# Annual Report 2017

THE GROUNDS
REAL ESTATE DEVELOPMENT AG

# Indicators



## Group indicators

| | | 2017 |
|---|---|---|
| Revenues from turnover | €000 | 18,945 |
| Earnings before interest and taxation (EBIT) | €000 | 1,355 |
| Group earnings | €000 | 1,197 |
| Earnings per share | EUR | 0.08 |
| Balance sheet total | €000 | 27,953 |
| Fixed assets | €000 | 2,515 |
| Equity | €000 | 7,438 |
| Equity ratio | % | 26.6 |
| Financial debts | €000 | 4,001 |
| Cash flow from current business activities | €000 | -15,822 |
| Cash flow from investment activities | €000 | -668 |
| Cash flow from financing activities | €000 | 18,747 |
| Staffing | €000 | 4 |

## Portfolio indicators

| | | 2017 |
|---|---|---|
| Investment volume (expenditure until 15/05/2018) | €000 | 38,000 |
| Plot size | $m^2$ | 308,128 |
| Usable area | $m^2$ | 101,729 |

## The Grounds on the capital market

| | | 2017 |
|---|---|---|
| Market capitalisation (31/12/2017) | €000 | 32,114 |
| Share capital | €000 | 15,105 |
| Closing price | EUR | 2.126 |
| Lowest price | EUR | 2.051 |
| Highest price | EUR | 3.540 |
| ISIN | | DE000A2GSVV5 |
| Segment | | Primary market Düsseldorf |

The Company was restructured in 2017 and therefore it is not possible to draw conclusions about the development of the Company from the figures for the previous year. For that reason, a presentation has not been provided.

# Contents

# Letter to Shareholders

## Dear Shareholders,
## dear friends of The Grounds,



It is our pleasure to present the first annual report of The Grounds. We have had an eventful and challenging, but also a successful financial year 2017. After the restructuring, first steps on the German capital market and the consistent and focused expansion of our portfolio, containing attractive residential properties and our own development projects of residential and commercial properties in Germany, we have been able to achieve pronounced growth. In total, we have generated consolidated sales of EUR 18,945 thousand and achieved earnings before taxation (EBT) of EUR 1,355 thousand. Those results, which we have achieved in the shortest possible time, are very satisfactory. Our original and extremely positive forecasts for the financial year 2017 have been all but achieved.

A look at our activities shows that our strategy is working. By 15 May 2018, we had invested a total of EUR 38 million in nine projects, inter alia in Frankfurt, Leipzig and Magdeburg. At this point, as an example, I should like to take a brief look at the three most recent projects that we have initiated in past weeks. With our concept consisting of a mix of apartments, a nursing home and assisted living on a plot of 10,652 m², we have been awarded the contract by the municipality of Heubach to develop the old Triumph site anew. Once the development plan has been approved, construction can commence as early as 2019. A mix of extended stay apartments, rental and freehold apartments, age-appropriate living and day care centres is to be built on a plot of 38,200 m² in a suburb of Magdeburg. There too, construction may commence in 2019, after the development plan has been approved. In Leipzig, we have acquired a plot of land of 1,317 m² in a central location, as part of a joint venture in which we hold 51 %. Micro-apartments and furnished housing are to be made possible in the area in the immediate vicinity of the universities. At the same time, we are taking advantage of attractive sales opportunities with the aim of realising additional projects. For example, we successfully sold our Emden residential portfolio to a major institutional operator of residential properties.

What we have not yet succeeded in doing, however, is the planned dual listing in South Africa, meaning the IPO on the Johannesburg Stock Exchange. Here we have obviously suffered from the turbulence surrounding Steinhoff International Holdings N.V., whose home stock

*Hans Wittmann*
*Chief Financial Officer (CFO)*

*The former CFO of Chamartin Meermann AG Berlin (2010-2012) and CFO of Estavis AG (2006-2009) brought Estavis to the stock market in 2007 as a real estate company. He managed the preparation of prospectuses, roadshows and the acquisition of investors. Estavis AG reached a market capitalisation of around EUR 250 million in that way. Between 2006 and 2012, the annual transaction volume was €50-70 million.*

exchange is Johannesburg and which is also listed in Germany. We were aware that we were breaking new ground, but after we were convinced that we had met all the conditions, there were time and again delays. Still, we will not abandon this plan. Together with our legal advisors and our South African advisors, we are in close contact with the Johannesburg Stock Exchange. In numerous discussions, we have now developed a solution for listing, which we intend to implement at full speed in the coming months. The delays are annoying and painful, because we have not been able to speed up the process in spite of working hard to do so. But it does not impede our operational development.

We would like to thank our staff and shareholders for their dedication and tireless commitment to the successful development of our Company.

Hans Wittmann / CFO

Eric Mozanowski / COO

*Eric Mozanowski*
*Chief Operating Officer (COO)*

*Former CSO of Estavis AG Berlin (2008-2011). Over the past 30 years, he has established several real estate companies. He concentrated on project development and renovation of existing and listed buildings and their subsequent marketing, with a sales volume of over 10,000 completed residential units.*

# Portfolio / Properties

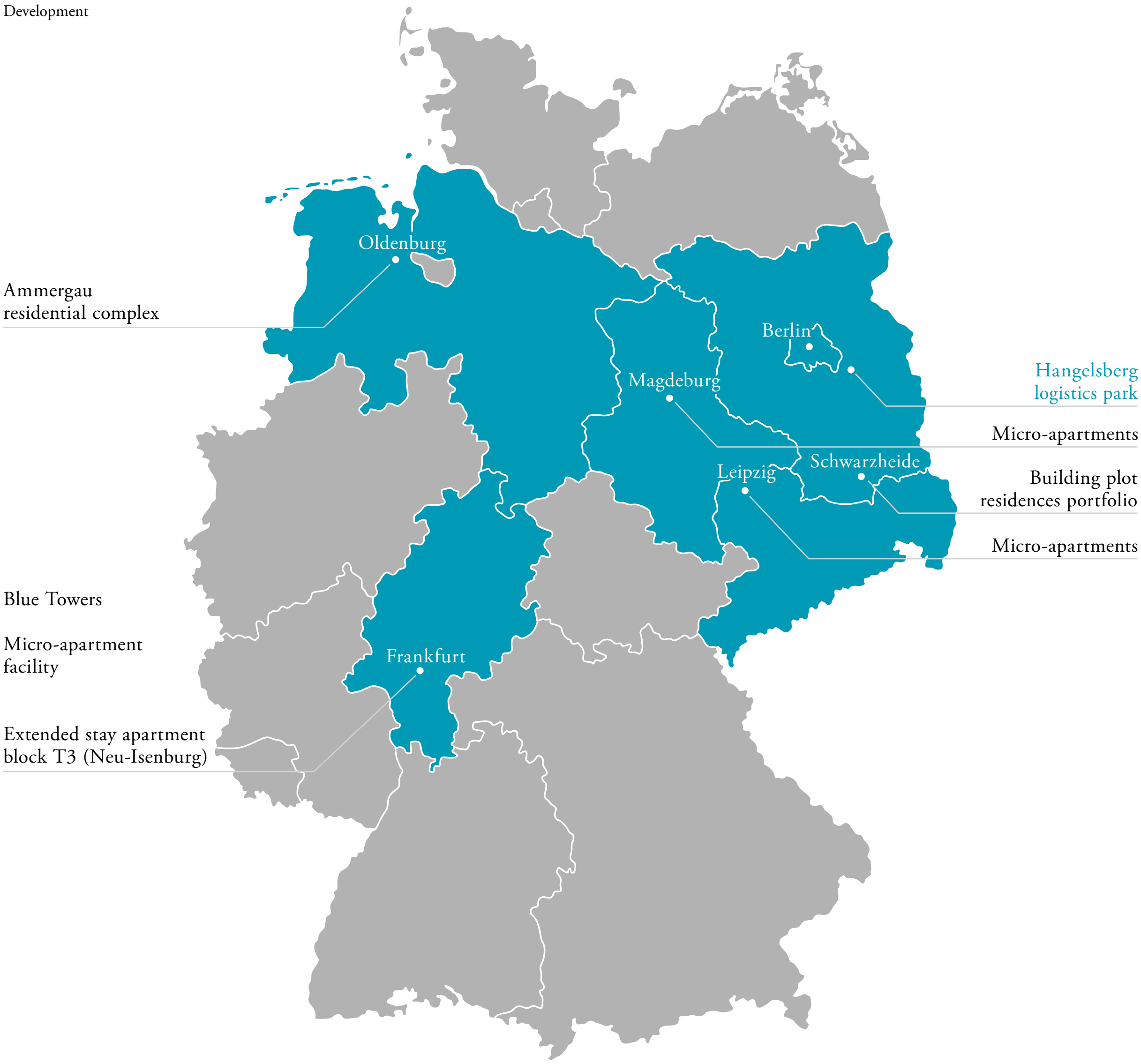


## Clear focus: acquisition, project development and sustainable management.

The business model of The Grounds Group is based on an integrated basic strategic idea of covering all stages of the value chain with their own solutions and know-how – via the business areas Investments (including property and asset management), Development and Trading. The focus is on residential properties / housing, particularly also on special properties such as student and retirement living, in the German metropolitan areas and on attractive locations and in aspiring outskirts in Germany.

## Regional Overview

Existing properties
Development



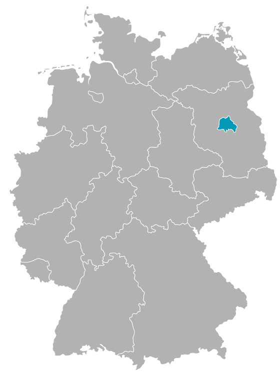
# Portfolio Overview



## Logistics park in Greater Berlin (Hangelsberg)

Existing

| | | |
|---|---|---|
| Federal state | | Brandenburg |
| Plot size | $m^2$ | 350,851 |
| Usable area | $m^2$ | 40,944 |
| Investment amount | €000 | 4,500 |



## Blue Towers in Frankfurt am Main

Development

| | | |
|---|---|---|
| Federal state | | Hesse |
| Plot size | $m^2$ | 14,502 |
| Usable area | $m^2$ | 17,790 |
| Investment amount | €000 | 2,000 |

## “Ammergau” residential complex in Oldenburg

Development

| | | |
|---|---|---|
| Federal state | | Lower Saxony |
| Plot size | $m^2$ | 1,617 |
| Usable area | $m^2$ | 1,082 |
| Investment amount | €000 | 3,500 |

## Building plot development in Schwarzheide

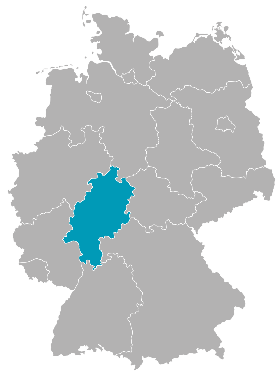
Development

| | | |
|---|---|---|
| Federal state | | Brandenburg |
| Plot size | $m^2$ | 39,527 |
| Usable area | $m^2$ | 22,652 |
| Investment amount | €000 | 19,500 |

## Micro-apartment facility in Frankfurt am Main

Development

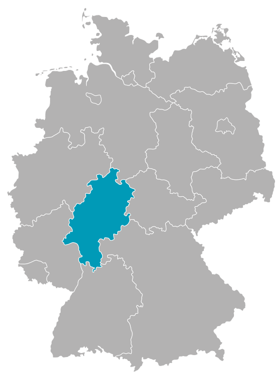
| | | |
|---|---|---|
| Federal state | | Hessen |
| Plot size | $m^2$ | 5,675 |
| Usable area | $m^2$ | 9,117 |
| Investment amount | €000 | 43,200 |



## Extended stay apartment block Terminal 3 in Neu-Isenburg

Development

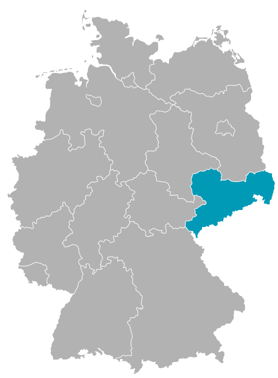
| | | |
|---|---|---|
| Federal state | | Hesse |
| Plot size | $m^2$ | 8,400 |
| Usable area | $m^2$ | 9,592 |
| Investment amount | €000 | 40,000 |



## Micro-apartment facility in Leipzig

Development

| | | |
|---|---|---|
| Federal state | | Saxony |
| Plot size | $m^2$ | 1,317 |
| Usable area | $m^2$ | 3,135 |
| Investment amount | €000 | 9,500 |



## Micro-apartment facility in Magdeburg

Development

| | | |
|---|---|---|
| Federal state | | Saxony-Anhalt |
| Plot size | $m^2$ | 2,280 |
| Usable area | $m^2$ | 3,702 |
| Investment amount | €000 | 11,100 |

# Report of the Supervisory Board

## Dear Ladies and Gentlemen,

During the financial year 2017, the Supervisory Board performed its duties in accordance with the legal provisions and the Articles of Association of The Grounds Real Estate Development AG ("the Company") as well as the duties incumbent upon it under the Company's rules of procedure.

The Management Boards and the Supervisory Board were in regular contact and have maintained an intensive dialogue. In addition to the topics specifically dealt with below, it also covered all other important matters concerning the Company and the Group. In accordance with its statutory duties, the Supervisory Board regularly advised and monitored the Management Board. Decisions of fundamental importance were discussed with the Supervisory Board in advance and approved by it. Key topics were the development of the markets of relevance to the Company and the Group, the purchase or sale of real estate, the strategic development of the Group as well as liquidity and the risk management system.

In addition to the regular meetings of the Supervisory Board, its Chairman in particular maintained intensive contact with the Management Board, both by telephone and in person. The Chairman then informed his colleagues promptly about important topics of the discussions. Other members of the Supervisory Board were also involved at an early stage in the decision-making process for real estate projects, for example. Matters requiring approval of the Supervisory Board were submitted in a timely manner for resolution.

### Restructuring of the Company

Following the acquisition of the majority of shares by TGA Verwaltungs UG, the Company was comprehensively restructured. Legally, this included in particular the change of name, various amendments to the Articles of Association, a combined increase in cash and non-cash capital, converting the existing holdings into registered shares and expansion and new election of the Supervisory Board.

Various real estate transactions took place in the financial year 2017, which led to fundamental changes in the corporate structure. The Grounds Group comprises the parent company The Grounds Real Estate Development AG and its 94.4 % subsidiary TGRE AG. The latter, on its part, directly and indirectly owns various subsidiaries, some of which hold real estate as property companies and others act as intermediate holding companies.

The Group is active in the German real estate market with its own and experienced project development, as portfolio holder of residential properties. The focus is on special properties such as student and retirement living in the German metropolitan areas and on attractive locations and in aspiring outskirts in Germany. As a full-service provider, the business areas Investments (including Property and Asset Management), Development and Trading are offered.

## Composition of the Supervisory Board

Following the change of ownership in March 2017, the Supervisory Board members Alexander Landgraf-Meltzer, Olaf Neugebauer and Sam Winkel declared on 23 March 2017 that they would step down as members of the Supervisory Board with effect from 29 March 2017. At the request of the Management Board of the Company, Munich District Court appointed by decision of 3 May 2017 Carsten Haug, Real Estate Administrator at ZuHause Immobilien Handelsgesellschaft mbH, Stuttgart, Manuel Köppel, authorised signatory with responsibility for the commercial management and finances of BF.direkt AG, Stuttgart, and Steffen Buckwitz, independent real estate consultant, Schöneiche, as new members of the Supervisory Board until the end of the Annual General Meeting, which was held on 22 June 2017. New elections to the Supervisory Board were held at the aforementioned Annual General Meeting and the shareholders resolved to amend the Articles of Association and expand the Supervisory Board to four members. Newly elected were Mr Haug, Mr Köppel and Dr Peter Maser, solicitor, Stuttgart. The Supervisory Board held its constituent meeting immediately after the Annual General Meeting. Dr Maser was elected chairman and Mr Köppel deputy of the chairman of the Supervisory Board. The term of office of Mr Buckwitz, who was also elected at the Annual General Meeting, commenced on 27 September 2017, the date of entry in the Commercial Register on 27 September 2017 of the amendment to the Articles of Association concerning the expansion of the number of members of the Supervisory Board to four.

## Work of the Supervisory Board during the year under review

During the financial year 2017, the Supervisory Board held three meetings: on 22 June 2017 in Berlin, on 21 September 2017 and on 14 December 2017, also in Berlin. Additionally, the Board discussed current topics in telephone conferences and adopted the requisite resolutions.

## Work of the Supervisory Board after conclusion of the year under review and determination of the annual accounts.

The external auditor of the Company, Buschmann und Bretzel Wirtschaftsprüfung, Berlin, audited the annual accounts of the Company as well as the consolidated annual accounts, together with the management report and the dependency report, and issued an unqualified opinion in each case. The Supervisory Board had the audit reports at its disposal for its own examination; in addition, it had the opportunity of discussing the annual accounts with the Management Board and the auditor at the meeting of the Supervisory Board that was held on 9 May 2018. After the meeting, there also was an opportunity to discuss matters with the auditor. Based on the final results of the audit of the annual accounts, the consolidated accounts and the management report for the Group, no objections were raised. The Supervisory Board approved the annual accounts of the Company and the consolidated accounts as well as the management report by resolution on 17 May 2018, by which the annual accounts of the Company were determined. The Supervisory Board also examined the Management Board's proposal to offset the net shortfall for the year of EUR 634,400.45 against the capital reserve. The Supervisory Board endorsed this proposal.

