounts receivables and other receivables. No impairment losses were recorded in the segments Core Portfolio and Central Functions.

Real estate inventory in the Investments and Asset Management segments decreased due to the sale of real estate companies, real estate, and impairment losses. At the Group level, disposals through sales amounted to EUR 403k (of which EUR 403k in the Investments segment and EUR 0k in the Asset Management segment).

Of total Group revenues (EUR 1,134k), an amount of EUR 649k is attributable to Germany. These revenues exclusively result from rental income. An amount of EUR 485k is attributable to Austria and is mainly the result of disposals of real estate companies (EUR 403k) and asset management services (EUR 82k).

The geographical allocation of revenues is based on the location of the rented property for rental income, on the location of the object sold for the sale of real estate, and on the location where the services were performed for asset management services.

Transactions among segments are carried out on the basis of comparable external conditions.

I. Other notes

1. FINANCIAL INSTRUMENTS

Interest-rate risk to cash flows relates to cash held in deposit accounts and also relates to variable interest rates on debt. The Company does not anticipate significant negative interest rate effects over the long term since the level of liquid funds on the balance sheet date are only available until investments are made and will be subsequently tied up in projects according to plan. For the amount of EUR 3,955k (previous year: EUR 2,333k) deposited as at the balance sheet date, a decline in the interest rate of 0.5% p.a. would result in a decrease in the yearly interest income of EUR 20k (previous year: EUR 12k). This is equivalent to EUR 2k (rounded) per month.

Generally, a reference is made to the risk report in the Group management report.

Financial risk management

The Executive Board regularly monitors and actively manages the credit risks which are inherent in the Group's operating activities and the risks related to the Group's financing activities. As a result of these measures, the consolidated financial statements were prepared on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue business activity.

DEMIRE plans for a moderate improvement in Group EBIT in fiscal year 2014/2015. This expectation is based primarily on the planned expansion of the core real estate portfolio and optimised occupancy rates at existing properties. The growth strategy will be financed by assuming debt. Thus, DEMIRE is dependent upon the receipt of debt at conditions adequate for refinancing current business operations or for making planned acquisitions. A renewed resurgence of the international financial market crisis could impede DEMIRE's debt financing and lead to liquidity problems. The risk of impairment of our Ukrainian investments is of particular significance due to the current political situation in the Ukraine. In the reporting year, we experienced impairments here which resulted in a reduction in the total carrying amounts from EUR 9.5 million in the previous year to EUR 6.0 million. The carrying amounts also represent the level of risk for the Group.

The Group's financial assets consist of loans to companies accounted for using the equity method, other loans, trade accounts receivables and other receivables, financial receivables and other financial assets, as well as bank deposits. A large proportion of trade accounts receivables consists of receivables from rent and asset management. Potential defaults in this context are taken into consideration.

The Group's financial debt is comprised mainly of bank loans, overdrafts, trade payables, and loans granted. The main purpose of this financial debt is to finance the Group's business activities.

The Group is exposed to various financial risks as a result of its business activities: foreign currency risk, interest-rate risk, credit risk, and liquidity risk. The overlying risk management system concentrates on the on-going identification of typical business risks and their active management. Risks within a certain range are accepted if they are offset by corresponding return opportunities. The goal is to limit the exposure to peak risks so that the continuance of the Company is not jeopardised.

The Executive Board identifies, evaluates, and hedges financial risks in close collaboration with the asset manager and in coordination with the Group's Supervisory Board.

Foreign currency risk

To a large extent, DEMIRE is active on markets outside of the eurozone, and is consequently also exposed to corresponding currency exchange rate risks. Where possible and practicable, projects are processed in the local currency (e.g., local currency debt financing of construction costs). Any changes in the project's existing assets and liabilities has its effects within the currency translation reserve of other comprehensive income found in the statement of comprehensive income. When the Group's liabilities or receivables are held in a foreign currency, this in turn has an effect on the consolidated statement of income. Generally, there are no material concentrations of foreign currency risk.