The Management Board prepared a dependency report in accordance with Article 312, Paragraph 1, AktG (Aktiengesetz [Companies Act]), because the company was controlled by Instand IPO SE in the period from 1 January 2017 until 21 March 2017 and by TGA Verwaltungs UG in the period from 21 March 2017 until 19 October 2017. The Management Board determined that no legal transactions had been carried out by the Company or its affiliated companies that could have disadvantaged the Company. The Supervisory Board reviewed this report and agrees with its findings.

## Matters of the Management Board

In conjunction with the change of ownership in March 2017, Robert Zeiss, the former sole member of the Management Board, stepped down with effect from 22 March 2017. In his place, the then Supervisory Board has designated Erik Mozanowski and Hans Wittmann as new members of the Company‘s Management Board, with effect from 22 March 2017. Andreas Steyer joint the Management Board on 1 September 2017. In agreement with the Supervisory Board, Mr Steyer resigned from the Management Board with effect from 31 December 2017.

The Supervisory Board would like to thank the staff of the Group and the members of the Management Board Erik Mozanowski and Hans Wittmann for their extraordinary dedication and constructive cooperation.

Berlin, May 2018

Dr Peter Maser
Chairman of the Supervisory Board

# Group Management Report 2017

## Contents





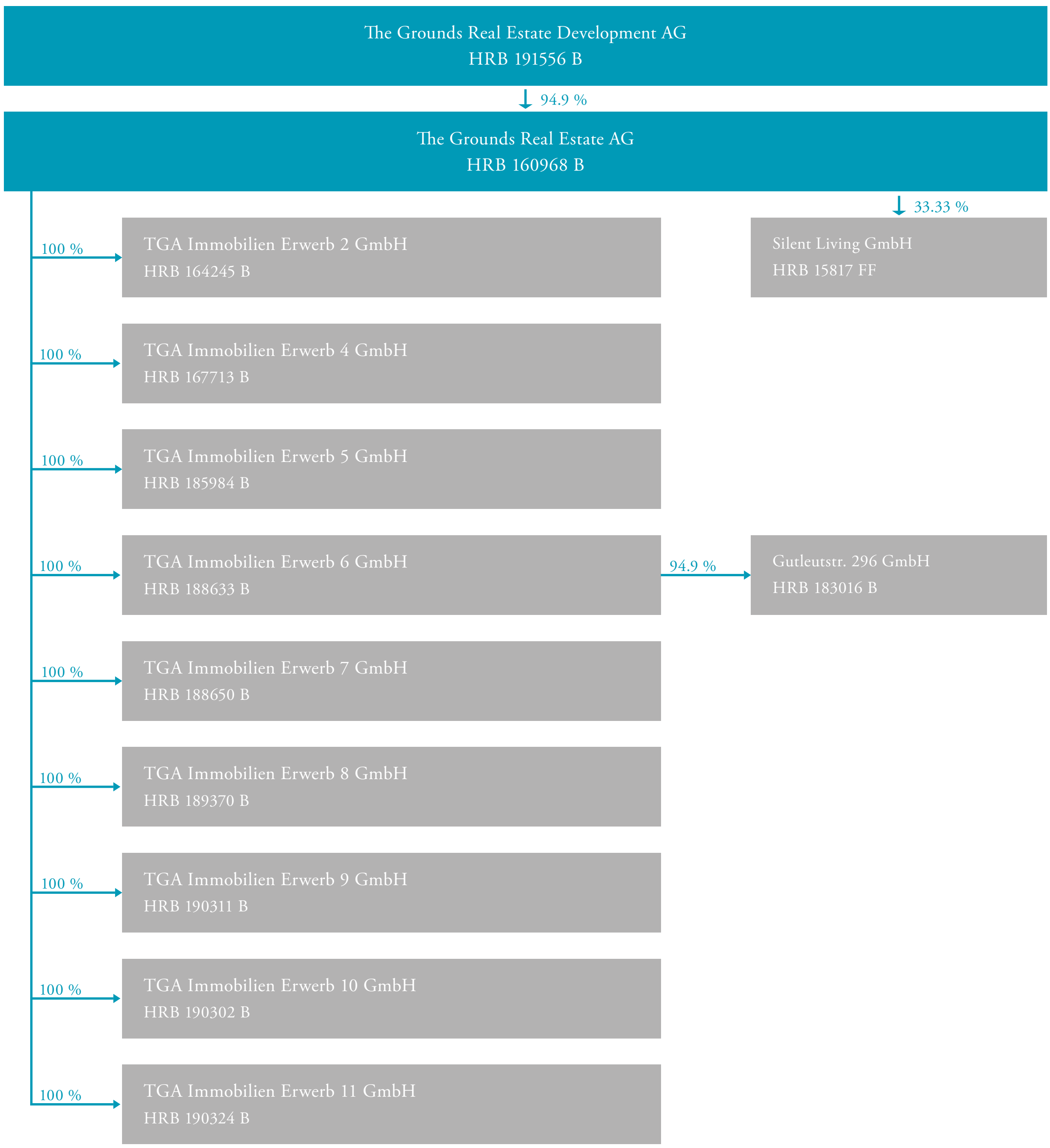
# 1. Principles of the Group

## 1.1 Overview

The Grounds Real Estate Development AG (formerly "Netwatch AG", hereinafter "The Grounds") is listed on XETRA in the upper OTC segment of the primary market of the Düsseldorf Stock Exchange and on the OTC market of the Frankfurt Stock Exchange.

The restructuring of the Company into a holding company for The Grounds Group, which operates in the real estate sector, began in March 2017 with the change of the major shareholder. TGA Verwaltungs UG acquired 90% of the shares of the former Netwatch AG, which was followed by a complete change in designated members of the Management Board and the Supervisory Board. The company has discontinued its previous activities in the field of management consultancy, particularly in corporate structure consultancy and corporate research. Instead, the newly created The Grounds Group focuses on acquisition and development of residential properties and has set itself the goal of providing affordable housing for different stages of life by mapping the business areas of investments (including property/asset management), development and trading as a full-service provider. The focus is on residential properties / housing, particularly also on special properties such as student and retirement living in the German metropolitan areas and on attractive locations and in aspiring outskirts in Germany. In the medium term, a significant high-quality real estate portfolio should be built that should permit stable income to be generated and thereby distribution of attractive dividends to the shareholders of The Grounds. The Grounds Group aims to position itself as one of Germany's leading real estate companies through housing development and concomitant development of market capitalisation.

## 1.2 Change of the corporate structure




Company structure on 31 December 2017

On 22 June 2017, the Annual General Meeting resolved to comprehensively restructure the Company. It involved particularly changing the name, introducing various amendments to the Articles of Association, a combined increase in cash and non-cash capital up to EUR 17,600,000.00, conversion of existing bearer shares into registered shares and new elections to the Supervisory Board. Most of the effects of the resolutions were entered in the commercial register on 27 September 2017. Since that day, the name of the Company is The Grounds Real Estate Development AG. 94.9% of the shares of The Grounds Real Estate AG (TGRE AG) were contributed by way of a non-cash contribution, which means that the share capital of the Company was increased by EUR 12,500 thousand from EUR 400 thousand to EUR 12,900 thousand upon registration in the commercial register on 19 October 2017. The subsidiary was acquired with retroactive consolidation with effect from 1 January 2017. On 27 October 2017, after close of trading, the existing bearer shares were commuted to registered shares, so that with effect from 30 October 2017, the registered shares of the Company carry ISIN DE000A2GSVV5. The Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht [BaFin]) approved on 2 November 2017 the corresponding securities prospectus for the cash capital increase that was resolved upon by the Annual General Meeting. During the subscription period from 9 to 23 November 2017, the Company‘s shareholders were able to subscribe for up to 5,100,000 new shares at a subscription price of EUR 2.20 per new share, whilst the subscription ratio was 1:44 (meaning that 44 new shares could be acquired against one old share). A total of 534,269 new shares were subscribed for during the offer period. As part of the subsequent private placement in Germany, a further 1,671,248 new shares were subscribed for by investors in a first tranche. This resulted in a total increase of the share capital by EUR 2,205,517.00 to EUR 15,105,517.00, which was entered in the commercial register on 28 December 2017.

In conjunction with several real estate transactions during the financial year 2017, the restructuring resulted in a fundamental change in the overall structure of the Company. On balance sheet date 31 December 2017, The Grounds Group comprised at the top level the parent company The Grounds Real Estate Development AG and its 94.4% subsidiary TGRE AG. The latter, for its part, has directly and indirectly various subsidiaries, some of which hold real estate as property companies and others act as intermediate holding companies.

The subsidiary TGRE AG, domiciled in Berlin, has been active on the German real estate market since it was founded in 2014 and does directly or indirectly participate in the following companies: It holds 100% of the shares in TGA Immobilien Erwerb 2 GmbH (hereinafter “TGA 2”, which shares were sold on 26 September 2017 under the condition precedent that the purchase price must have been paid in full not later than 15 March 2018), and it also holds 100% of the shares in TGA Immobilien Erwerb 4 GmbH (hereinafter “TGA 4”). TGRE AG also holds 100% of the shares in TGA Immobilien Erwerb 5 GmbH (hereinafter “TGA 5”) and 100% of the shares in TGA Immobilien Erwerb 6 GmbH (hereinafter “TGA 6”), which in turn holds 94.9% of the shares in Gutleut 296 GmbH. And TGRE AG holds 100% of the shares in TGA Immobilien Erwerb 7 GmbH (hereinafter “TGA 7”) and 100% of the shares in TGA Immobilien Erwerb 8 GmbH (hereinafter “TGA 8”). TGRE AG does furthermore hold 100% of the shares in the companies TGA Immobilien Erwerb 9 GmbH (hereinafter “TGA 9”), TGA Immobilien Erwerb 10

GmbH (hereinafter "TGA 10") and TGA Immobilien Erwerb 11 GmbH (hereinafter "TGA 11"). TGRE AG also holds 33.33% of the shares in Silent Living Grundbesitz GmbH (hereinafter "SLG") and 7.5% in SQUADRA Erste Immobiliengesellschaft GmbH (hereinafter "SQUADRA").

## 1.3 The new business model

The Grounds Group is active in the German real estate market with its own and experienced project development, as portfolio holder of residential properties. The focus is particularly on special properties such as student and retirement living in the German metropolitan areas and on attractive locations and in aspiring outskirts in Germany.

As a full-service provider, it offers the business areas of investment (including property and asset management), development and trading.
In the business area of investment, investments are made as portfolio holders including sustainable management with preferentially own project developments. In terms of asset management, the portfolio is strategically controlled and managed, while property management is used for managing and further developing the portfolio for sustainable value enhancement. The area of development comprises development of residential and special properties (student and retirement living), primarily for its own portfolio. Moreover, real estate or portfolios are also purchased within the scope of the business area trading with the objective of increasing value in the short term and raising potential for rent increases and, if appropriate, selling them again in the short term. In individual cases, properties developed in-house may also be sold that way.

The Grounds Group will then benefit on the one hand from high returns from project development and on the other hand from the stable earnings situation in the portfolio.
In the medium term, The Grounds Group is aiming to position itself as one of the leading companies in the field of stock-exchange listed developers with the objective of building a real estate portfolio of a significant size. This growth should be facilitated through broad coverage of value creation in the real estate sector and the resulting combination of stable earnings and potential for high returns. After successfully completing the investment cycle, The Grounds endeavours to establish a sustainable dividend policy with distribution of attractive dividends.

Since the founding of the operating subsidiary TGRE AG in August of 2014, seven projects with a sales volume of EUR 48 million have already been sold, whilst four of those transactions have been notarised during the year under review. Especially since 2016, the pipeline has grown strongly and rapidly. During the financial year 2017, The Grounds Group has acquired two properties in Frankfurt, a residential portfolio in Emden and a logistics park in Hangelsberg. On balance sheet date, The Grounds Group's portfolio comprised seven projects on locations in Frankfurt, Berlin, Schwarzheide, Oldenburg and Emden.

On balance sheet date, The Grounds Group's portfolio consisted of the following projects:

| Location | Project | Plot size / usable area in m² | Acquired | Type |
|---|---|---|---|---|
| Frankfurt | Blue Towers | 14,502 / 17,790 | 04/2016 | Development |
| Frankfurt (Gutleut Quarter) | Extended stay apartment block | 5,675 / 9,117 | 09/2016 | Development |
| Frankfurt (airport) | Extended stay apartment block / hotel | 8,400 / 9,592 | 10/2017 | Development |
| Schwarzheide | Building plot development | 39,527 / 22,652 | 06/2017 | Development |
| Oldenburg | "Ammergau" residential complex | 1,617 / 1,082 | 08/2017 | Development |
| Emden | Residences portfolio | 16,941 / 9,988 | 12/2017 | Existing |
| Hangelsberg | Logistics park | 350,851 / 40,944 | 12/2017 | Existing |

## 1.4 Organs and staff

Following the strategic reconstructuring of The Grounds, some changes have been made in terms of designated members of the Management Board and Supervisory Board during the year under review.

After the change in ownership in March 2017, Robert Zeiss, the former sole member of the Management Board, stepped down with effect from 22 March 2017. In his place, the Supervisory Board has designated Erik Mozanowski and Hans Wittmann as new members of the Management Board, with effect from 22 March 2017. Honorary professor Andreas Steyer was appointed to the Management Board with effect from 1 September 2017. In agreement with the Supervisory Board, his management agreement was terminated with effect from 31 December 2017.

On 23 March 2017, the members of the Supervisory Board Alexander Landgraf-Meltzer, Olaf Neugebauer and Sam Winkel have declared that they would relinquish their positions with effect from 29 March 2017. At the request of the Management Board of the Company, Munich District Court appointed by decision of 3 May 2017 Carsten Haug, Real Estate Administrator at ZuHause Immobilien Handelsgesellschaft mbH, Stuttgart, Manuel Köppel, authorised signatory with responsibility for the commercial management and finances of BF.direkt AG, Stuttgart, and Steffen Buckwitz, consultant ("Buckwitz Consulting"), Schöneiche, as new members of the Supervisory Board until the end of the Annual General Meeting, which was held on 22 June 2017. Elections to the Supervisory Board were held at that Annual General Meeting; additionally, the shareholders of the Company approved the changes in the Articles of Association that provided for expansion of the Supervisory Board to four members. Accordingly, Mr Haug, Mr Köppel and Dr Peter Maser, Solicitor, Stuttgart, were elected by the shareholders as members of the Supervisory Board.

Immediately after the Annual General Meeting, the Supervisory Board held its constituent meeting, where its office positions were filled as follows: Dr Maser

was elected chairman and Mr Köppel deputy chairman. At the Annual General Meeting, Mr Buckwitz was elected by the shareholders as the fourth member of the Supervisory Board; accordingly his term of office commenced upon entry on 27 September 2017 of the resolution of the Annual General Meeting in the commercial register of the amendments to the Articles of Association.
On balance sheet date 31 December, The Grounds Group employed four staff (previous year 0).

# 2. Report on the Economy

## 2.1 Overall economic development

Economic growth in Germany was again strong in 2017. According to the Federal Statistical Office (Destatis), GDP grew by 2.2% (previous year 1.9%). It means that growth in Germany has been uninterrupted since 2010. Domestic economic factors again made the largest contribution to this. While private consumer spending increased by 2.0%, government consumption grew at a below-average rate of only +1.4%. In contrast, gross fixed capital formation increased significantly by 3.0%. In terms of individual sectors, capital expenditure both on plant and equipment and on other equipment recorded strong growth of 3.5%. Building investment increased by 2.6%.[1]

In view of significantly higher energy and food prices, consumer prices rose by 1.8% in the year under review and as such clearly more strongly than in the preceding four years. The 3.1% increase in energy prices was mainly the result of higher prices for heating oil and fuel. Food prices rose by 3.0%, with edible fats, edible oils and dairy products rising in particular.[2]
At the end of the year under review, 44.7 million people were in employment in Germany – once again the highest figure since German reunification. This represents an increase of 1.5% from 2016.[3]

## 2.2 Conditions in the sector

Below, the development of the business sectors in which The Grounds Group is active will receive attention, primarily those of the German building industry, residential (especially student and retirement living) and commercial properties.

### German building sector[4]

The main German building industry was able to meet its turnover forecast for 2017 of +5%, with nominal sales of just under EUR 113 thousand million. According to the Zentralverband des Deutschen Baugewerbes (ZDB [Central Association of the German Building Trade]) and the Hauptverband der Deutschen Bauindustrie (HDB [Central Association of the German Building Industry]), all building sectors recorded solid growth.

In the area of residential building, turnovers increased by only 4.0% to EUR 41.6 thousand million, instead of by the expected +7%. Both associations explained this by the fact that companies with more than 20 staff, whose share of sales in residential building amounts to around a third, were able to increase their sales revenues by 10% in 2017, whereas the smaller companies merely reached the sales levels of the previous year. It can be attributed to the fact that the larger companies are increasingly active in the prospering building of

[1] Vgl. https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/01/PD18_011_811.html
[2] Vgl. https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/01/PD18_016_611.html
[3] Vgl. https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/02/PD18_046_13321.html
[4] Vgl. https://www.bauindustrie.de/media/documents/Argumentationslinie_PK_Jan_2018.pdf S. 3, 5-6, 8-10

apartment blocks, whilst smaller companies tend to concentrate on the currently weaker business of detached and semi-detached houses. Moreover, investment in new buildings is significantly higher than in existing properties. Smaller businesses are hardly involved there, so that new building takes place at the expense of renovation work.