The remaining exchange rate risk, which is mostly limited to invested equity and the potential profit, is only partially hedged. Generally, preference is given to hedging on an aggregated basis rather than individual project-related risks. Here, hedging is only considered when certain fluctuation ranges are exceeded and only for certain currencies and are limited to the equity invested (and not for the potential profit). This approach is based on a cost-benefit analysis in the knowledge that foreign exchange rate risk as a whole cannot be isolated entirely but rather many additional interdependencies beyond pure exchange-rate fluctuations play a role. In summary, the management of foreign exchange rate risks is geared toward accepting currency risk within a certain range. Hedging is only used to cap peak risks on an aggregated basis and is only sought for certain currencies in order to counteract developments that could jeopardise the continuance of the Company. The foreign currency hedging strategy is determined in close coordination with the Supervisory Board.

The following table shows a breakdown of assets and liabilities by currency (in EURk):

	EUR	Others	Total
Investments accounted for using the equity method	1,963	3,701	5,664
Investment properties	20,526		20,526
Loans to investments accounted for using the equity method	20	2,471	2,491
Trade accounts receivables and other receivables	1,680	64	1,744
Financial receivables and other financial assets	2	0	2
Cash and cash equivalents	3,915	39	3,954
Investments available for sale accounted for using the equity method	4	0	4
Other assets	5,121	6,036	11,157
	33,231	**12,311**	**45,542**
Non-current financial debt	24,646	0	24,646
Current financial debt	9,744	35	9,779
Other liabilities	5,425	526	5,951
	39,815	**561**	**40,376**

A change in the exchange rate of +/– 10 percent has the following impact on the value of the assets and liabilities:

Total (in EURk)	+10%	–10%
Assets	–1,086	1,327
Liabilities	–50	61

RON (Romania) (in EURk)	+10%	–10%
Assets	–115	141
Liabilities	0	0

GEL (Georgia) (in EURk)	+10%	–10%
Assets	–82	101
Liabilities	–24	29

USD (USA) (in EURk)	+10%	–10%
Assets	–569	696
Liabilities	0	0

UAH (Ukraine) (in EURk)	+10%	–10%
Assets	–319	389
Liabilities	–26	31

Interest-rate risk

The DEMIRE Group utilises debt to finance its real estate projects. Some of its debt has variable interest rates. As a consequence, the DEMIRE Group is exposed to interest-rate risk since increases in the interest-rate level increases its financing costs. The following table assumes an increase in the interest-rate level of +100 and –25 basis points. Assuming all other parameters remained unchanged, an increase or decrease of the Company's interest expenses would lead to the following interest expenses:

in EURk	31/03/2014
Interest rate sensitivity analysis	
Interest expense from loans with variable interest rates	88
Increase in interest expenses assuming a fictitious increase in variable interest rates by 100 basis points	50
Decrease in interest expenses assuming a fictitious decrease in variable interest rates by 25 basis points	13

In this fictitious presentation, a change in interest expenses would have a direct effect on the Group's net profit and equity, net of related income tax effects.

The Executive Board evaluates its interest-rate policy on a regular basis and in close collaboration with the Supervisory Board.

Credit risk

The reported financial instruments simultaneously represent the maximum credit and default risk. In the context of uniform risk management standards across the Group, the counterparty risk is assessed and supervised on a uniform basis. The aim is to minimise default risk. No insurance is taken out for counterparty risk. There is generally no significant concentration of credit risk within the Group. An analysis of the impaired receivables is provided in the following table:

in EURk	Gross receivables	Impairment	Total
31/03/2014			
Trade accounts receivables and other receivables	2,740	–2,293	447
Financial receivables and other financial assets	4,325	–3,325	1,000
	7,065	**–5,618**	**1,447**
31/03/2013			
Trade accounts receivables and other receivables	2,950	–2,528	422
Financial receivables and other financial assets	2,886	–2,127	759
	5,836	**–4,655**	**1,181**

Liquidity risk

In the Company's initial phase, liquidity risk was primarily managed through holding liquidity reserves in the form of bank deposits available at all times and, to a limited degree, credit lines that could be drawn down. Today, the liquidity position is significantly more dependent upon proceeds from disposals and the planned prolongation of loans as they come due. The liquidity position is also affected by additional contributions for the continued financing of projects. Generally, there are no significant concentrations of liquidity risk.

Further information on risk management and on financial risks are provided in the risk report of the Management Report.