In the commercial sector, building activities developed better than forecast because various risks, such as Brexit, did not affect the economy after all. Instead of the expected +3% for building activities in the commercial sector, turnover increased by 6% to almost EUR 40 thousand million. Demand from abroad was invigorating, which prompted export-oriented companies to invest more. Increasing private consumption also favoured investment in retail and warehousing buildings.

Public-sector building met expectations with a 5.5% increase in turnover, driven by the increase in spending on federal trunk roads over the past two years.

### Residential properties

According to Destatis, from January until November 2017 313,700 building permits for housing were issued all over Germany. This is a fall of 7.8% or 26,400 units from the corresponding period of the year before. The decline can be mainly attributed to the significantly reduced demand for hostels, especially refugee accommodation. Without hostels, approved building permits have fallen by only around 2.1%.[5] In contrast, in the prospering new multi-storey residential building sector, where high demand is continuing, the ZDB and HDB see a manifestation of the continuing trend of domestic migration to urban agglomerations and university cities.[6] Both associations expect that around 300,000 housing units will have been completed in 2017, which would be an increase of 8 to 10% over the previous year. Nevertheless, it would still not cover the need for building at least 350,000 units per year.[7]

According to the Deutsche Bank study "German housing market 2018", the continuing excess in demand for housing has led to a drastic increase in prices over the past several years. From 2009 to 2017, prices in metropolitan areas (A cities) rose by around 80% and in B and C cities by around 60%. The shortage is particularly severe in Munich. From 2009 to 2017, of the six largest German metropolitan areas (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart), Munich had by far the highest rate of price increases, with housing prices for existing properties more than doubling. The vacancy rate is almost zero in Munich. In terms of the year under review, housing prices rose most strongly in Frankfurt am Main with a rate of +15%, followed by Stuttgart with +14% and Munich with around +13%. New building was sluggish in Berlin, with prices rising by around 10% as a result of a discrepancy between demand and completions. Across Germany, housing prices rose by more than 10 in 2017, with residential property prices increasing by around 6.5%. Rental amounts for new rentals increased by 6% and for re-letting by 7% – the highest increase since 1993.[8] The high rental prices mean that it is very difficult for households with medium and low incomes to find suitable housing. Especially for students, the housing situation is deteriorating. The Moses Mendelssohn

[5] Vgl. https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/01/PD18_020_31111.html
[6] Vgl. https://www.bauindustrie.de/media/documents/Argumentationslinie_PK_Jan_2018.pdf S. 7
[7] Vgl. ebd. S. 8
[8] Vgl. https://www.fundresearch.de/sites/default/files/Deutscher_H%C3%A4user-_und_Wohnungsmarkt_2018.PDF S. 2 f.

Institute (MMI) has been investigating the development of the property market in German university towns (locations with more than 5,000 students) since 2012 as part of its tension index (maximum 100 points). The index includes 23 different factors, including the vacancy rate, immigration and the proportion of international students, in addition to prices for rooms in shared apartments. Here again, with 78 points, Munich had the highest score in 2017.
In 2017, however, second-placed Hamburg has, with 76 points, clearly caught up, followed by Stuttgart with 74 points.[9] The highest rents for a room in a shared apartment are paid on average in Munich (EUR 570), Frankfurt am Main (EUR 450) and Ingolstadt (EUR 430). With EUR 420, Hamburg takes fifth place and Berlin, with EUR 400, takes eighth.[10]

At around EUR 1 thousand million, nursing care properties only accounted for around 1.8% of the total transaction volume of the commercial property market in 2017, but demand has been increasing in recent years. Since 2008, the transaction volume increased every year by around 20% on average.[11] In view of the demographic development and the increasing ageing of the German population, the number of people in need of care in Germany is estimated by experts to increase by 34% to 4.1 million people by 2030. This is expected to entail an additional need for 271,000 inpatient care places, which will require new investments and reinvestments of EUR 53 to 85 thousand million.[12] The dearth in supply is exacerbated by the statutory single room quota that will gradually come into force starting with the current financial year as a result of the Landesheimbau-Verordnung [State Care Home Construction Ordinance] (with design options at state level). For example, from 1 August 2018 onwards, existing homes for retirement living and to nursing homes in North Rhine-Westphalia must offer 80% of the rooms as single rooms, whilst a quota of 100% will apply to newly built facilities.[13] In Baden-Württemberg, there will be a mandatory quota of 100% single rooms for existing retirement living properties and for new buildings from 1 September 2019 onwards.[14]

These stricter legal requirements have made investments in care properties less attractive, which is reflected in scarce supply and rising prices. The consultancy firm Terranus estimates that the proportion of care properties eligible for investment is now only around 30%. If the requisite investment criteria are not met (for example construction specifications, maximum size of 80 residents, residual periods rental or lease agreements with operators of at least ten years), purchase prices of up to 18 times the annual rent might then often be applicable and new buildings would therefore increasingly be the better alternative. Of the altogether 13,600 inpatient nursing homes in Germany, only around 40% are operated under the investor model; in the majority of cases, the owners are also the operators of the homes, which is why those properties are not available to investors.[15]

[9] Vgl. https://moses-mendelssohn-institut.de/presse/PMHochschulstaedtescoring17.pdf
[10] Vgl. https://moses-mendelssohn-institut.de/presse/PMWohnkostenStudierende.pdf
[11] Vgl. https://www.haufe.de/immobilien/investment/pflegeimmobilien-renditen-auf-rekordtief_256_441674.html
[12] Vgl. Car€ Invest 25.-26.17, S. 4
[13] Vgl. https://www.biva.de/dokumente/gesetze/NRW-Wohn-und-Teilhabegesetz-WTG.pdf S. 9
[14] Vgl.https://sozialministerium.baden-wuerttemberg.de/fileadmin/redaktion/m-sm/intern/downloads/Downloads_Pflege/LHeimBauVO_GBl-2011.pdf S. 2
[15] Vgl. https://www.haufe.de/immobilien/entwicklung-vermarktung/marktanalysen/pflegeimmobilien-nur-30-prozent-investmentfaehige-haeuser-am-markt_84324_426886.html

### Commercial properties

According to the study "Trendbarometer Immobilien-Investmentmarkt 2018" by Ernst & Young Real Estate GmbH, the volume of investments in the German commercial property market reached a new record of EUR 57.2 thousand million in 2017.[16]

The has been very high demand for office space in Germany, in 2017. With an increase in turnover of 7% to 4.2 million m², a new record was set that clearly exceeded market expectations. Of the seven largest metropolitan areas, Munich and Berlin exceeded the 900,000 m² mark for the first time and led the ranking in 2017 by some distance. Inner city locations were particularly in demand, where there is great shortage of supply. The vacancy volume in the seven largest metropolitan areas fell significantly by 783,000 m² in 2017; the vacancy rate is now only 4.7%, the lowest level in 15 years. Accordingly, this was reflected in continued positive net absorption of more than one million m² (meaning that, on balance, office space was more often moved into than was vacated). At the same time, new building developments were increasingly negotiated and let at a very early stage before readiness for occupation. Of the altogether 860,000 m² of newly constructed office space in 2017 (-22% compared to the previous year), only 14% had not yet been let at the time of completion. The high demand also resulted in corresponding increases in rents – with the exception of Cologne, prime rents increased in all top seven metropolitan areas in 2017, especially in Berlin (+11%).[17]

Demand for logistics properties also remains persistently high. In 2017, 6.5 million m² of logistics space was rented or produced for owner-occupiers throughout Germany. The fall of 3% from the previous year was primarily the result of a shortage of modern warehousing and logistics space at top locations. Although around 1 million m² of new storage space was built in 2017, a mere 16% of it was still available at the time of completion. Top rents for storage areas of 5,000 m² or more remained at the previous year‘s level in the major agglomerations. With EUR 6.75 / m² the highest rental rates were achieved in the Munich area, followed by Frankfurt (EUR 6 / m²), Hamburg (EUR 5.60 / m²), Düsseldorf (EUR 5.40 / m²) and Berlin (EUR 5 / m²).[18]

## 3. Business Development

The financial year 2017 was marked by preparation for and implementation of strategic restructuring with the aim of creating a portfolio owner of residential properties with its own and experienced project development on the German real estate market. The strategic restructuring began in March of 2017 with the change in major shareholder. TGA Verwaltungs UG acquired 90% of the shares of the former Netwatch AG. It was followed by a complete change in designated members of the Management Board and the Supervisory Board: with effect from 22 March 2017, Robert Zeiss, the hitherto sole member of the Management Board relinquished his position on the Management Board. The Supervisory Board designated Mr Eric Mozanowski and Hans Wittmann as new members of the Management Board, also with effect from 22 March 2017. Of the hitherto officiating Supervisory Board, consisting of Mr Alexander Landgraf-Meltzer, Mr Olaf Neugebauer and Mr Sam Winkel, all members relinquished their

[16] Vgl. Ernst & Young: http://www.ey.com/Publication/vwLUAssets/ey-trendbarometer-immobilien-investmentmarkt-2018/$FILE/ey-trendbarometer-immobilien-investmentmarkt-2018.pdf S. 6
[17] Vgl. http://www.jll.de/germany/de-de/Research/Bueromarktueberblick-Germany-JLL.pdf
[18] Vgl. http://www.immobilien-zeitung.de/1000050037/grosse-nachfrage-nach-logistikimmobilien

positions with effect from 29 March 2017. In their place, Munich District Court appointed by decision of 3 May 2017 Mr Carsten Haug, Mr Manuel Köppel and Mr Steffen Buckwitz as new members of the Supervisory Board.

On 22 June 2017, the Annual General Meeting resolved on the requisite amendments to the Articles of Association and on the capital measures that were needed to implement the strategic restructuring. In addition to the change of name to The Grounds Real Estate Development AG, the relocation of the domicile to Berlin and the change of the purpose of the Company, the main changes to the Articles of Association also included the conversion of the existing bearer shares into registered shares. Additionally, the proposed candidates Dr Peter Maser, Carsten Haug and Manuel Köppel were elected by the Annual General Meeting as members of the Supervisory Board and a resolution to expand the Supervisory Board to four members was adopted. The fourth elected member of the Supervisory Board was Steffen Buckwitz.
The Annual General Meeting also resolved on the proposed combined cash and non-cash capital increase to EUR 17,600,000.00, with subscription rights for the shareholders. 94.9% of the shares in TGRE AG, already active in the real estate business, were contributed as non-cash contribution. The acquisition of the subsidiary was effected by means of retroactive consolidation with effect from 1 January 2017 and is reflected for the first time in the annual accounts of the year under review. Consequently, the share capital of the Company was increased by EUR 12,500,000 from EUR 400,000 to EUR 12,900,000 upon registration in the commercial register on 19 October 2017. The remaining 5,100,000 new shares were offered to the shareholders of the Company during the subscription period from 9 until 23 November 2017, at a subscription price of EUR 2.20 per new share, whilst the subscription ratio was 1:44 (meaning that 44 new shares could be acquired against one old share). A total of 534,269 new shares were subscribed for during the offer period. Subsequently, The Grounds offered a further 1,671,248 new shares that were subscribed for by investors in a first tranche, within the framework of a private placement in Germany. This resulted in a total increase of the share capital by EUR 2,205,517.00 to EUR 15,105,517.00, which was entered in the commercial register on 28 December 2017.
The renaming of the Company, the expansion of the Supervisory Board to four members and a major part of the resolutions adopted at the Annual General Meeting were registered in the commercial register on 27 September 2017. The conversion of the old bearer shares with ISIN DE000A0STSH7 to the new registered shares was effected on 27 October 2017 after close of trading, so that since 30 October 2017, the registered shares of the Company carry ISIN DE000A2GSVV5.

Honorary professor Andreas Steyer was additionally appointed to the Management Board with effect from 1 September 2017. However, in agreement with the Supervisory Board, his management agreement was terminated with effect from balance sheet date, 31 December 2017.

The newly created The Grounds Group significantly expanded its operating business in the year under review with several real estate transactions. Between the end of September and the beginning of October 2017, The Grounds Group concluded two purchase agreements for plots in Frankfurt am Main and Neu-Isenburg. On a plot of 5,683 m² in the Gutleut Quarter of Frankfurt the main railway station, The

Grounds Group plans to develop a four-storey micro-apartment facility for temporary housing with an underground car park, gastronomy facilities, conference rooms and a fitness studio. An additional micro-apartment facility for temporary housing or alternatively a hotel with underground car park will be built on a site of 8,400 m², located directly at Frankfurt airport. On 20 December 2017, two property purchase agreements were signed for properties in Emden (Lower Saxony) and Hangelsberg (in the Greater Berlin area). In Emden, the portfolio with a lettable living/usable area of around 9,600 m², which is mainly used for residential purposes, is divided into six apartment blocks with a total of 76 apartments and three additional residential and commercial blocks with 44 apartments and 7 commercial units. The Grounds Group acquired a 350,000 m² plot in Hangelsberg (of which only 100,000 m² has been developed until now; with a usable area of 35,611 m²) as well as the assets and five staff of a distribution centre of a logistics company located on it. The Grounds is planning to develop several residential and commercial projects on it. Both properties are part of the Company's long-term real estate portfolio, aimed at generating sustainable rental cash flows.

## 3.1 Earnings position

In the financial year 2017, the Group generated revenues of EUR 18,945 thousand, which was derived entirely from selling properties. Revenues of EUR 11,865 thousand were generated from the sale of the two subsidiaries TGA Immobilien Erwerb 3 GmbH and Wohnen am Straussee Projektentwicklungs GmbH and EUR 7,080 thousand by the sale of a property by TGA Immobilien Erwerb 2 GmbH.

Correspondingly, the largest expense item in 2017 was the cost of materials to the amount of EUR 15,154 thousand, of which at EUR 15,096 thousand was almost exclusively attributable to the acquisition costs of the properties sold and building costs.

Other operating expenses came to a total of EUR 2,107 thousand and mainly related to compensation for damages (EUR 889 thousand), legal and consultancy costs (EUR 246 thousand), accounting and audit costs (EUR 177 thousand) and non-deductible input tax (EUR 104 thousand).

The negative financial result of EUR 361 thousand was mainly the result of higher interest expenditure to finance real estate projects.

Taking into account the effects of current and deferred income tax amounting to EUR -158 thousand, the consolidated net surplus amounted to EUR 1,197 thousand.

## 3.2 Financial and assets position

On 31 December 2017, the consolidated balance sheet total of The Grounds Real Estate Development AG stood at EUR 27,953 thousand.

The Group's long-term assets amounted to EUR 2,515 thousand and essentially included goodwill of EUR 778 thousand and investment properties of EUR 1,083 thousand.

At 91.0%, the Group's assets mainly comprised short-term assets and encompassed at the end of the financial year the items stock amounting to EUR 11,273 thousand, receivables from goods and services amounting to EUR 6,302 thousand, other receivables amounting to EUR 5,391 thousand and cash and cash equivalents amounting to EUR 2,471 thousand.

On the equity and liabilities side of the consolidated balance sheet, shareholders‘ equity came to a total of EUR 7,438 thousand, which corresponds to an equity ratio of 26.6%. Of the total consolidated equity on 31 December 2017, EUR 7,353 thousand was attributable to the shareholders of the parent company and EUR 85 thousand to non-controlling shareholders.

The long-term financial liabilities of EUR 10,035 thousand and the short-term financial liabilities of EUR 4,001 thousand were primarily used to finance stock.

Other short-term liabilities included provisions amounting to EUR 1,026 thousand, current income tax liabilities of EUR 635 thousand, obligations from goods and services amounting to EUR 1,090 thousand and other liabilities amounting to EUR 3,729 thousand.

In 2017, cash and cash equivalents increased by around EUR 2.257 thousand to EUR 2,471 thousand.
At the end of the financial year, the cash and cash equivalents consisted entirely of liquid funds. This development was based in particular on a cash flow from operating activities of EUR -15,822 thousand, a cash flow from investing activities of EUR -668 thousand and a cash flow from financing activities of EUR 18,747 thousand.

The main reason for the negative cash flow from operating activities was the increase in stock amounting to EUR 11,273 thousand, receivables from goods and services amounting to EUR 6,302 thousand and other receivables amounting to EUR 3,710 thousand. The negative cash flow from investment activities was mostly caused by payments for investment properties amounting to EUR -1,083 thousand. Proceeds from equity contributions amounting to EUR 5,868 thousand and proceeds from drawing down loans amounting to EUR 14,035 thousand essentially led to the positive cash flow from financing activities.

## 3.3 Financial and non-financial performance indicators

The Grounds uses several performance indicators when managing the Group. The key performance indicators are operating cash flow (FFO or funds from operations) and net asset value (NAV). The objective of the corporate strategy is to build up a significant portfolio with a balanced risk/return profile that generates sustainable cash flows and enables distribution of dividends to shareholders in the future. Cash flows are not only generated from existing properties but are supplemented by regular and sustainable income from property development (development sector) and particularly from trading. This income from real estate development and trading can therefore be planned and forms a significant portion of the Company‘s operating cash flow.

Furthermore, the letting rate and the vacancy rate are important indicators for rental income generation. The Grounds Group focuses on properties with tenants with good and very good creditworthiness. In the case of investments with fixed-term rental agreements (which are usually commercial properties), the analysis focuses primarily on properties with long-term leases, tenants with high creditworthiness and low vacancy rates. In the case of properties with a short residual rental term and/or a high vacancy rate, consideration is given only if, on the basis of The Grounds Group's asset management approach, vacancy reduction or rental extensions can already be contractually secured during the pre-purchase due diligence investigation or immediately upon conclusion of the transaction.