Capital management

The overriding objective of the Group's capital management is to secure the capability of future debt repayment and to preserve the Group's financial net worth. The Group's capital structure is managed according to economic and regulatory guidelines. On the part of DEMIRE, capital management is carried out by way of dividend payments and/or financing. DEMIRE aims at maintaining a capital structure that is suitable for the risk inherent in its business and also subjects itself to the minimum capital requirements prescribed by the German Stock Corporation Act. The Executive Board of DEMIRE is monitoring its compliance. These requirements were met both in the reporting year and in the previous year. DEMIRE also strives to have a balanced maturity structure for its outstanding liabilities. The intention of the Executive Board is to obtain a sufficiently strong equity base, and to maintain the confidence of investors and the market. Whereas the equity commitment in Germany and Austria stands at 20 to 30% of the investment volume, significantly higher equity commitments must be allowed for in the CEE/SEE/CIS countries, especially in the early stages.

The Group monitors its capital through its equity ratio which is also an important key ratio for investors, analysts, and banks. Components of this ratio are the total assets in the consolidated balance sheet, and the shareholders' equity reported in the consolidated balance sheet that is attributable to both the parent company shareholders and non-controlling shareholders. DEMIRE intends to utilise the available equity as a means of possible leverage but will continue to maintain a solid equity ratio. As of March 31, 2014 the equity ratio stood at 15.9% (previous year: 45.8%). DEMIRE intends to reach an equity ratio of more than 30%. The achievement of this goal will be accompanied by different processes. Disposals should be carried out at least at the higher of the carrying amount and market value. Strict cost control and cost reduction measures should lead to an optimised cost structure.

Additional information about financial instruments

Due to the short-term maturity of cash and cash equivalents, trade accounts receivable and payable, and other current receivables and liabilities, it is assumed that their respective fair value corresponds to the carrying amounts.

March 31, 2014	IAS 39 measurement					Value
in EURk	Measurement category	Carrying amount	Fair value through profit/loss	Fair value directly in equity	Amortised costs	Fair value
Other financial assets	n.a.	695	0	0	695	695
Loans to investments accounted for using the equity method	LaR	2,490	0	0	2,490	3,683
Other loans	LaR	351	0	0	351	351
Trade accounts receivables and other receivables	LaR	1,744	0	0	1,744	1,744
Financial receivables and other financial assets	LaR	1,149	0	0	1,149	1,474
Cash and cash equivalents	LaR	3,955	0	0	3,955	3,955
Non-current financial debt	AmC	13,247	0	0	13,247	10,637
Convertible bonds	AtFVtPL	10,893	10,893	0	11,300	10,893
Trade payables	AmC	3,473	0	0	3,473	3,473
Current financial debt	AmC	9,779	0	0	9,779	9,779
Value per measurement category	**LaR**				**9,689**	
	AmC				**–37,799**	
	AtFVtPL				**10,893**	

March 31, 2013	IAS 39 measurement					Value
in EURk	Measurement category	Carrying amount	Fair value through profit/loss	Fair value directly in equity	Amortised costs	Fair value
Other financial assets	n.a.	49	0	0	49	49
Loans to investments accounted for using the equity method	LaR	2,059	0	0	2,059	3,252
Other loans	LaR	342	0	0	342	490
Trade accounts receivables and other receivables	LaR	2,353	0	0	2,353	2,353
Financial receivables and other financial assets	LaR	2,185	0	0	2,185	2,510
Cash and cash equivalents	LaR	2,333	0	0	2,333	2,333
Non-current financial debt	AmC	9,159	0	0	9,159	8,271
Trade payables	AmC	990	0	0	990	990
Current financial debt	AmC	5,041	0	0	5,041	5,041
Value per measurement category	**LaR**				**9,272**	
	AmC				**–15,190**	

Afs: Available-for-Sale Financial Assets;
LaR: Loans and Receivables;
AmC: Amortised Cost (financial liabilities recognised at amortised cost);
AtFVtPL: At Fair Value through Profit or Loss; n.a.: not applicable

Due to the short-term maturity of trade accounts receivable and other receivables, other current financial assets and liabilities as well as cash and cash equivalents, it is assumed that their respective fair value corresponds to the carrying amounts.

The following table presents the measurement hierarchy, measurement procedure, and material input factors for the fair values of each category of financial assets and liabilities.

Type	Hierarchy	Measurement procedure and material input factors
Loans to investments accounted for using the equity method (fixed-rate)	Level 3	Discounted cash flows on the basis of yield curves observable on the market at the reporting.
Financial receivables and other financial assets	Level 3	Discounted cash flows on the basis of yield curves observable on the market at the reporting.
Non-current financial debt	Level 3	Discounted cash flows on the basis of yield curves observable on the market at the reporting.
Quoted convertible bond	Level 1	Quoted bid prices on active markets

If fair value is determined using a valuation method, the fair value is to be assigned to one of the following three levels in the fair value hierarchy dependent upon the available observable parameters and the respective importance of these parameters for the overall measurement:

» Level 1: Input factors are quoted (unadjusted) prices in active markets for identical assets or liabilities that are available as of the valuation date.

» Level 2: Other input factors than the quoted prices in Level 1 and those which are either directly observable or can be indirectly derived for the asset or liability.

» Level 3: Input factors for the asset or liability that are not observable.

The carrying amounts of the financial instruments represent the maximum default risk:

in EURk	31/03/2014	31/03/2013
Loans and receivables	7,840	6,939
Cash and cash equivalents	3,955	2,333
Other financial assets	695	49
Total	**12,490**	**9,321**

The maximum default risk of loans and receivables is divided according to regional considerations as follow:

in EURk	31/03/2014	31/03/2013
Germany, Austria, and Netherlands	2,188	2,568
Poland	2,198	1,944
Ukraine	726	113
Georgia	66	55
Other countries	2,662	2,259
Total	**7,840**	**6,939**

The Group's cash and cash equivalents are divided according to regional considerations as follows:

in EURk	31/03/2014	31/03/2013
Cash and cash equivalents in euro countries	3,915	2,283
Cash and cash equivalents in other countries	40	50
Total	**3,955**	**2,333**

As per March 31, 2014, there were no overdue loans and receivables taking impairments into consideration. In the prior year, there were no overdue loans and receivables.

Net gains and losses 01/04/2013 – 31/03/2014		From subsequent measurement				
EURk	from interest	at fair value profit or loss	Currency difference	Impair-ment	Reversal of impairment	Net gain/ loss
Loans and receivables	702		3	–1,253		–548
Other financial assets						0
Other liabilities	–927					–927
Total	**–225**	**0**	**3**	**–1,253**	**0**	**–1,475**

Net gains and losses 01/04/2012 – 31/03/2013		From subsequent measurement				
TEUR	from interest	at fair value profit or loss	Currency difference	Impair-ment	Reversal of impairment	Net gain/ loss
Loans and receivables	770	–128	34	–1,460		–784
Other financial assets						0
Other liabilities	–1,168					–1,168
Total	**–398**	**–128**	**34**	**–1,460**	**0**	**–1,952**

For receivables from the rental of commercial and residential property in Germany, proportionate impairments recognised in the Investments segment and based on the assessment of the tenants' creditworthiness amounted to EUR 0k (previous year: EUR 606k).

Overdue receivables are subject to impairment; based on the status of information available, it is assumed that those receivables that are not overdue or impaired have retained their value, and are consequently collectable. This assumption is subject to constant monitoring.

Impairment losses during the reporting period are distributed among the classes of financial instruments as follows:

in EURk	31/03/2014	31/03/2013
Trade accounts receivables and other receivables	1,253	1,460
TOTAL	**1,253**	**1,460**

Future outgoing payments related to financial debt are presented in the following table:

in EURk	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	after March 31, 2019
DKB loan for 1.MAGNAT Immobilienges. mbH						
Interest	37					
Repayment	3,274					
Mezzanine loan	**441**	**397**	**524**			
Interest						
Repayment	1,500	1,000	5,943			
IBB annuity loan for DEMIRE Real Estate München I GmbH						
Interest	253	247	180			
Repayment	106	225	8,151			
Hypo Landesbank Vorarlberg annuity loan for Munich ASSET Vermögensverwaltung GmbH						
Interest	88	85	82	79	32	
Repayment	158	158	158	158	4,368	
Loan from MAGNAT Capital Markets GmbH						
Repayment						483
Profit participation certificates MAGNAT Capital Markets GmbH						
Repayment						22
Trade payables and other liabilities	4,257					
Total	**10,114**	**2,112**	**15,038**	**237**	**4,400**	**505**

2. RELATED PARTY DISCLOSURES

In the fiscal year under review, transactions with related parties were exclusively carried out at customary market conditions.

With regard to Executive Board remuneration, please refer to I.5.