This is also associated with the yield from letting. Purchases of existing properties are generally valued at several times the gross annual rent. In order to obtain an attractive yield from letting, the target figure defined by the Company is around 13-fold. Depending on the location, building quality, tenant structure and vacancy rates, this factor might vary upwards or downwards.

Another important financial performance indicator is developer return. Investments in new projects depend particularly on the possibility of acquiring the requisite plots.
Determinant factors for the investment decision are the possible structural utilisation of the property, the asset class to be erected and the acquisition price of the plot. Depending on the expected project risk and the asset class, the Company aims for a developer return of between 15% and 20% in the development segment.

In view of the current size of the Group and the creation of The Grounds Group in 2017, non-financial performance indicators are not used directly for corporate management purposes. Nevertheless, staff satisfaction, their professional qualifications and the reputation of the Company are important building blocks for the success of The Grounds Group in the real estate and capital markets.

On balance sheet date, The Grounds Group employed four staff. Expansion the workforce is envisaged in 2018, so that all strategic and management-related functions within the Company can be mapped, including in particular investment decisions, key financial functions like liquidity management, investor relations, compliance, risk management and asset management. A so-called Executive Board (the Supervisory Board) is responsible for corporate governance, which will be supplemented with two other members, in addition to the Management Board. For example, there is a plan to recruit qualified staff for the accounting/finance department and to internalise the legal department and supplement it with an in-house lawyer.
Other administrative functions, mainly property management, are outsourced to subsidiaries that can be established in line with the growth of the portfolio and the requirements. In this respect, the number of staff in the subsidiaries will be increased to the extent that is necessary for managing the business, depending on the corresponding expansion of portfolios. This avoids build-up of overcapacities and ensures a lean corporate organisation. This ensures that only the capacity that is directly required for performing its functions is available in the Group. Within the framework of the deliberately flat hierarchy levels and the lean corporate structure, a trustful relationship with staff and their satisfaction with the goal of long-term loyalty to the Company are all the more decisive.

## 3.4 Prognosis-to-actual comparison

As part of the forecast expressed at Group level, the Management Board assumed at the beginning of October 2017, on the basis of the expanded portfolio of The Grounds Group, a group turnover of EUR 19,265 thousand, earnings before taxation of EUR 1,587 thousand and consolidated earnings for the year of EUR 1,648 thousand for the financial year 2017.

Indeed, at Group level, The Grounds generated revenues of EUR 18,945 thousand, earnings before taxation of EUR 1,355 thousand and consolidated earnings of EUR 1,197 thousand for the financial year 2017. As such, the forecast values were largely achieved.

## 4. Opportunities and Risks

### 4.1 Risk management

In the financial year 2017, The Grounds Group established an appropriate risk management and internal surveillance system to identify and evaluate at an early stage any developments that could endanger the continued existence of the company. Owing to the strategic restructuring, combined with strong growth of the operating business and the planned future growth, the existing risk management system of the old Netwatch AG had to be adapted for a Group operating on the German real estate market. All components of the risk management system are used for systematic risk identification and risk assessment and also as measures for avoiding, mitigating and limiting risks. Specifically, risks that impede development and jeopardise the continued existence of the Company must be identified at an early stage. Risks are assessed on the basis of their probability of occurrence and potential damage, and are consolidated at Group level. From this, The Grounds Group derives any need for action. The effects of risks are limited by operational measures and, if necessary, by making provisions.

With the help of capital management, The Grounds aims to sustainably strengthen the liquidity and equity base of the Company and to generate an appropriate return on the employed capital. Financial risk management entails the management and limitation of financial risks arising from operating activities. In particular, liquidity risk (avoidance of disruptions to solvency) and default risk (the risk of a loss if a contracting party fails to meet its contractual obligations) are to be considered here. In order to reduce default risks, the Group only enters into sales business relationships with creditworthy contracting parties.

The following risks are assessed by preparing and reviewing/adapting corporate and Group planning during the year, in consultation with the Supervisory Board and by reviewing the financial and liquidity plans. Monthly budgeted-to-actual comparisons and business analyses of the Group companies in terms of key financial figures of the profit-and-loss account (primarily sales revenues, earnings before interest, taxation, depreciation and amortisation (EBITDA) and earnings before taxation (EBT)) as well as of balance sheet values (primarily changes in equity and debt capital) and calculation of the key figures FFO, FFO per share and NAV serve to assess risks in the medium term. On-the-spot tools are used for ongoing internal auditing of the real estate portfolio and capital management.

### 4.2. Risks in detail

#### 4.2.1. Overall economic risks

For years, the German real estate market has been characterised by high demand. A lack of investment alternatives in times of persistently low interest rates continues to make investment in real estate attractive. An end to bond purchases by the European Central Bank in September 2018 could lead to interest rate rising in the bond market and therefore also to a slight increase in mortgage rates to around 2 % towards the end of 2018. However, market experts anticipate that the very good economic situation and the shortage of housing will compensate for possible negative effects from interest rates. The effects of a possible "interest rate shock" on the real estate markets in German metropolitan areas are expected to be minor.[19] Market participants expect that Germany will benefit from Brexit as a result of relocation of companies from the United Kingdom.[20] The Company has no influence on such constantly changing factors and must therefore continuously monitor and reassess them and make business decisions accordingly. For the financial year 2018, The Grounds Group considers the macroeconomic risks with possible negative effects on its net assets, financial and earnings positions to be low.

### 4.2.2. Market risks

#### 4.2.2.1 Dependence on the development of the German real estate market

Currently, The Grounds Group focuses exclusively on residential and commercial real estate in Germany – primarily in the German metropolitan areas and aspiring outskirts – and is therefore dependent on national and also regional market developments. The favourable economic conditions and also the high demand for housing, especially in the German metropolitan areas, continue to make Germany an attractive location for investing in real estate. A survey conducted by Ernst & Young Real Estate GmbH amongst investors in the German real estate market in the autumn of 2017 showed that almost all respondents (94%) continue to regard the German market as an attractive or very attractive location for investing in real estate.[21] German prices of houses and apartments have been rising since 2009 and this trend is expected to continue beyond 2018. This is borne out by the extremely low vacancy rates in the German metropolitan areas, immigration, the fact that buying still continues to be more attractive than renting and the interest rate shock that is thought to be unlikely to occur.[22] Demand for commercial real estate is also expected to remain high in 2018. On the one hand, risks might emanate from possible overheating in the office rental market. The sharp rise in prices and rents makes it very difficult for smaller companies in particular to find suitable new space in metropolitan areas and agglomerations.[23] In the commercial real estate sector, the focus will increasingly be on B and C locations. Further pressure on yields is likely. The Grounds Group continuously monitors the development in the German real estate market, but foresees no negative effects on its net assets, financial and earnings positions and on operating results for the financial year 2018.

#### 4.2.2.2 Competition

Within the scope of its business activities, The Grounds Group is confronted with different competitors in terms of property development, portfolio build-up and development of residential and commercial property portfolios and is exposed to intense competiton. The Grounds Group‘s competitors in the acquisition of residential property and the sale of developed plots and real estate portfolios are primarily German and foreign real estate companies and other institutional investors. Some of those competitors, who can be seen to be currently in a consolidation phase, are more

[19] Vgl. https://www.fundresearch.de/sites/default/files/Deutscher_H%C3%A4user-_und_Wohnungsmarkt_2018.PDF S. 10 f.
[20] Vgl. http://www.ey.com/Publication/vwLUAssets/ey-trendbarometer-immobilien-investmentmarkt-2018/$FILE/ey-trendbarometer-immobilien-investmentmarkt-2018.pdf S. 13
[21] Vgl. ebd., S. 12
[22] Vgl. https://www.fundresearch.de/sites/default/files/Deutscher_H%C3%A4user-_und_Wohnungsmarkt_2018.PDF S.10
[23] Vgl. https://www.capital.de/immobilien/warten-auf-den-schwarzen-schwan-am-immobilienmarkt

well-known, have broader market access or significantly larger financial, technical and market-specific resources, have larger and more diversified property portfolios or have more target group-specific property portfolios or other competitive advantages over The Grounds Group. Those competitors could further intensify their presence in the market and go for more aggressive pricing. In such cases, the competition could be awarded the agreement for the purchase or sale of real estate assets.

Especially in terms of acquiring real estate, The Grounds Group is aware that there is currently a high level of competition for attractive properties and it cannot rule out that prices will continue to increase. Higher acquisition prices in conjunction with stagnating or slowly rising rents can lead to a decline in imputed yields on commercial portfolios.

With the referendum on the withdrawal of the United Kingdom from the European Union, even more money could flow into German real estate from abroad in the future, since the London market could lose its attractiveness. Mortgage rates in the United Kingdom could rise via a sustained depreciation of the British pound, which would further reinforce this development. It might again lead to rising prices of real estate in Germany. The Grounds Group, like its competitors, endeavours to distinguish itself clearly from comparable real estate companies through corresponding unique selling points and individual usage concepts in order to undo as much as possible the negative effects of a competitive situation caused by impaired direct comparability.

Additionally, The Grounds Group competes for tenants, real estate vendors and investors. Particularly, competition or oversupply of accessible properties on the market may lead to unexpectedly low selling prices when sold by The Grounds Group or even prevent The Grounds Group from selling properties at all. There is a risk that The Grounds Group will not succeed in maintaining its competitive position or will not stand out sufficiently well from its competitors. The management of The Grounds Group has, with a team with Hans Wittmann and Eric Mozanowski, members of the Management Board, and a second management level team that has many years of experience in the real estate market, a team that has worked well together over the past several years. In view of its extensive experience in acquisition and a tried and tested network in the industry, TGRE AG and its subsidiaries has been able to buy and on-sell various portfolios over the past three years and to acquire a number of promising project developments.

Moreover, the Company believes that there is no competitor amongst listed companies in the real estate sector that has a comparable business model consisting of portfolio management, development and trading with a comparable strategy and local focus. Amongst the unlisted companies on the real estate market there are some individual competitors, each of which is positioned only regionally, so that the Company is primarily faced with regional competitors.

#### 4.2.2.3 Regulatory risks

The business activities of the Grounds Group depend to a large extent on the applicable legal framework conditions for residential and commercial real estate. This includes in particular the statutory provisions governing tenancy law. In addition, there have been significant changes in the legal framework in recent years, for example in legislation governing the environment. This concerns, for example, the new regulations on energy performance certificates, the energy concept of the Federal Government with regard to the energetic renovation of all apartments in Germany in accordance with the so-called zero-emission standard or the other requirements of the Energieeinsparverordnung [Energy Saving Ordinance] of 2009 and other environmental regulations. In addition, the legal and tax conditions for real estate investments in Germany have often deteriorated in the past. The legal framework may also change in the future. Tightening the framework conditions, for example with regard to tenant protection (for example shortening tenant notice periods or limiting the possibility of rent increases), fire protection, environmental protection (for example for saving energy), pollution legislation (for example with regard to asbestos) and the resulting renovation obligations as well as the framework conditions for real estate investment, can have a considerable negative impact on the profitability of investments and the earnings situation of The Grounds Group. Changes in the legal framework could also trigger a considerable need for action on the part of The Grounds Group, causing significant additional costs which, for legal or factual reasons, can only be passed on to the tenants to a limited extent or not at all. Risks currently inherent in the plans of the new Federal Government that, under the coalition agreement, intends to "end abusive tax arrangements for real estate transfer tax by means of share deals". More details are not yet known, but lowering of the tax threshold from currently 95% to 75% or even 50% and an extension of the tax-relevant retention period have been discussed so far, among other things. It would render it more difficult to quickly on-sell large residential units. Share deals are important instruments for ensuring that in new construction projects, the plot is not doubly charged with land transfer tax, both upon acquisition and on-selling the completed property. Because The Grounds Group also settles its real estate transactions via share deals, it will closely follow the further political debate in order to be able to adapt quickly to regulatory changes.[24]

### 4.2.3. Company-related and operational risks

#### 4.2.3.1 Purchase and sale of real estate

The economic success of The Grounds Group is largely dependent on the selection and acquisition of suitable properties or real estate portfolios or investments in real estate companies. This entails the risk that The Grounds Group may misjudge or otherwise incorrectly evaluate the construction, legal, economic and other circumstances relating to the properties or portfolios to be purchased. In addition, the assumptions made with regard to the earnings potential of the properties or portfolios may subsequently prove to be partially or fully incorrect. It might mean, for example, that properties acquired for the portfolio management business area would not generate the expected cash flow and therefore could not be managed at a profit. On the sales side, it may happen that properties that are to be sold cannot be sold at the stated book values or to the planned extent, during the planned period or generally at attractive conditions.

The Grounds Group counters this risk by means of a detailed examination of the properties prior to acquiring them, for which external surveyors or building experts are also engaged. The result of the expert valuation of a property depends on the factors included in the valuation and the valuation method used. In addition to the expected rental income related to a particular property, the condition of the property and its historical vacancy rates, a property surveyor may also take into account other factors such as the taxation to which the property is subjected, the operating costs, potential environmental liability claims

[24] Vgl. http://www.handelsblatt.com/politik/deutschland/steuersparmoeglichkeiten-immobilien-branche-empoert-ueber-groko-plaene-/21002246.html und http://www.immobilien-zeitung.de/1000050218/union-und-spd-knoepfen-sich-share-deals-vor

and the risks associated with certain building materials. The value creation potential of the properties is also comprehensively assessed. The existing real estate portfolio is regularly assessed anew by recognised experts.

#### 4.2.3.2 Remediation of contaminated sites and polluted soil or compliance with legislation governing construction and heritage protection

The possibility that plots owned by The Grounds Group may be contaminated with pollutants or war ordnance, such as bombs, cannot be ruled out. Such pollutants can lead to The Grounds Group being required by the competent authorities to eliminate the associated hazards, which typically leads to considerable costs. Even if The Grounds Group has already sold the relevant plots and properties to third parties, there is a risk that the buyers may assert claims for damages or other claims under guaranty against The Grounds Group. These obligations and claims must be borne by The Grounds Group, irrespective of the cause of the respective pollution or contamination. It might be that it has no recourse against third parties, even if they caused the contamination. The removal of any burdens in this sense and the associated additional measures could lead to loss of rental income, considerably delay construction work, make it impossible or economically unprofitable and involve considerable additional costs.

Moreover, numerous factors, such as the age of the structure, pollutants in building materials, the condition of the soil or failure to comply with legislation governing construction and heritage protection, can lead to high costs for renovation, maintenance and modernisation of the properties held by The Grounds Group. Should appropriate construction measures not be implemented, there could be an adverse effect on the sales proceeds and rental income in terms of the properties concerned. Additionally, there could be restrictions on the use of the affected properties and plots and accordingly to loss of rental income.

#### 4.2.3.3 Staff

The members of the Management Board and the Supervisory Board and the other managers of The Grounds Group have extensive knowledge of and contacts in both the real estate sector and the capital market. If board members or other key staff are no longer available, their contacts and knowledge would be missed and it is not certain whether The Grounds Group would be able to compensate for this at short notice through attracting new staff. The Grounds Group is particularly dependent on this know-how, especially in view of the medium-term goal of expanding its own real estate portfolio on a significant scale. Currently, the Company considers the risk of losing those key persons to be low, since the members of the core management team have also worked successfully and trustfully together in the past for several years in other real estate companies and therefore there is good coordination between them. The Company seeks to retain qualified specialists in the Group in the long term, by means of an appropriate incentives scheme.

#### 4.2.3.4 Financial and interest rate risks

For its business model and the planned expansion of its business activities, in particular for developing a portfolio of existing properties, The Grounds Group requires substantial financing, which must be raised in the form of either equity or debt. For this, The Grounds Group needs funds to finance the acquisition of real estate or participations. Therefore, the business development of The Grounds Group depends on obtaining additional financing on reasonable terms in good time and, when necessary, refinancing existing financing upon maturity. Should The Grounds Group

not succeed in finding financing for the acquisition of real estate at suitable conditions, it would not be in a position to build up and expand its business to the desired extent.
In addition to strengthening its equity base (see presentation under 3 Business Development), The Grounds Group constantly reviews favourable bank financing and other forms, such as mezzanine financing, and at short notice, the portfolio can also be expanded through a non-cash capital increase. With the increasing size of the portfolio and the Group and the intended change in the future to a more highly regulated segment of the stock exchange, such as the regulated market of the Frankfurt Stock Exchange, The Grounds Group will increasingly move into the focus of investors. It will facilitate the raising of debt and equity in the future.

### 4.2.3.5 Liquidity

The Grounds Group needs sufficient liquidity for its ongoing operations. Within the framework of portfolio management, for example, properties must be maintained in a suitable condition in order to maintain the furnishings and fittings in a usable condition, to comply with the stipulations of the underlying rental agreements and to be able to generate attractive income on an ongoing basis. However, not all costs associated with maintenance can be passed on to the respective tenant, because such costs must normally be borne principally by the owner of the property. In order to maintain demand for rented properties and to generate adequate rental income, the condition of the property must meet the standard demanded by the market. The modernisation measures required for marketing real estate can include renovation of facades and stairwells as well as construction of outdoor facilities or even complete renovation of the property as a whole. If restoration, repairs or modernisation are required, the property owner will be faced with considerable costs.