The following balances exist with respect to associated companies:

in EURk	31/03/2014	31/03/2013
Trade accounts receivables and other receivables	0	0
Financial receivables and other financial assets	48	134
Trade payables and other liabilities	139	98
Current financial debt	243	177

The balance of trade accounts receivables and other receivables is based on the offsetting of asset management services. Regarding financial receivables and other financial assets, reference is made to E.2.3. Trade payables and other liabilities are related to the leasing of office space. Current financial debt is based on other financial liabilities.

The following balances exist with respect to joint ventures:

in EURk	31/03/2014	31/03/2013
Loans to investments accounted for using the equity method	2,490	2,059
Financial receivables and other financial assets	2,293	2,034
Current financial debt	172	171

Regarding loans to investments accounted for using the equity method, reference is made to E.1.6. Regarding financial receivables and other financial assets, reference is made to E.2.3. The balance of current financial debt is based on other financial liabilities.

Volume of business transactions with associated companies:

in EURk	31/03/2014	31/03/2013
Trade accounts receivables and other receivables	41	186
Financial receivables and other financial assets	245	284
Trade payables and other liabilities	101	46
Current financial debt	12	142

Volume of business transactions with joint ventures:

in EURk	01/04/2013 – 31/03/2014	01/04/2012 – 31/03/2013
Loans to investments accounted for using the equity method	420	588
Financial receivables and other financial assets	426	372
Current financial debt	1	26

There are no collaterals for receivables due from associated companies and joint ventures.

3. AUDITOR'S FEE

The auditor's fee reported as expenses in the fiscal year under review can be divided as follows (amounts including value-added taxes):

in EURk	2013/2014	2012/2013
Auditing services	303	190
Other assurance services	0	0
	303	**190**

4. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In June 2014, DEMIRE AG sold its 32.443% interest (1,477,084 shares) in Hekuba S.à.r.l. at a price of EUR 3,700k.

Between April 2014 and the time of preparing these financial statements, a total of EUR 184,000 in convertible bonds were converted into no-par value shares of DEMIRE Deutsche Mittelstand Real Estate AG with a notional share of 1.32% in the share capital.

The term of the DKB loan in an amount of EUR 3,274k was prolonged until September 30, 2014. The Company expects to dispose of the portfolio, or part of the portfolio, underlying the loan or to extend the term of the loan. The Company is in relevant discussions with the bank.

Subsequent to the end of the fiscal year, a mezzanine loan in the amount of approximately EUR 6.1 million due in July 2014 was prolonged until the end of the following calendar year. In addition, there was an agreement to redeem parts of the loan in 5 instalments over the next 12 months. As a result, the interest rate for the mezzanine loan was significantly reduced.

Subsequent to the end of the reporting period, the Company announced the planned purchase of a larger portfolio consisting of seven commercial properties with a total floor space of around 40,000 m². The properties are in the Cologne/Bonn, Leverkusen, Wuppertal, Hamburg, and Wismar areas and generate a yearly actual net rental income (excluding utilities) of EUR 4.4 million, based on the current level of almost full occupancy. Approximately 70% of the floor space is used as office space and 30% is used as warehouses, retail stores, and doctor's offices. This investment will also generate positive cash flows from the start. With the closing of the transaction, expected in the third quarter of 2014, the Company's portfolio will have reached a noticeable size. This will create the basis for the Group's continued and targeted expansion.

There were no other events of significant importance to the Group between the end of the fiscal year on March 31, 2014 and the completion of this report on July 31, 2014.

5. EXECUTIVE BOARD, SUPERVISORY BOARD, AND EMPLOYEES

a. Executive Board

In accordance with the Articles of Association, the Executive Board conducts business under its own responsibility.

In the year under review, the Executive Board consisted of the following members:

- Dr. Marc-Milo Lube, Speaker of the Executive Board, until April 19, 2013,
- Hon.-Prof. Andreas Steyer, from March 5, 2013 and Speaker of the Executive Board from May 16, 2013,
- Jürgen Georg Faè, until December 4, 2013.

In fiscal year 2013/2014, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG received fixed remuneration (short-term benefits) totalling EUR 1,064k (previous year: EUR 429k) which is divided as follows (amounts in EURk):

in EURk	2013/2014	2012/2013
Dr. Marc-Milo Lube	548	223
Hon.-Prof. Andreas Steyer	221	17
Jürgen Georg Faè	295	190
	1,064	**429**

If the employment contract of Jürgen Georg Faè ends prematurely through a proper cancellation on the part of DEMIRE Deutsche Mittelstand Real Estate AG, the former Executive Board member is entitled to a severance payment equal to 50 % of the sum of his outstanding monthly remuneration until the end of the actual term of the employment contract. The amount of the remuneration is based on the fixed salary.