Then it cannot be ruled out that the costs may exceed the costs that were planned as part of the Company's value creation strategy and in determining the acquisition price. It may require restoration, repair or modernisation work, especially if there is an unrecognised investment backlog in the property.
There is currently no risk of a liquidity bottleneck. On the balance sheet date, the Group had liquid funds amounting to EUR 2,471 thousand.

### 4.2.3.6 Taxation

The development of applicable fiscal law is subject to constant change – also in its administrative application. The Company has no influence on whether the currently applicable fiscal regulations, decrees and ordinances will continue to exist in unchanged form. Future changes in the law and differing interpretations of the law by fiscal authorities and courts cannot be ruled out.
To date, none of the Group companies has been audited. Consequently, there is a risk of facts relevant to taxation being determined to the disadvantage of the Group companies. During future audits, fiscal regulations and circumstances might be assessed differently by the fiscal authorities than by The Grounds Group. Should the fiscal authorities be of a different opinion, it may lead to supplemental assessments and consequently to negative effects on the asset, financial and earnings positions of the companies.
The tax losses carried forward reported by The Grounds Group may possibly not or not fully be recognised by the fiscal authorities, because of the fact that the shares in TGRE AG were contributed. In this case, the losses carried forward may not be usable.

#### 4.2.3.7 Lack of creditworthiness of, insolvency of or termination by contractual parties

Existing properties must be constantly modernised and maintained in order to comply with legal requirements and to present properties of interest to tenants. The Company is thereby exposed to the risk that the contractual parties involved in such conversion and modernisation measures will not or not fully comply with their legal and contractual obligations. A possible failure of the contractual party can also lead to increased costs or unforeseen delays in the conversion and modernisation work.
Furthermore, there is a risk that major contractual parties may terminate contracts prematurely for cause. In such a case, new partners may have to be found, which can also lead to delays and higher costs. There is also the risk that any claims for damages against such parties will not be enforceable for creditworthiness reasons.

To counter this risk, The Grounds Group selects such external partners for its projects with whom it has already confidently worked in the past. Additionally, the solvency and operational development of the contractual parties are regularly reviewed within the framework of risk management. Even if the Company cannot rule that an individual partner may default, notwithstanding an excellent credit rating, it classifies this risk as improbable.

#### 4.2.3.8 Rental income

The economic success of The Grounds Group also depends in the future to a large extent on maintaining the income from letting residential properties in the portfolio at a planned level or to increasing it.
The level of contractual rental income achievable by The Grounds Group and the ability to increase it depend on a number of factors, including the solvency of current and future tenants and the ability of finding or retaining suitable tenants who are willing to enter into long-term rental agreements at attractive conditions for The Grounds Group.
Should tenants fail to meet their rental payment obligations, for example on account of a deterioration in their financial circumstances, or not meet them in full, or should many of them terminate their rental agreements without it being possible to let the respective rental properties again immediately on at least comparable economic conditions, it would lead to loss of rental income and would have a correspondingly adverse effect on net assets, financial and earnings positions of The Grounds Group. Loss of rental income, reduction in rental fees or increased vacancies are also possible, because the properties are situated in a difficult location in respect of social or economic conditions or because there is low demand in given market circumstances, for example. Changing tenants can involve considerable conversion and refurbishment measures, which can lead to a temporary loss of rental income and considerable costs. For example, increased tenant requirements may mean that the properties in their current condition can no longer be let or can only be let against significantly lower rental income. In the event of vacancies or reduced rent levels, it cannot basically be ruled out that, in addition to lower income, the fair value of the properties will also fall, with corresponding effects on the net assets, financial and earnings positions of The Grounds Group.
Before entering into agreements with new tenants, The Grounds Group verifies their reputation and creditworthiness. The risk of losing rental income is kept low through targeted monitoring and proactive measures. The focus is on properties with tenants with good and very good creditworthiness. In the case of investments with fixed-term rental agreements (which are usually commercial properties), the analysis focuses

primarily on properties with long-term leases, tenants with high creditworthiness and low vacancy rates. In the case of properties with a short residual rental term and/or a high vacancy rate, consideration is given only if, on the basis of The Grounds Group's asset management approach, vacancy reduction or rental extensions can already be contractually secured during the pre-purchase due diligence investigation or immediately upon conclusion of the transaction.

### 4.2.4. Other risks

Beyond the risks described above, there are influences on the course of business that the Company cannot foresee and control. Their occurrence could have a negative impact on the development of The Grounds Group. They encompass natural catastrophes, epidemics, wars and terrorist attacks.

### 4.2.5. Overall assessment of risks

In the medium term, the focus of The Grounds Group is on building a significant high-quality real estate portfolio that should permit stable income to be generated and thereby distribution of attractive dividends to the shareholders of The Grounds Group. The Grounds Group aims to position itself as one of Germany's leading real estate companies through housing development and concomitant development of market capitalisation.

The factors of raising capital via equity and debt at favourable financing conditions and the acquisition or implementation of further projects are of core importance for achieving this goal. Therefore, they are currently the most important risk areas and they are subject to constant monitoring. However, on balance sheet date, there were no risks that could jeopardise the continued existence of the Group, neither individually nor in its entirety.

## 4.3 Opportunities

As presented above, the economic conditions remain highly favourable; an interest rate shock is not to be expected and demand for residential and commercial real estate is at a very high level. Moreover, The Grounds focuses on special properties such as student living and nursing homes for the elderly, which are developing into increasingly sought-after niche products in view of the scarce supply in the market. The focus of regional projects is particularly on the fast-growing metropolitan regions of Frankfurt am Main and Berlin.

Opportunities are also inherent in the broad coverage of value creation in the real estate sector, which brings with it significantly higher earnings potentials than, for example, pure portfolio management. In principle, The Grounds Group plans to build up its own real estate portfolios that should generate stable income in order to enable distribution of attractive dividends to the shareholders of The Grounds in the future. Through its own project development, The Grounds Group can determine factors such as quality of location and construction, tenant structure, etc., at an early stage and in a comparatively flexible manner. In addition, a trend has been noticeable for several years now according to which construction costs in the sector of new construction have even fallen below acquisition costs, which makes in-house development particularly attractive. Real estate development generally enables higher margins and faster realisation of profits than portfolio management. In individual cases, therefore, properties developed in-house are also sold, benefiting on the one hand from high returns on project development and on the other from the stable earnings situation in portfolio management. It is also possible to further develop existing properties through renovation or expansion,

with that aim of achieving value growth in addition to rental income.
The logistics park in Hangelsberg in the Greater Berlin area, which was acquired at the end of 2017, has considerable development potential. Of the plot of 350,000 m², only 100,000 m² has been developed up to now. The Grounds Group plans to develop several residential and commercial projects on it.

The Grounds Group continuously reviews the acquisition of additional (existing) properties and has access to an extensive project pipeline, for some of which contract negotiations have already begun. The projects involve both properties from the development area and in-house developed properties to build up the portfolio. For financing, The Grounds Group as access to a variety of instruments. Because of the equity ratio of 25% on average in project financing, The Grounds Group is able to handle high investment volumes. In addition to bank financing at the project level of the property companies, debt and equity instruments at the holding level can also be used; options include non-cash and cash capital increases and mezzanine financing.

Most recently, The Grounds Group expanded its portfolio in mid-February 2018 to include a 2,280 m² plot in a central location in Magdeburg, which serves as further project development for micro-apartments and furnished housing and is suitable for both being sold and for later addition to the holding portfolio of The Grounds Development AG. Through those measures, the real estate portfolio of The-Grounds Group has been significantly expanded, which will have a correspondingly positive effect on the development of sales and earnings at Group level in the current financial year 2018.

The Grounds Group also expects additional positive effects in the future from the second listing in the AltX over-the-counter segment of the Johannesburg Stock Exchange (South Africa), planned during the course of 2018. The Grounds Group will thereby gain access to the South African capital market, which will make raising debt capital and equity even more flexible.

# 5. Prognosis

## 5.1 Overall economic development

For 2018, the Association of German Chambers of Commerce and Industry (Deutsche Industrie- und Handelskammertag [DIHK]) expects strong growth of 2.7% in German GDP, supported by consumption (private consumption: +1.9%, government consumption: +1.8%), exports (+6.5%) and clearly increasing investments (+4.4%). For a similar expansion in the coming years, however, the DIHK sees impeding factors in the increasing shortage of skilled workers, the infrastructure that is slowing down the transport industry, and insufficient government spending and government programmes.[25]

## 5.2 Conditions in the sector

The prognoses for development of the business sectors in which The Grounds Group is active will receive attention below, primarily those of the German building industry, residential (especially student and retirement living) and commercial properties.

[25] Vgl. https://www.dihk.de/presse/meldungen/2018-02-07-konjunktur und https://www.dihk.de/ressourcen/downloads/dihk-konjunkturprognose-02-2018.pdf/at_download/file?mdate=1517988906835

## German building sector

For the year 2018, the HDB and the ZDB expect an increase in turnover in the German construction industry of 4% to EUR 117 thousand million. Growth is forecast for all building sectors, albeit at different rates:

In residential construction, both associations expect sales revenues to increase by 3.5% to around EUR 43 thousand million and expect completion of around 320,000 residential units. Construction of apartment blocks in particular is expected to grow disproportionately. But even that level would not yet be sufficient to meet the requirement of at least 350,000 apartments per year.
In commercial construction, sales are expected to increase by 4% to EUR 41.2 thousand million, considering the well-filled order books for 2018.
Many orders have been awarded for public construction as well,. The positive trend is therefore expected to continue, with sales revenues in this segment expected to increase by 4% to EUR 33 thousand million.[26]

## Residential properties[27]

Prices and rents for German houses and apartments will continue to rise sharply in 2018. This is borne out by the continuing high demand for housing in the metropolitan areas, whilst at the same time the number of completions is below requirements. Another driving factor is the robust German labour market. Deutsche Bank estimates an excess in demand throughout the country of around one million apartments.

In Berlin, there is a large shortfall in supply in the medium-level price segment and even more so in the lower-level price segment. Among the largest metropolitan areas, the German capital also has the highest divergence between building permits and completions (1.83 times). Rising population figures, employment growth and rising rents suggest that Berlin will continue to experience a super-cycle well beyond 2020. Frankfurt am Main also has a high housing deficit of an estimated 50,000 flats in 2017 – the effort to reduce this will probably persist until well into the next decade. Although Frankfurt am Main has made many efforts in recent years to meet the high demand, for example by converting public buildings and commercial areas or by developing and planning entire new districts (for example in the northwest for up to 30,000 inhabitants), those measures have only contributed to preventing the housing shortage from increasing.

## Commercial properties

In view of the continued low interest rates, the good economy and rising rents, market experts also expect high demand for commercial properties in 2018, which should be reflected in a transaction volume of around EUR 55 thousand million.[28]

The German office property market will also continue to benefit from the positive overall economic environment. Experts therefore expect the rental market to remain dynamic, although this will be held back by the lack of new and modern areas. Consequently, in 2018, the turnover from office letting is not likely to reach the record level of 2017. Accordingly, a significant increase is expected with regard to the volume of new construction – a total of almost 1.3 million m² is to be newly constructed or extensively renovated.

[26] Vgl. https://www.bauindustrie.de/media/documents/Argumentationslinie_PK_Jan_2018.pdf S. 5, 6, 8, 9, 12
[27] Vgl. https://www.fundresearch.de/sites/default/files/Deutscher_H%C3%A4user-_und_Wohnungsmarkt_2018.PDF S. 3, 5-6
[28] Vgl. http://www.handelsblatt.com/finanzen/immobilien/immobilienmarkt-gewerbeimmobilien-bleiben-sehr-begehrt/20812810.html

Of the total, the largest portions of 230,000 m² and 293,000 m² are attributable to the Berlin and Munich regions. At the beginning of 2018, in the seven largest metropolitan areas, 62% of the 1.3 million m² had already been let (in advance).[29]
In view of the good economic conditions and the continuing high demand for space, the property market for logistics in Germany is expected to reach the 6 million m² mark again in 2018. At the beginning of 2018, around 630,000 m² was under construction, of which only one third was still freely available.[30]

## 5.3 Company

For the current financial year 2018, the Management Board of The Grounds expects Group sales of EUR 16,011 thousand, earnings before taxation of EUR 880 thousand and a consolidated net profit of EUR 630 thousand. The resulting cash flows and further external financing measures are expected to further strengthen the Company's equity base and liquidity position.

## 5.4 Final statement on the dependency report

The Company was controlled by Instant IPO SE from 1 January 2017 to 21 March 2017 and by TGA Verwaltungs UG from 21 March 2017 to 19 October 2017. During the financial year 2017, the Company or its related companies did not enter into legal transactions with, at the instigation of or in the interest of the respective controlling company or its related companies, nor were any other measures taken or omitted by, on the instigation of or in the interest of the controlling company that could have put the Company at a disadvantage.

Berlin, 7 May 2018

The Management Board

Hans Wittmann    Eric Mozanowski

[29] Vgl. http://www.jll.de/germany/de-de/Research/Bueromarktueberblick-Germany-JLL.pdf
[30] Vgl. http://www.immobilien-zeitung.de/1000050037/grosse-nachfrage-nach-logistikimmobilien

# Consolidated Balance Sheet

## of The Grounds Real Estate Development AG, Berlin, of 31 December 2017



| | Notes | 31/12/17 |
|---|---|---|
| **Capital assets** | | |
| Long-term assets | | |
| Intangible assets | **8.1** | 21,086.65 |
| Goodwill | **8.1** | 777,753.85 |
| Tangible assets | **8.1** | 52,387.00 |
| Properties held as financial investment | **8.4** | 1,083,250.63 |
| Participations | **8.2** | 8,527.00 |
| Corporate shareholdings accounted for in accordance with the equity method | **8.3** | 22,359.59 |
| Deferred tax on earnings | **8.13** | 550,131.87 |
| Total long-term assets | | **2,515,496.59** |
| | | |
| Short-term assets | | |
| Stock levels | **8.5** | 11,272,921.29 |
| Receivables from goods and services | **8.6** | 6,302,380.00 |
| Other receivables | **8.6** | 5,391,418.89 |
| Cash and cash items | **8.7** | 2,471,035.80 |
| Total short-term assets | | **25,437,755.98** |
| **Balance sheet total** | | **27,953,252.57** |

| | Notes | 31/12/17 |
|---|---|---|
| **Equity** | | |
| Subscribed capital | **8.8** | 15,105,517.00 |
| Adjustment item for corporate acquisition | **8.8** | -12,452,550.00 |
| Capital reserves | **8.8** | 2,505,156.05 |
| Reserves | | 155,465.51 |
| Unappropriated surplus | **8.8** | 2,039,695.93 |
| Attributable to shareholders of the parent company | | 7,353,284.49 |
| Attributable to non-controlling shareholders | | 84,918.96 |
| Total equity | | **7,438,203.45** |
| | | |
| **Debts** | | |
| Long-term debts | | |
| Financial liabilities | **8.9** | 10,034,872.59 |
| Total long-term debts | | **10,034,872.59** |
| | | |
| Short-term debts | | |
| Provisions | **8.10** | 1,026,279.73 |
| Financial liabilities | **8.9** | 4,000,622.25 |
| Current tax on earnings | **8.12** | 634,980.80 |
| Obligations from goods and services | **8.11** | 1,089,785.05 |
| Other obligations | **8.11** | 3,728,508.70 |
| Total short-term debts | | 10,480,176.53 |
| | | |
| **Balance sheet total** | | **27,953,252.57** |

# Consolidated Profit-and-Loss Account

## of The Grounds Real Estate Development AG, Berlin, 1 January 2017 - 31 December 2017

| | Notes | 01/01/2017-31/12/2017 |
|---|---|---|
| | | |
| Revenues from turnover | **8.14** | 18,944,514.32 |
| Other operating income | **8.17** | 14,395.89 |
| Stock changes | **8.15** | 100,140.00 |
| **Overall performance** | | **19,059,050.21** |
| Material costs | **8.16** | -15,154,237.95 |
| Staff costs | | -72,338.54 |
| Depreciation of intangible and tangible assets | **8.1** | -9,463.27 |
| Other operating expenditure | **8.17** | -2,106,955.80 |
| **Operating result** | | **1,716,054.65** |
| Earnings from associated companies | **8.3** | 16,873.75 |
| Interest income | **8.22** | 489,159.15 |
| Interest expenditure | **8.22** | -866,915.68 |
| **Financial Result** | | **-360,882.78** |
| **Earnings before taxation** | | **1,355,171.87** |
| Tax on earnings | **8.18** | -158,452.78 |
| **Group earnings** | | **1,196,719.09** |
| of which attributable to non-controlling shareholders | | 9,239.02 |
| of which attributable to shareholders of the parent company | | 1,187,480.07 |
| | | |
| **Earnings per share** | **8.19** | **0.08** |