Hon.-Prof. Andreas Steyer receives a time-proportionate entitlement to a multi-year bonus if the performance period for the determination of the multi-year bonus has persisted for twenty-four months.

b. Supervisory Board

The following table provides the names and professions of the Supervisory Board members.

Name	Function	Profession	Term	Remuneration (in EURk) 2013/2014*)	Remuneration (in EURk) 2012/2013*)
Prof. Dr. Werner Schaffer	Chairman	Tax Consultant in his own practice	until October 23, 2013	12	19
Dr. Carsten Strohdeicher	Deputy Chairman	Independent Management Consultant	until October 23, 2013	8	13
Prof. Dr. Hermann Anton Wagner	Chairman until October 23, 2013	Tax Consultant and Auditor in his own practice	since April 17, 2013	14	0
Dr. Christoph Jeannée		Independent lawyer	until March 31, 2013	0	6
Mag. Wolfgang Quirchmayr		Tax Consultant in his own practice	until March 31, 2013	0	6
Friedrich Lind		Entrepreneur	until March 31, 2013	0	6
Dr. Stefan Schütze LL.M.		Independent lawyer	until March 31, 2013	0	6
Dr. Dirk Hofmann	Deputy Chairman, since October 23, 2013	Lawyer in his own practice	since October 23, 2013	3	0
Günther Walcher		Entrepreneur	since October 23, 2013	3	0
				40	**56**

*) Remuneration excluding reimbursement of expenses and value-added tax

In addition, Supervisory Board members were reimbursed for travel costs amounting to EUR 10k (previous year: EUR 10k).

c. Employees

In addition to the three Executive Board members, the number of employees was as follows:

	31/03/2014	31/03/2013
Permanent employees	4	17
	4	**17**

The average number of employees in fiscal year 2013/2014 was 4 (fiscal year 2012/2013: 22).

6. STATEMENT REGARDING THE “GERMAN CORPORATE GOVERNANCE CODE”

The statement required under Section 161 AktG on the German Corporate Governance Code is submitted by the Company to the shareholders once per calendar year. The Declaration of Compliance with the German Corporate Governance Code was made permanently available to shareholders on DEMIRE’s website under the section titled “Company” (http://www.demire.ag/de/company/governance.php).

7. RELEASE FOR PUBLICATION

These consolidated financial statements were prepared by the Executive Board on August 27, 2014 and have been released for publication.

Frankfurt/Main, August 27, 2014

DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board (CEO)

List of shareholdings pursuant to Section 313 para. 2 HGB

Company	Type	Head office
DEMIRE Deutsche Mittelstand Real Estate AG	Group parent company	Germany, Frankfurt/Main
Lumpsum Eastern European Participations C.V.	Subsidiary	Netherlands, Osterhout
DEMIRE Commercial Real Estate GmbH (formerly: MAGNAT Asset Management Deutschland GmbH)	Subsidiary	Germany, Frankfurt/Main
DEMIRE Real Estate München I	Subsidiary	Germany, Munich
Munich ASSET Vermögensverwaltung GmbH	Subsidiary/Held in trust	Germany, Munich
Munich ASSET 1 Vermögensverwaltung GmbH	Subsidiary/Held in trust	Germany, Leipzig
MAGNAT Investment I B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
Erste MAGNAT Immobiliengesellschaft mbH	Subsidiary	Germany, Frankfurt/Main
Zweite MAGNAT Immobiliengesellschaft mbH	Subsidiary	Germany, Frankfurt/Main
MAGNAT Real Estate UA X B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
MAGNAT Real Estate UA XI B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
R Quadrat Bulgaria EOOD	Subsidiary	Bulgaria, Sofia
SC Victory International Consulting S.r.l.	Subsidiary	Romania, Bucharest
OXELTON ENTERPRISES LIMITED	Joint venture [4)]	Cyprus, Limassol
Carmen Trading Ltd.	Joint venture [8)]	Ukraine, Kiev
Irao Magnat Digomi LLC	Subsidiary	Georgia, Tbilisi
Irao Magnat 28/2 LLC	Joint venture	Georgia, Tbilisi
Magnat Tbilisi Office 1 LLC	Subsidiary	Georgia, Tbilisi
Magnat Tbilisi Residential 1 LLC	[2)]	Georgia, Tbilisi
Vlemegona Holdings Ltd.	Joint venture [3) 5)]	Cyprus, Limassol
Kappatrade Ltd.	Subsidiary	Ukraine, Kiev
Polartrade Ltd.	Subsidiary	Ukraine, Kiev
MAGNAT Investment II B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
MAGNAT Real Estate Project Sadko B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
MAGNAT Real Estate UA V B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
MAGNAT Real Estate New Project Sadko B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
MAGNAT Real Estate UA I B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
MAGNAT Real Estate UA XII B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
OOO Sadko Holding	Subsidiary	Russia, Moscow
R-QUADRAT Ukraine Gamma Ltd.	Subsidiary	Ukraine, Kiev
OOO New Sadko Holding	Subsidiary	Russia, Moscow
Zetatrade Ltd.	Subsidiary	Ukraine, Kiev
MAGNAT Investment III B.V.	[3)]	Netherlands, Hardinxveld Giessendamm
MAGNAT Investment IV B.V.	Subsidiary	Netherlands, Hardinxveld Giessendamm
IRAO Magnat Gudiashvili LLC	Joint venture	Georgia, Tbilisi
R-Quadrat Polska Alpha Sp. z o.o.	Joint venture	Poland, Warsaw
Hekuba S.à.r.l.	Joint venture [4)]	Luxemburg, Luxemburg
Russian Land AG	assoziiertes Unternehmen	Austria, Vienna
SQUADRA Immobilien GmbH & Co. KGaA,	assoziiertes Unternehmen [4)]	Germany, Frankfurt/Main
MAGNAT AM GmbH	Subsidiary	Austria, Vienna
MAGNAT Capital Markets GmbH	Subsidiary	Austria, Vienna
Prunus Sp. z o.o. i.L.	Joint venture [3)]	Poland, Warsaw
Lygos Sp. z o.o. i.L.	Joint venture [3)]	Poland, Warsaw
MAGNAT Asset Management Ukraine Ltd.	Subsidiary	Ukraine, Kiev

1) The share in the equity corresponds to the control relationship before taking into account any non-controlling interests within the Group.
2) Subsidiary, not included in the consolidated financial statements
3) Joint venture, not accounted for using the equity method
4) Based on internal subgroup financial statements underlying these consolidated financial statements
5) Stated amounts are based on the financial statements as of 31/12/2011 and 31/03.2011
6) Respective companies are direct or indirect subsidiaries of Hekuba S.à.r.l.
7) No information provided for the respective companies as they are already included in the consolidated subgroup financial statements of the corresponding parent company. Subsidiary of OXELTON ENTERPRISES Limited.
8) Held in trust (beneficial ownership)

Fiscal year	Equity in EURk	Interest in equity % [1]	Profit/loss of last fiscal year
01/04/2013 – 31/03/2014			–2,759
01/04/2013 – 31/03/2014	–4	94	–2
01/01/2013 – 31/12/2013	41	100	–40
01/01/2013 – 31/12/2013	21	100	–4
01/01/2014 – 31/03/2014	67	100	42
01/01/2014 – 31/03/2014	25	100	0
01/04/2013 – 31/03/2014	49,611	94	–1,387
01/01/2013 – 31/12/2013	–460	100	–49
01/01/2013 – 31/12/2013	3,422	100	–67
01/04/2013 – 31/03/2014	–103	100	–29
01/04/2013 – 31/03/2014	–1	100	–8
01/01/2013 – 31/12/2013	287	100	–13
01/01/2013 – 31/12/2013	1,083	100	–4,734
01/01/2013 – 31/12/2013	230	60	–881
[7]		60	
01/01/2013 – 31/12/2013	–962	75	–98
01/01/2013 – 31/12/2013	265	50	–9
01/01/2013 – 31/12/2013	50	100	0
01/01/2013 – 31/12/2013		100	
01/01/2012 – 31/12/2012	23	60	0
01/01/2013 – 31/12/2013	63	100	–2
01/01/2013 – 31/12/2013	22	100	–3
01/04/2013 – 31/03/2014	6,046	100	–548
01/04/2013 – 31/03/2014	46	100	0
01/04/2013 – 31/03/2014	1,427	100	–6
01/04/2013 – 31/03/2014	467	100	–1
01/04/2013 – 31/03/2014	1,360	100	–1,260
01/04/2013 – 31/03/2014	–187	100	–31
01/01/2012 – 31/12/2012	66	100	1
01/01/2013 – 31/12/2013	803	99	–21
01/01/2012 – 31/12/2012	29	100	1
01/01/2013 – 31/12/2013	–233	100	–5
01/04/2013 – 31/03/2014	3	50	4
01/04/2013 – 31/03/2014	339	100	–43
01/01/2013 – 31/12/2013	70	50	–7
01/01/2013 – 31/12/2013	–43,324	50	–10,440
01/01/2013 – 31/12/2013	13,643	32.44	3,026
01/01/2013 – 31/12/2013	7	40.34	–16
01/04/2013 – 31/03/2014	14,148	24.78	–7,534
01/01/2013 – 31/12/2013	2,267	100	137
01/01/2013 – 31/12/2013	367	100	0
N/A	N/A	50	
N/A	N/A	50	
01/01/2013 – 31/12/2013	–49	100	–53