# Consolidated Statement of Changes in Equity

## of The Grounds Real Estate Development AG, Berlin, 1 January 2017 - 31 December 2017



| | Subscribed capital | Adjustment item for corporate acquisition | Capital reserves | Reserves | Net surplus / shortfall | Attributable to non-controlling shareholders | Total |
|---|---|---|---|---|---|---|---|
| **Status 01/01/2017** | **400,000.00** | **0.00** | **0.00** | **0.00** | **-185,753.85** | **0.00** | **214,246.15** |
| Changes in consolidation scope | | -12,452,550.00 | 777,753.85 | | 270,064.49 | 15,050.00 | **-11,389,681.66** |
| Transactions recognised directly in equity in first-time IFRS consolidated accounts | | | | 155,465.51 | | | **155,465.51** |
| Issuance of common stock | 14,705,517.00 | | 2,646,620.40 | | | | **17,352,137.40** |
| Costs of procuring equity | | | -289,063.90 | | | | **-289,063.90** |
| Addition to capital reserves | | | 190,000.00 | | | | **190,000.00** |
| Withdrawal from capital reserves | | | -820,154.30 | | 820,154.30 | | **0.00** |
| Disposal of interests of non-controlling shareholders | | | | | -52,249.08 | 39,749.08 | **-12,500.00** |
| Acquisition of interests of non-controlling shareholders | | | | | | 20,880.86 | **20,880.86** |
| Total earnings of the Group | | | | | 1,187,480.07 | 9,239.02 | **1,196,719.09** |
| **Status 31/12/2017** | **15,105,517.00** | **-12,452,550.00** | **2,505,156.05** | **155,465.51** | **2,039,695.93** | **84,918.96** | **7,438,203.45** |

# Consolidated Statement on Sources and Application of Funds

## of The Grounds Real Estate Development AG, Berlin, 1 January 2017 - 31 December 2017

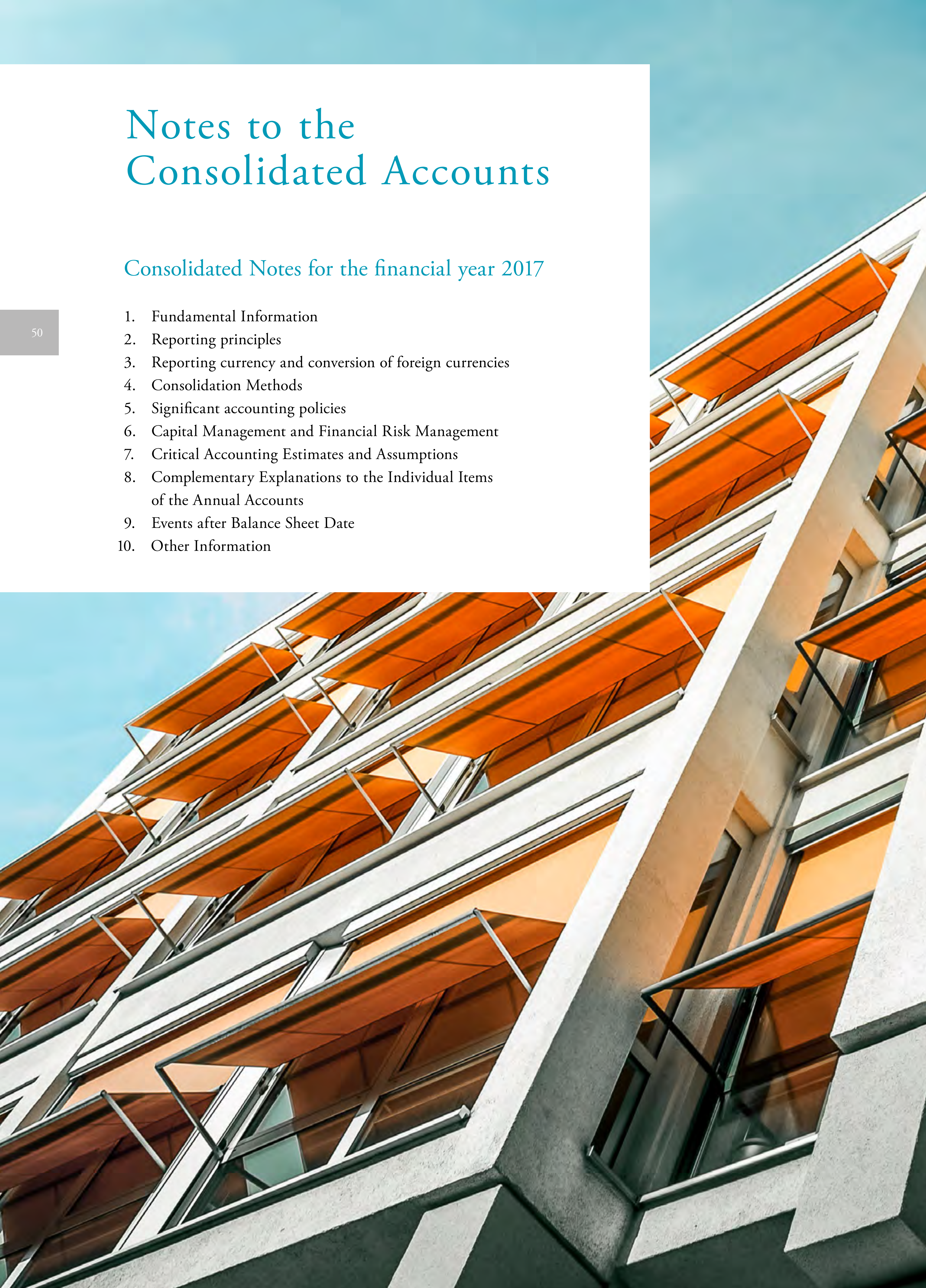
| | | 01/01/2017 - 31/12/2017 |
|---|---|---|
| | | in €000 |
| | Group earnings | 1,197 |
| + | Depreciation of fixed assets | 9 |
| -/+ | Earnings from associated companies/participations accounted for in accordance with the equity method | -17 |
| +/- | Increase / reductions in provisions | 1,025 |
| + | Other non-cash changes | -622 |
| -/+ | Increase / decrease of stocks, receivables from goods sold and services provided as well as other assets that do not come under investment of financing activities | -23,057 |
| +/- | Increase / reductions in payables in respect of goods bought and services used as well as other liabilities that to not come under investment or financing activities | 5,112 |
| +/- | Interest expenditure/interest income | 378 |
| +/- | Income tax expenditure/revenues | 158 |
| -/+ | Payments of tax on earnings | -5 |
| = | **Cash flow from current business activities** | **-15,822** |
| - | Payments for investments in intangible assets | -15 |
| - | Payments for investments in tangible assets | -59 |
| - | Payments for properties held as financial investment | -1,083 |
| + | Received interest | 489 |
| = | **Cash flow from financing activities** | **-668** |
| + | Incoming payments from equity increases | 5,868 |
| - | Costs of procuring equity | -289 |
| + | Incoming payments from issuing bonds and drawing down (financing) loans | 14,035 |
| - | Paid interest | -867 |
| = | **Cash flow from financing activities** | **18,747** |
| | Changes in cash and cash equivalents | 2,257 |
| + | Cash and cash equivalents at the beginning of the period | 214 |
| = | **Cash and cash equivalents at the end of the period** | **2,471** |

Explanatory notes in Section 8.20 of the explanations to the consolidated accounts

# Notes to the Consolidated Accounts

## Consolidated Notes for the financial year 2017





## 1. Fundamental Information

The Grounds Real Estate Development AG (Grounds AG; previously Netwatch AG, Munich) is domiciled in Berlin, Germany. It is registered at Berlin-Charlottenburg District Court under number CRB 191556 B.

The shares are traded under ISIN DE000A2GSVV5 in the open market of the Düsseldorf Stock Exchange.

Grounds AG, which had previously not been operating, became the parent company during the reporting period as part of a non-cash capital increase. The corporate purpose of the non-cash capital increase was the contribution of 94.9 % of its shares by the shareholders of The Grounds Real Estate AG, Berlin, against the issuance of new shares in Grounds AG.

Following this contribution, the Company‘s operating activities essentially consist of trading and the long-term ownership of commercial and residential properties in Germany, which will be developed in different ways for those purposes. Grounds AG functions primarily as the operating holding company for the real estate companies. In view of the changed business orientation and the fact that a group was not created until the contribution described above, comparative figures for the previous period would not be meaningful. For this reason, the previous year‘s figures have been omitted from these consolidated accounts for the financial year 2017. Because the contribution was made with (retroactive) economic effect from 1 January 2017, the figures for the reporting period relate to the entire financial equal to the calendar year, not only formally but also in economic terms.

## 2. Reporting principles



According to the stipulations of Article 293, Commercial Code, Grounds AG is not obliged to prepare consolidated annual accounts for the financial year 2017. These consolidated accounts – like the management report of the Group – have therefore been prepared on a voluntary basis.

Grounds AG has applied the provisions of Article 315e, Paragraph 3, Commercial Code, mutatis mutandis to its consolidated annual accounts for the financial year 2017. Accordingly, the consolidated annual accounts were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002 on the application of international accounting standards in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), as adopted and published by the European Union (EU) for capital market-oriented companies, and in compliance with the complementary commercial law provisions to be applied in accordance with Article 315e, Paragraph 1, Commercial Code.

The requirements of IFRS, as applicable in the EU, have been fully complied with and result in a true and fair view of the net assets, financial and earnings positions of The Grounds Group. Individual items of the profit-and-loss account and the balance sheet have been combined in order to improve the clarity of presentation. Those items have been further broken down clarified in the explanations.

The profit-and-loss account for the Group has been drawn up in accordance with the total-cost method. A consolidated statement of total earnings of the Group has not been presented, because there were no effects recognised directly in other total earnings.

Grounds AG has not yet divided its business activities into reportable segments within the meaning of IFRS 8, also with regard to the size of the Company, which is why no segment reporting has been prepared.

The following accounting standards, newly issued or amended by the IASB and in some cases not yet adopted by the EU, will only have to be observed in future annual accounts – provided they will have been adopted by the EU – and have not been applied prematurely by Grounds AG:

| Standard/Interpretation | | Applicable from financial year |
|---|---|---|
| IFRS 9 | Financial instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 10/IAS 28 | Sale or contribution of assets between an investor and an associated company or joint venture | not determined |
| IFRS 2 | Clarification of the classification and evaluation of transactions with share-based compensation | 1 January 2018 |
| IFRS 4 | Application of IFRS 9 and IGRS 4 Insurance Contracts | 1 January 2018 |
| IASB 2014-2016 | Annual Improvements to IFRS 1, IFRS 12 and IAS 28 | 1 January 2018 |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| IAS 40 | Classification of unfinished real estate | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |
| IFRIC 23 | Interpretation of Uncertainty over Income Tax Treatments | 1 January 2019 |
| IAS 28 | Long-term Investments in Associates and Joint Ventures | 1 January 2019 |
| IFRS 9 | Early repayment arrangement with negative compensation payment | 1 January 2019 |

The Company does not expect the future application of the new accounting standards to have a significant impact on the consolidated annual accounts.

Unless otherwise stated, the amounts in the clarifications and tables in the explanations to the consolidated accounts and the consolidated statement on sources and application of funds are stated in thousands of euros (€000). Both individual and total values represent the value with the smallest rounding difference. Therefore, small differences in the reported totals may occur when individual values shown are added together.

The consolidated annual accounts of Grounds AG at hand have been prepared voluntarily and are not intended for disclosure.

## 3. Reporting currency and conversion of foreign currencies

The Grounds AG draws up its consolidated annual accounts in euros (EUR).

There are no transactions in foreign currencies and all companies within the consolidation scope also draw up their accounts in euros.

# 4. Consolidation Methods

## 4.1. Financial year and reporting dates of the included annual accounts

The financial year of the Group is the calendar year. The reporting dates of all individual annual accounts included in the consolidated annual accounts agree with the reporting date of the consolidated annual accounts.

## 4.2. Inclusion of subsidiaries

Subsidiaries are companies whose financial and business policies the Group can directly or indirectly control. A listing of subsidiaries included in the consolidated annual accounts of Grounds AG for the reporting period can be found in Section 4.4.1.

Subsidiaries are included in the consolidated annual accounts by way of full consolidation from the date on which control was transferred to the Group onwards. They are deconsolidated on the date when control ends.

Acquired subsidiaries are accounted for using the purchase method. Acquisition costs correspond to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed on the date of exchange. Assets, liabilities and contingent liabilities identifiable as part of a business combination are measured at their fair values at the time of acquisition on initial consolidation, irrespective of the extent of minority interests. Any excess of the cost of acquisition over the Group's interest in the net assets measured at fair value is recognised as goodwill. If the acquisition costs are lower than the (pro rata) net assets of the acquired subsidiary measured at fair value, the difference is recognised directly in the profit-and-loss account. Partial acquisitions of subsidiaries after control has been obtained are recognised as equity transactions. The difference between the purchase price of the shares and the minority interest disposed of is offset directly in equity against the results not yet used.

Shares of other shareholders in the equity of the subsidiary are recognised within the consolidated equity as non-controlling interests. A non-controlling interest is that portion of a subsidiary's net earnings for the period and net assets attributable to interests that are not directly held by the parent company or by another subsidiary.

The sale of real estate property companies by way of a share deal is shown in the deconsolidation as a comparable direct sale of properties (asset deal), because such transactions are an integral part of the core business of the Grounds Group. This takes into account the economic nature of the transactions with a view to presenting the assets, financial and earnings positions as accurately as possible. Consequently: the sale price of the shares plus the liabilities sold and minus receivables from the real estate property company sold is shown as revenue, whilst the book value of the real estate sold is shown as cost of materials. For any residual investments, the balance of the pro rata Group book values of the assets and liabilities leaving the Group as a result of the sale is recognised as acquisition costs. If properties are acquired through the acquisition of a property company, this is shown in the initial consolidation as the acquisition of real estate property. The acquisition costs result from the purchase price of the shares in the property company plus the liabilities assumed, minus other assets of the property company.

Intragroup transactions, balances and unrealised profits from transactions between Group companies are eliminated. The same applies to unrealised losses, unless the transaction indicates an impairment of the transferred asset. Where necessary, the accounting and valuation methods of subsidiaries were adjusted with the aim of ensuring uniform consolidated accounting in accordance with IFRS.

## 4.3. Representation of associated companies

An associated company is a company over which the Group has significant influence. Significant influence means the existence of the possibility of participating in the financial and business policy decisions of the company in which the capital shares are held. Neither control nor joint management of the decision-making processes are a given. In principle, significant influence exists if Grounds AG directly or indirectly holds 20 % or more of the voting rights through subsidiaries.

Investments in associated companies that are of significance to the assets, financial and earnings positions of the Group are included in the consolidated annual accounts in accordance with the equity method. Under the equity method, investments in associated companies are carried in the consolidated balance sheet at cost, adjusted for changes in the Group's share of the associated company's profit or loss and other comprehensive income after the date of acquisition. Losses of an associated company that exceed the Group's interest in an associated company are not recognised. They are only recognised if the Group has entered into a legal or constructive obligation to assume losses or makes payments on behalf of the associated company.

Shares in an associated company are accounted for in accordance with the equity method from the date onwards on which the conditions for qualifying as an associated company are met. Any excess of the cost of the acquisition beyond the acquired interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the associated company is recognised as goodwill. Goodwill is component of the book value of the shares and is not tested separately for impairment.

## 4.4. Consolidation scope

### 4.4.1. Included companies

The consolidated annual accounts of Grounds AG of 31 December 2017 include the parent company and all subsidiaries listed below.

List of subsidiaries

| Company name | Domicile | Capital share |
|---|---|---|
| The Grounds Real Estate AG | Berlin | 94.9 % |
| TGA Immobilien Erwerb 2 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 4 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 5 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 6 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 7 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 8 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 9 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 10 GmbH | Berlin | 100 % |
| TGA Immobilien Erwerb 11 GmbH | Berlin | 100 % |
| Gutleut GmbH | Berlin | 94.9 % |

Additionally, the Group annual accounts contain one associated company:

| Company name | Domicile | Capital share |
|---|---|---|
| Silent Living Grundbesitz GmbH | Berlin | 33.33 % |

Finally, on balance sheet date, Grounds AG indirectly had a 7.5 % participation in SQUADRA Erste Immobiliengesellschaft mbH, Frankfurt am Main. For the financial year 2017, that company reported net income of EUR -965 thousand and equity of EUR -2,021 thousand.

### 4.4.2. Changes in the reporting period

Grounds AG drew up consolidated annual accounts for the first time on 31 December 2017. The reason for that was the contribution of 94.9 % of the shares of The Grounds Real Estate AG during the reporting period, which occurred with (retroactive) economic effect from 1 January 2017 (see Section 1). Because of that, Grounds AG had also indirectly acquired control over the subsidiaries of The Grounds Real Estate AG. Before the contribution, Grounds AG did not itself have any own subsidiaries.

The Grounds Real Estate AG and its (direct) subsidiaries have therefore been included in the consolidated annual accounts with effect from 1 January 2017. The contribution described constitutes a reverse acquisition. By issuing new shares by Grounds AG as a result of the contribution of the shares of The Grounds Real Estate AG, the contributing shareholders of The Grounds Real Estate AG acquired the voting majority of Grounds AG as legal acquirer. According to the economic approach of IFRS, The Grounds Real Estate AG is notionally regarded as the acquirer and Grounds AG as the acquired company. The process was mapped in accordance with the provisions of IFRS 3.1E1 ff. on account of this conceptional basis.

Accordingly, the initial consolidation is based on a preliminary purchase price allocation as at 1 January 2017 in relation to the economically acquired company, which is the Grounds AG. The resulting difference between the notional acquisition costs of The Grounds Real Estate AG and the book equity of Grounds AG before the transaction is recognised as goodwill.

The consolidation scope has changed as follows in the reporting period in view of the contribution of the associated company on 1 January 2017:

- With the exception of TGA Immobilien Erwerb 2 GmbH and TGA Immobilien Erwerb 4 GmbH, all subsidiaries have only been added in the reporting period.
- During the reporting period, the participations in TGA Verwaltungs UG, Berlin (100 %), TGA Immobilien Erwerb 3 GmbH, Berlin (100 %), and Wohnen am Straussee Projektentwicklung GmbH, Berlin (51 %) have been sold and deconsolidated.