Responsibility statement

As the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, I hereby confirm to the best of my knowledge, and in accordance with the applicable reporting principles, that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, and furthermore that the Group management report includes a fair review of the development of the business including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt/Main, August 27, 2014

DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board (CEO)

Audit opinion

We have audited the consolidated financial statements prepared by DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, comprising the consolidated balance sheet, consolidated statement of income, statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, and the notes to the consolidated financial statements as well as the management report for the Group and the Company for the fiscal year from April 1, 2013 to March 31, 2014. It is the responsibility of the governing bodies of the Company to prepare the consolidated financial statements and the management report for the Group and the Company in accordance with IFRS, as applicable in the EU, and with the supplementary provisions of the German commercial law applicable pursuant to Section 315a para. 1 HGB. Our task is to deliver a judgment on the consolidated financial statements and the management report for the Group and the Company on the basis of the audit we have undertaken.

We have conducted our audit of the consolidated financial statements in accordance with Section 317 HGB in consideration of the German auditing standards defined by the Institut der Wirtschaftsprüfer (IDW). These require the audit to be planned and conducted in such a manner as to detect, with adequate certainty, any inaccuracies or infringements which may have a significant impact on the impression of the net assets, financial position, and results of operations, as conveyed by the consolidated financial statements in consideration of the applicable accounting standards, and by the management report for the Group and the Company. In determining the actions to be taken as part of the auditing procedure, consideration was given to the knowledge of the business activities of the Group and its economic and legal environment, as well as to the possible errors likely to be encountered. In the course of the audit, the effectiveness of the internal accounting-related control system and proof of the information contained in the consolidated financial statements and the management report for the Group and the Company were assessed on the basis of random samples. The audit encompasses a review of the financial statements of the companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles applied, and the principal assessments made by the governing bodies, as well as an evaluation of the overall presentation of the consolidated financial statements and of the management report for the Group and the Company. We are of the opinion that our audit forms an adequately secure foundation on which to base our judgment.

Our audit has caused us to raise no objections.

In our judgment based on the findings of our audit, the consolidated financial statements comply with IFRS as applicable in the EU and with the supplementary provisions of German commercial law applicable pursuant to Section 315a para. 1 HGB, and in consideration of the principles of proper accounting convey an image of the Group's net assets, financial position, and results of operations which concurs with the true circumstances. The management report for the Group and the Company is consistent with the consolidated financial statements and overall presents an accurate image of the position of the Group and the opportunities and risks of future development.

Eschborn/Frankfurt/Main, August 29, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schmitt	Paul
Auditor	Auditor

Financial calendar 2014/2015

Event	Date
Annual General Meeting / Frankfurt/Main	15/10/2014
Half-Year Report as at September 30, 2014	01/12/2014
Q3 Interim Report as at December 31, 2014	17/02/2015

Figures in this annual financial report are usually presented in thousands and millions of euro. Due to rounding, differences as against the actual number in euro may emerge in individual figures. Naturally, such differences are not of a significant nature.

The report is published in German and as an English translation. In the event of any conflict or inconsistency between the English and the German versions, the German original shall prevail.

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