The sale of the participations in TGA Immobilien Erwerb 3 GmbH, Berlin, and Wohnen am Straussee Projektentwicklung GmbH, Berlin, resulted in deconsolidation proceeds in the amount of EUR 1,450 thousand. The income is composed as follows:

| | 2017 |
|---|---|
| | **€000** |
| Received purchase price components | 1,513 |
| Assets disposed of | - 63 |
| **Proceeds from deconsolidation** | **1,450** |

The sale of the participation in TGA Verwaltungs UG, Berlin, has led to deconsolidation loss of EUR 1,000 in total. The loss is composed as follows:

| | 2017 |
|---|---|
| | **€000** |
| Received purchase price components | 1 |
| Assets disposed of | - 2 |
| **Loss from deconsolidation** | **- 1** |

# 5. Significant accounting and valuing policies

The annual accounts of the subsidiaries have been included in the consolidated annual accounts in accordance with the following uniform accounting policies.

## 5.1. Intangible assets

### 5.1.1. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the fair value of the net assets of the acquired company on the date of acquisition and is recognised as an intangible asset. Goodwill emanating from the acquisition of an associated company is included in the book value of the participation in the associated company.

Goodwill is subjected to an annual impairment test (impairment-only approach) and, on the occasion of events that impair its value, is evaluated at its original acquisition cost minus accumulated impairment losses. There is no scheduled depreciation.

For the purposes of consolidated accounting for the 2017 reporting period, no impairment of goodwill arising from the reverse company acquisition (see Section 4.4.2) was to be assumed.

### 5.1.2. Other intangible assets

Other intangible assets comprise acquired software. It is capitalised at cost at the time of acquisition and recognised in subsequent periods at cost minus accumulated scheduled depreciation (amortised cost) and any accumulated impairment losses. Scheduled depreciation is calculated in accordance with the straight-line method, starting at the time when the software can be used for its intended purpose. The depreciation period is the expected useful economic life, which is between two and six years

## 5.2. Tangible assets

The tangible assets comprise the operating and office equipment of the Company. They are recognised at cost minus accumulated depreciations (amortised acquisition or manufacturing costs) and any accumulated impairment losses. Scheduled depreciation is calculated in accordance with the straight-line method, taking into account the respective residual value and the respective useful economic life.

Depreciation begins as soon as the asset can be used for its intended purpose.

## 5.3. Impairment of assets

Intangible and tangible assets subject to scheduled depreciation are tested for impairment whenever events or indications indicate that their book value might not be achievable. An impairment loss is recognised in the amount by which the book value of an asset exceeds its achievable amount. The latter corresponds to the higher of the asset's fair value minus selling costs and the discounted net cash flows from further use (value in use). To assess impairment, assets at the lowest level are grouped into cash-generating units for which cash flows can be identified largely independently of the rest of the Company.

In the event of a recovery in value, write-backs are made up to a maximum of the amortised acquisition costs.

## 5.4. Properties held as financial investment

Properties held as financial investment comprise properties that serve to generate rental income and / or to realise capital appreciation in the long term. This also includes properties that are (still) at the construction stage and are meant to serve the purposes mentioned above. In contrast to properties held as stock-in-trade, properties held as financial investment are generally not actively resold until after a longer holding period, within the framework of portfolio restructuring.

Properties held for investment are initially measured at acquisition or manufacturing cost, including transaction costs, and subsequently measured at fair value. Gains and losses emanating from changes in fair value are recognised in the profit-and-loss account for the period in which they arise.

Any property held for investment is derecognised upon disposal or when it is no longer to be used on a permanent basis and future economic benefits are no longer expected from the disposal. The gain or loss on disposal is the difference between the net disposal proceeds and the book value of the asset and is recognised in the profit-and-loss account of the period of disposal.

If properties are initially acquired for trading purposes and allocated to stock, they are reclassified to properties for investment if it becomes apparent that their value cannot be immediately realised through sale and an expected longer stage in the development of the property (renovation, new rentals) in the Company's own portfolio ought to be expected instead.

Because, in the financial year 2017, the item "properties held for investment" contains only two properties that were added close to the reporting date and actually are under construction, an internal assessment of the manufacturing costs was made.

## 5.5. Financial instruments

### 5.5.1. Financial assets

Purchases and sales of financial assets are recorded on the day of fulfilment. They are recognised at fair value at the time of acquisition, taking directly attributable transaction costs into account, unless they are measured at fair value through profit or loss. Financial assets are divided into the following measurement categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets on initial recognition and reviews them regularly. During the reporting period and the comparison period, the Group had only financial assets in the categories 'loans and receivables' and 'available for sale'.

#### a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor without the intention of trading with those receivables. They are classified as short-term assets if their maturity date does not fall more than twelve months after balance sheet date. Otherwise, they are recognised as long-term assets. On the balance sheet, loans and receivables are included in the item 'receivables from goods and services'.

Receivables from goods and services are initially recognised at fair value and subsequently measured at amortised acquisition cost in accordance with the effective interest method minus impairment losses. Impairment of receivables from goods and services is recognised when there are objective indications that the amounts due cannot be fully recovered. The amount of the impairment is calculated as the difference between the book value of the receivable and the present value of the estimated future cash flow from this receivable, discounted by using the effective interest rate. Iimpairment is recognised in the profit-and-loss account. Should the reasons for an impairment no longer wholly or partly apply, the receivables will be written up to a maximum of their amortised cost and recognised in profit or loss.

#### b) Financial assets available for sale

Financial assets that are available for sale are non-derivative financial assets that have either been allocated to this category or cannot be allocated to any of the other categories. They are classified as long-term assets if the management does not intend to sell them within twelve months from balance sheet date.

Financial assets available for sale are initially measured at fair value plus applicable transaction costs. On subsequent reporting dates, they are primarily measured at fair value, which corresponds to the market price. If the fair value cannot be determined with sufficient certainty, the amortised cost is recognised as an alternative. The difference to the acquisition value is recognised directly in an equity reserve, without affecting income. In the event of sale or impairment, an unrealised gain or loss recognised in equity at that time must be transferred from the fair value measurement to the profit-and-loss account.

On every balance sheet date, Grounds AG verifies whether there are objective indications of impairment. If such an indication exists, any cumulative loss previously recognised directly in equity is derecognised from equity and recognised as an expense in the profit-and-loss account.

If there is no active market for a financial asset available for sale, it is measured at amortised cost and, in the event of impairment, at the lower fair value.

### 5.5.2. Financial liabilities

Non-derivative financial liabilities are initially recognised at fair value minus transaction costs. In subsequent periods, they will be measured at amortised acquisition cost. Any difference between the amount paid out (after deduction of transaction costs) and the repayment amount is recognised in the profit-and-loss account over the term of the loan in accordance with the effective interest method.

Financial liabilities are classified as short-term if the Group does not have the unconditional right of deferring settlement of the liability for at least twelve months beyond balance sheet date.

In determining fair value, expected future cash flows are discounted on the basis of a market interest rate that is commensurate with the term. Individual characteristics of the financial instruments to be measured are taken into account by standard market creditworthiness and liquidity spreads.

## 5.6. Fair value

The fair value of the financial assets and liabilities of the Grounds Group is determined on the basis of input factors of levels 1, 2 and 3.

Under IFRS 13, fair value is the price at which an asset could be exchanged between knowledgeable, willing parties in an arm‘s length transaction under current market conditions on the valuation date. Fair value can be determined in accordance with the market-based approach, the cost-based approach or the income-based approach. The use of significant, observable market-based input factors is maximised and the use of unobservable input factors reduced to a minimum.

The input factors are divided into the following measurement hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities, whereby the accountant must have access to those active markets on the valuation date (IFRS 13 – Appendix A, IFRS 13.76)
- Level 2: Directly or indirectly observable input factors that cannot be allocated to level 1 (IFRS 13 – Appendix A, IFRS 13.81)
- Level 3: Unobservable input factors (IFRS 13 - Appendix A, IFRS 13.86)

If the individual input factors are allocated to different levels of the fair value hierarchy, there will first be a distinction between significant and insignificant input factors. The classification of the entire fair value measurement is then based on the level of the lowest significant input factor (IFRS 13.73).

## 5.7. Stock levels

Stocks of the Grounds Group consist of properties acquired for sale or for development. They are carried at the lower of acquisition or manufacturing costs and net realisable value. Acquisition costs comprise the purchase price of the properties plus directly attributable ancillary costs, such as estate agent costs, landed property acquisition tax, notary costs and costs of cadastral registrations. Manufacturing costs arise if and to the extent that restoration or development activities will still be carried out on the properties prior to their disposal. Manufacturing costs include directly attributable material costs and wages as well as the costs of attributable external services. Net realisable value is the estimated selling price in the ordinary course of business minus the estimated costs of completion and selling expenses.

## 5.8. Cash and cash equivalents

Cash and cash equivalents are recognised on the balance sheet at acquisition cost. For the purposes of the statement of sources and application of funds, cash and cash equivalents include cash, demand deposits with banks and other short-term, highly liquid financial investments with an original maturity of no more than three months.

## 5.9. Costs of procuring equity

In accordance with IAS 32, expenses directly attributable to the procurement of equity are offset against the capital reserve, minus the associated income tax advantages, without affecting net income. Expenditure that cannot be fully allocated to equity procurement are divided into components to be offset directly against equity and are recognised as expenses in the reporting period using appropriate keys

## 5.10. Provisions

Provisions are made when the Company has a present legal or actual obligation emanating from past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. If the Company expects reimbursement of a deferred amount (for example in relation to insurance), it recognises the claim to reimbursement as a separate asset, provided that reimbursement is virtually certain in the event of recourse to the obligation.

A provision for loss-making transactions is made if the expected benefit from the contractual claim is lower than the unavoidable costs of meeting the contractual obligation.

Provisions are measured at the probable outflow of resources. Valuation of long-term provisions takes discounting at the risk-adequate interest rate into account.

## 5.11. Deferred tax on earnings

Deferred tax on earnings is recognised in accordance with the liability method for temporary differences between the tax base of assets and liabilities and their IFRS book values and for unused tax losses carried forward. Deferred income taxes are determined using the statutory tax rate applicable on the balance sheet date for the respective date of the reversal.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences or a loss carried forward can be utilised.

Changes in deferred tax items are generally recognised in the profit-and-loss account. Exceptions to this are the addition without affecting net income of deferred tax items in the context of purchase price allocation for company acquisitions and deferred tax items in conjunction with changes in value to be recorded directly against reserves, which are also recorded directly against reserves.

## 5.12. Realisation of revenue

Revenue is measured at the fair value of the consideration received or to be received and reduced by discounts and other similar deductions.

Revenue from service agreements is recognised in accordance with the stage of completion, provided that the outcome of a service transaction can be reliably estimated. A reliable estimate of earnings is possible if the amount of revenues and the costs incurred or to be incurred for the transaction and the stage of completion can be reliably determined and it is probable that the economic benefit from the transaction will flow to the Company. The degree of completion is determined on the basis of required time.

Interest income is recognised when it is probable that the economic benefit will flow to the Group and the amount of the income can be reliably measured. Interest income is deferred in accordance with the outstanding nominal amount by using the applicable effective interest rate. The effective interest rate is the rate at which the expected future payments over the term of the financial asset can be discounted exactly to the net book value of the asset at the time of initial capturing.

## 6. Capital Management and Financial Risk Management

With the help of capital management, Grounds AG aims to sustainably strengthen the liquidity and equity base of the Group, to provide funds for equity-financed growth of the Group and to generate an appropriate return on the employed capital.

Financial risk management entails the management and limitation of financial risks arising from operating activities. Liquidity risk (avoidance of disruptions to solvency) and default risk (the risk of a loss if a contracting party fails to meet its contractual obligations) in particular are to be considered here.

Responsibility for liquidity risk management rests on the Management Board, which has established a system for managing short-term, medium-term and long-term financing and liquidity requirements that are appropriate to the size of the Company. The Group manages liquidity risks by maintaining adequate cash and cash equivalents, credit lines with banks and other facilities, and by continuously monitoring forecast and actual cash flows within the framework of continuously creating liquidity ladders and matching the maturity profiles of financial assets and liabilities.

In order to reduce default risks, the Grounds Group only sells to creditworthy counterparties.

## 7. Critical Accounting Estimates and Assumptions

The preparation of the consolidated annual accounts in accordance with IFRS also requires estimates and assumptions about expected future developments that (may) affect the presentation of assets and liabilities, income and expenditure, and contingent assets and liabilities for the respective reporting period. Although those assumptions and estimates must be made to the best knowledge of the management of the Company on the basis of the most recent reliable information available, they will rarely correspond to the actual circumstances prevailing subsequently.

In particular, estimates and assumptions had to be made in terms of the following circumstances:

- Assessment of risk-bearing receivables
- Recognition of current and deferred tax items, particularly in terms of ability to realise deferred tax assets.
- Uncertainties exist regarding the interpretation of complex tax regulations. Therefore, differences between actual results and our assumptions or future changes in our estimates may result in changes in the tax result in future periods.
- Recognition and measurement of provisions based on existing ranges of estimates of possible future burdens on the Group.

Changes in estimates and assumptions are recognised in the profit-and-loss account at the time of gaining better underlying knowledge.

# 8. Complementary Explanations to the Individual Items of the Annual Accounts



## 8.1 Intangible and tangible assets

During the financial year from 1 January to 31 December 2017, the intangible and tangible developed as follows:

| | Goodwill | Other intangible assets | Tangible assets |
|---|---|---|---|
| | €000 | €000 | €000 |
| Acquisition / manufacturing costs | 0 | 0 | 0 |
| Cumulative depreciation | 0 | 0 | 0 |
| **Book value on 1 January 2017** | **0** | **0** | **0** |
| Additions (+) | 0 | 16 | 58 |
| Additions from first consolidation (+) | 778 | 9 | 1 |
| Disposals (-) | 0 | 0 | 0 |
| Depreciations | 0 | -3 | -6 |
| Additions depreciations from first consolidation (-) | 0 | -1 | -1 |
| **Book value on 31 December 2017** | 778 | 21 | 52 |
| Acquisition / manufacturing costs | 778 | 25 | 59 |
| Cumulative depreciation | 0 | 4 | 7 |

## 8.2 Participations

The participations relate to a 7.5 % stake in Squadra Erste Immobilien Gesellschaft GmbH, Frankfurt, which is recognised at acquisition cost.

## 8.3 Corporate shareholdings accounted for in accordance with the equity method

The corporate shareholdings accounted for in accordance with the equity method have developed as follows:

| | 31/12/2017 |
|---|---|
| | **€000** |
| **Beginning of the financial year** | **0** |
| Additions of shares | 5 |
| Shares in profits and losses | 17 |
| **End of the financial year** | **22** |

## 8.4 Properties held as financial investment

| | 31/12/2017 |
|---|---|
| | **€000** |
| **Status at the beginning of the financial year** | **0** |
| Additions (+) | 1,083 |
| **Status at the end of the financial year** | **1,083** |

Properties held as financial investment comprise a residential property still under construction and a commercial property still under construction. It is assumed that the fair value at the end of the financial year will essentially corresponds with the manufacturing costs.

There was no income or expenditure yet in the profit-and-loss account for the financial year 2017 from the properties held as financial investment.

## 8.5 Stock levels

Stock values of the Grounds Group include work in progress, properties ready for sale and down payments made. They are composed as follows:

| | 31/12/2017 |
|---|---:|
| | **€000** |
| Work in progress | 176 |
| Properties under construction | 7,095 |
| Down payments made | 4,002 |
| **Total** | **11,273** |

## 8.6 Receivables from goods and services and other receivables

The receivables from goods and services mainly result from the invoicing of services. The following overview shows the development of the receivables from goods and services:

| | 31/12/2017 |
|---|---:|
| | **€000** |
| Receivables from goods and services (gross) | 6,302 |
| Value adjustments | 0 |
| **Receivables from goods and services (net)** | **6,302** |

On balance sheet date, the receivables from goods and services had the following maturity structure:

| | 31/12/2017 |
|---|---:|
| | **€000** |
| Receivables from goods and services | |
| of which on reporting date not impaired and not overdue | 6,300 |
| of which on reporting date not impaired and overdue till 30 days | 0 |
| of which on reporting date not impaired and overdue from 31 to 60 days | 0 |
| of which on reporting date not impaired and overdue from 61 to 90 days | 0 |
| of which on reporting date not impaired and overdue from 91 to 180 days | 0 |
| of which on reporting date not impaired and overdue from 181 to 360 days | 0 |
| of which on reporting date not impaired and overdue for more than 360 days | 2 |
| Net value of value-adjusted receivables from goods and services | 0 |

There were no value adjustments of receivables from goods and services in the financial year 2017.

The other receivables comprise:

| | 31/12/2017 |
|---|---:|
| | **€000** |
| **Short-term** | |
| Receivables from participation companies | 1,523 |
| Receivables from associated companies | 121 |
| Receivables from related companies/persons | 97 |
| Receivables in relation to turnover tax | 790 |
| Receivables emanating from capital increase | 2,804 |
| Miscellaneous other receivables | 56 |
| **Total** | **5,391** |

The receivables from participation companies result from a credit line agreement with the participation company. The credit line bears interest at one year Euribor plus 0.5 percent p.a.

There were no depreciations on other receivables.

The receivables from goods and services serve as collateral for financial liabilities.

## 8.7. Cash and cash items

The cash and cash items contain immediately available balances at banks.

## 8.8. Equity

On the balance sheet date, the share capital of the Company amounted to EUR 15,105,517 and is divided into 15,105,517 ordinary shares. During the period under review, it has developed as follows:

| | 31/12/2017 |
|---|---:|
| | **EUR** |
| **Beginning of the financial year** | 400,000 |
| Non-cash capital increase of 94.9 % of the shares of The Grounds Real Estate AG | 12,500,000 |
| Cash capital increase | 2,205,517 |
| **End of the financial year** | 15,105,517 |

On 22 June 2017, the Annual General Meeting of Grounds AG resolved on a capital increase of up to EUR 17.6 million in total. It was implemented by the contribution of 94.9 % of the shares in The Grounds Real Estate AG, for which 12.5 million new shares have been issued at an issue price of EUR 1.00 per share. Additionally, in the financial year there has been a cash capital increase of 2.2 million shares at EUR 2.21 per share, whilst the pro rata amount in the share capital amounts to EUR 1.00 per share.

On 22 June 2017, the Annual General Meeting resolved to authorise until 21 June 2022 the Management Board to increase, each time with the approval of the Supervisory Board, the Company's share capital on one or more occasions by up to a total of EUR 6,450 thousand against cash and/or non-cash contributions, whilst shareholders' subscription rights may be excluded (authorised capital 2017/I).

The capital reserve results from the amounts that were raised through past capital increases in excess of the amount of subscribed capital, minus the equity procurement costs after income taxes and withdrawals to compensate for losses. The allocation to capital reserves in financial year 2017 in the amount of EUR 2,647 thousand results from a cash capital increase. The pro rata costs of equity procurement amounted to EUR 293 thousand. The related deferred tax assets amount to EUR 4 thousand.

The adjustment item from company acquisition is the result of the IFRS accounting requirements for reverse company acquisition between Grounds AG and The Grounds Real Estate AG (see Section 4.4.2).

The balance sheet profit results from the Group's results up to balance sheet date, which have not been distributed.

During the period under review, shares in the consolidated earnings amounting to EUR -123 thousand pertaining to non-controlling shareholders were sold within the framework of final consolidation.

The composition and changes in equity are shown in the statement of changes in equity.

## 8.9. Financial liabilities

The short-term financial liabilities of the Company are shown below:

| | 31/12/2017 |
|---|---|
| | **€000** |
| **Long-term financial liabilities** | |
| Obligations towards financial institutions | 10,035 |
| **Total long-term financial liabilities** | **10,035** |
| **Short-term financial liabilities** | |
| Obligations towards financial institutions | 4,001 |
| **Total short-term financial liabilities** | **4,001** |
| **Total financial liabilities** | **14,036** |

The interest rate on a loan in the form of a current account overdraft of EUR 10,040 thousand is fixed at 2.5 % p.a.; the economic term is longer than one year. The loan is secured by a mortgage on the real estate portfolio concerned, by cession of the resulting sales receivables, cession of claims from rental and leasing receivables, cession of receivables from construction agreements still to be concluded or already concluded and cession of claims for damages. Moreover, a lien has been placed on a bank account.

The loan in the amount of EUR 3,129 thousand is at least 3.0 % p.a. over the reference rate of three months Euribor. The loan is secured by a mortgage on the real estate portfolio in question and in full by cession of the resulting sales receivables, for the financing of which the loan has been taken out. Additionally, Grounds Real Estate AG has issued an on first demand directly enforceable surety in a maximum amount of EUR 3,120 thousand.

The loan in the amount of EUR 450 thousand is at least 5.5 % p.a. over the reference rate of three months Euribor. The loan is secured by placing a lien on receivables and on a bank account.

The loan in the amount of EUR 421 thousand is at least 5.5 % p.a. over the reference rate of three months Euribor. The loan is secured by placing a lien on bank accounts.

Because of the predominantly short-term nature of three loans and the indefinite term of the current account overdraft facility, the effective interest rate essentially corresponds to the nominal interest rate.

All loans are denominated in euros.

## 8.10. Provisions

During the period under review, provisions have developed as follows:

| | Pending invoices | Annual accounts and audit | Miscellaneous | Total |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| **1 January 2017** | 0 | 1 | 0 | 1 |
| **Addition from changes in the consolidation scope** | 11 | 32 | 1 | 44 |
| Utilisation | 8 | 8 | 0 | 16 |
| Release | 0 | 0 | 0 | 0 |
| Additions | 777 | 163 | 77 | 1,017 |
| Reduction from selling companies | 15 | 5 | 0 | 20 |
| **31 December 2017** | **765** | **183** | **78** | **1,026** |

The other provisions essentially comprise provisions for outstanding invoices.

## 8.11. Payables from goods and services and other liabilities

On balance sheet date, there were liabilities in the following amounts:

| | Total |
|---|---|
| | €000 |
| **Short-term** | |
| Payables from goods and services | 1,090 |
| Investor loan | 1,134 |
| Investor loan from related companies/persons | 947 |
| Other payables to related companies/persons | 221 |
| Payables in relation to compensation for damages | 889 |
| Miscellaneous other payables | 537 |
| **Total** | **4,818** |

The miscellaneous other liabilities mainly include liabilities from turnover tax obligations.

By far the majority of the loan agreements are project-related and contain subordination clauses. The investor loans in the amount of EUR 1,512 thousand were issued in return for exclusively profit-related remuneration and are secured by cession of claims under subordinated loan agreements and by participation in the Company taking the loan. More investor loans were given in the amount of EUR 571 thousand, bearing interest at 11.5 % p.a., plus an investor profit.

## 8.12. Current tax on earnings

Current income tax liabilities of EUR 635 thousand comprise corporation tax liabilities of EUR 313 thousand and trade tax liabilities of EUR 302 thousand.

## 8.13. Deferred taxes

Deferred tax assets are expected to be realised as follows:

| | 31/12/2017 |
|---|---|
| | €000 |
| **Deferred tax assets** | |
| • that will be realised after more than 12 months | 550 |
| **Total** | **550** |

The changes in deferred tax items are as follows:

| | 31/12/2017 |
|---|---|
| | €000 |
| Deferred tax assets | 0 |
| **Balance of deferred tax items at the beginning of the financial year** | 0 |
| Recognition in equity on account of first-time IFRS consolidated annual accounts | 68 |
| Recognition of equity procurement costs without effect on income | 4 |
| Expenditure (-) / Revenue (+) in the P&L | 478 |
| **Balance of deferred tax items at the end of the financial year** | **550** |
| Deferred tax assets | 550 |

The changes in deferred tax assets are explained as follows:

| Cause | From differences in financial liabilities | Equity procurement costs | Tax loss carried forward | Total |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| **Status 1 January 2017** | 0 | 0 | 0 | 0 |
| Recognition in equity on account of first-time IFRS consolidated annual accounts | -27 | 0 | 95 | 68 |
| Recognition of equity procurement costs without effect on income | 0 | 4 | 0 | 4 |
| Amounts recognised in the profit-and-loss account | 27 | 0 | 451 | 478 |
| **Status 31 December 2017** | **0** | **4** | **546** | **550** |

Deferred tax assets from tax loss carried forward are recognised at the amount at which it is probable that the related tax benefits will be realised through future taxable profits. The recognised deferred tax assets from losses carried forward relate to various subsidiaries. Based on its planning, the company expects to be able make use of the resulting losses carried forward in the next five financial years.

## 8.14. Revenues from turnover

The revenues from turnover of the Grounds Group are made up as follows:

| | 2017 |
|---|---|
| | €000 |
| Revenues from the sale of properties | 18,945 |
| **Total** | **18,945** |

## 8.15. Stock changes

The changes in stock during the financial year 2017 relate to the increase of EUR 100 thousand in work in progress.

## 8.16. Material costs

Material costs of the Grounds Group are made up as follows:

| | 2017 |
|---|---|
| | €000 |
| Acquisition costs of properties sold and building costs | 15,096 |
| Procured services | 58 |
| **Total** | **15,154** |

## 8.17. Other operating income and expenses

The other operational income contains the following amounts:

| | 2017 |
|---|---|
| | €000 |
| Miscellaneous other operating income | 14 |
| **Total** | **14** |

The other operational expenditure contains the following amounts:

| | 2017 |
|---|---|
| | €000 |
| Housing costs | 28 |
| Insurance, contributions and charges | 46 |
| Repairs and maintenance | 2 |
| Advertising and travel expenses | 84 |
| Legal and consultation fees | 246 |
| Annual accounts and audit fees | 177 |
| Losses resulting from divestment of fixed assets | 1 |
| Non-deductible input tax | 104 |
| Compensation for damages | 899 |
| Miscellaneous other operating expenditure | 520 |
| **Total** | **2,107** |

## 8.18. Income tax expenditure / revenues

The income tax expenditure / revenues recognised in the profit-and-loss account encompass current and deferred income taxes:

| | 2017 |
|---|---|
| | €000 |
| Current income tax expenditure | -636 |
| Deferred income tax expenditure/revenues | 478 |
| **Total** | **-158** |

The recognised tax expenditure/revenue differs from the theoretical amount that results from the application to earnings before taxation of the average income tax rate of the Company as parent company of the Group:

| Steuerüberleitungsrechnung | 2017 |
|---|---|
| | €000 |
| Earnings before taxation | 1,355 |
| Income taxes calculated on the basis of the income tax rate of the parent company | -409 |
| Effect due to | |
| • tax-exempt revenues | +273 |
| • other causes | -22 |
| **Recognised income tax expenditure / revenues** | **-158** |

A tax rate of 30.175 % was applied to the parent company.

## 8.19. Earnings per share

The undiluted earnings per share are calculated as the quotient of the profit attributable to the shareholders of the parent company and the average number of shares issued during the financial year, excluding treasury shares held by the Company.

| | 2017 |
|---|---|
| Profit attributable to the shareholders of the parent company (€000) | 1,187 |
| Average number of shares issued (nominal) | 15,105,517 |
| **Undiluted earnings per share (EUR)** | **0.08** |

In the financial year 2017, no dividend was paid for the preceding financial year. No dividend is expected to be distributed for the financial year 2017 either.

## 8.20. Statement of sources and application of funds

The statement of sources and application of funds distinguishes between cash flows from operating, investment and financing activities.

The cash flow from current (operating) activities is calculated according to the indirect method. The balance is EUR -15,822 thousand. It contains income tax payments in the amount of EUR -5 thousand.

The liquidity reported under cash and cash equivalents includes balances at banks and short-term financial liabilities and is composed as follows:

| | 31.12.2017 |
|---|---|
| | €000 |
| Cash and cash items | 2,471 |
| Financial liabilities | 0 |
| **Cash and cash equivalents at the end of the period** | **2,471** |

## 8.21. Contingent liabilities

The Group‘s contingent liabilities are shown in Section 8.9, Financial liabilities.

## 8.22. Additional information on financial instruments

### a) Classes and evaluation categories

In the following tables, the book values of the financial instruments are reconciled with the measurement categories in accordance with IAS 39 and the fair values of the financial instruments are given with the measurement source per class:

| | Book value on 31/12/2017 | Of which within the scope of IFRS 7 | Measurement category as per IAS 39* | Fair value of the financial instruments within the scope of IFRS 7 | Measurement hierarchy |
|---|---|---|---|---|---|
| | €000 | €000 | | €000 | €000 |
| **Participations**** | 9 | 9 | AfS | 9 | Stufe 3 |
| Receivables from goods and services | 6,302 | 6,302 | LaR | 6,302 | Stufe 3 |
| Other receivables and assets | 5,391 | 5,391 | LaR | 5,391 | Stufe 3 |
| Cash and cash items | 2,471 | 2,471 | – | 2,471 | – |
| **Total financial assets** | **14,173** | **14,173** | | **14,173** | |
| | | | | | |
| Financial liabilities | 14,035 | 14,035 | AmC | 14,035 | Stufe 3 |
| Payables from goods and services | 1,090 | 1,090 | AmC | 1,090 | Stufe 3 |
| Other liabilities | 3,729 | 3,729 | AmC | 3,729 | Stufe 3 |
| **Total financial liabilities** | **18,854** | **18,854** | | **18,854** | |

* AfS: Financial assets available for sale; LaR: Loans and receivables; AmC: Amortised cost (financial liabilities that are carried at amortised cost); n/a: not applicable

** As no range for the measurement of fair value can be determined for the investments, no classification within a measurement hierarchy is made in accordance with IAS 39 and evaluation is at cost, because the fair value cannot be reliably determined and a sale is not intended.

Cash and cash equivalents, receivables from goods and services and other receivables mostly have short residual maturities. Their book values on balance sheet date are therefore approximately equal to their fair values. The same does in principle apply to financial liabilities, payables from goods and services and to other liabilities.

The accruals of transaction costs totalling EUR 275 thousand according to the effective interest method led to a reduction of financial liabilities by EUR 257 thousand.

Net earnings as per measurement category in accordance with IAS 39 for the period from 1 January to 31 December 2017 are as follows:

| | Loans and receivables (LaR) | Financial assets available for sale (AfS) | Financial liabilities measured at amortised cost (AmC) |
|---|---|---|---|
| | €000 | €000 | €000 |
| Interest income | 489 | 0 | 0 |
| Interest expenditure | 0 | 0 | -867 |
| **Net earnings** | 489 | 0 | -867 |

The interest income and expenditure are shown in the corresponding items of the consolidated profit-and-loss account.

## b) Financial risks

The activities of the Group expose it to various risks. In particular, these are liquidity risk, default risk and interest rate risk. Targeted financial risk management is designed to minimise the negative effects of those risks on the Group's net assets, financial position, results of operations and cash flows are to be minimised. Please consult Section 6 for a description of the risk management system.

## Liquidity risk

The following tables include the undiscounted contractually agreed interest and redemption payments in respect of financial liabilities falling within the scope of IFRS 7:

| | Book value | Outflows in the next reporting period | Outflows in the reporting period following the next period | Later outflows |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| **Outflows of funds due to financial liabilities** | **14,035** | **4,000** | **10,035** | **0** |
| Payables from goods and services | 1,090 | 1,090 | 0 | 0 |
| Other liabilities | 3,729 | 3,729 | 0 | 0 |
| **Payables from goods and services and other liabilities** | **4,819** | **4,819** | **0** | **0** |
| **Outflows of funds due to liabilities in the scope of IFRS 7** | **18,854** | **8,819** | **10,035** | **0** |

In the case of interest-bearing loans with variable interest rates, interest payments in future reporting periods have been determined on the basis of the interest rates prevailing on the respective balance sheet date. In the Grounds Group, liquid funds to the tune of EUR 2,471 thousand are available to cover liquidity risk.

## Default risk

The maximum default risk of the Grounds Group is determined by the book values of its financial assets. Risks arise from the granting of subordinated loans, which in turn offer the opportunity to attach a comparatively high interest rate that is commensurate with the risk. Project-related lending also represents a concentration of risk on the respective balance sheet date.

### Interest rate risk

Interest rate risk emanates within the framework of possible follow-up financing or in the event of a significant change in conditions on the capital market in relation to concluding variable-rate interest-bearing credit facilities. The variable-rate interest-bearing credit facilities existing in the Grounds Group relate exclusively to current financial liabilities and can therefore only to a limited extent lead to higher interest payments on the incurred financial liabilities.

In terms of interest rate risk, a sensitivity analysis is used to determine the effects of a change in interest rates on income on the balance sheet date. It is assumed that the respective portfolio of financial instruments subject to interest rate risk on balance sheet date is representative for the respective reporting period. Relative to outstanding financial liabilities on 31 December 2017, an interest rate that is higher or lower by 0.5 % p.a. would have increased/reduced interest expenditure respectively by around EUR 70 thousand.

Taking into account the existing interest rate sensitivities, the interest rate risk is assessed as being moderate in view of the low impact on book value and earnings and in view the currently consistently favourable capital market conditions.

## 9. Events after Balance Sheet Date

With the exception of the implementation of purchase agreements concluded up to the end of the financial year 2017 and the associated additions of more properties, no events of particular significance for the asset, financial and earnings positions of the Grounds Group have occurred after the end of the reporting period.

# 10. Other Information

## 10.1. Membership and remuneration of the Company's executive bodies

The following persons were members of the Management Board of Grounds AG during the reporting period and until the annual accounts were prepared:

- Robert Zeiss, MBA (until 22/03/2017)
- Hans Wittmann, BA (from 22/03/2017)
- Eric Mozanowski, BA (from 22/03/2017)
- Andreas Steyer, Property trader (from 01/09/2017 until 31/12/2017)

Total emoluments for management activities amounted to EUR 42 thousand during the reporting period.

The following persons were members of the Supervisory Board of Grounds AG during the reporting period and until the drawing up of the annual accounts:

- Sam Winkel, BA (until 29/03/2017), Chairman
- Alexander Landgraf-Meltzer, BA (until 29/03/2017), Deputy Chairman
- Olaf Neugebauer, BA (until 29/03/2017)

- Dr Peter Maser, Solicitor (from 22/06/2017), Chairman
- Manuel Köppel, authorised signatory, (from 03/05/2017), Deputy Chairman
- Carsten Haug, Property Case Worker (from 03/05/2017)
- Steffen Buckwitz, Consultant (from 03/05/2017)

Total emoluments for supervisory activities amounted to EUR 42 thousand during the reporting period.

## 10.2. Transactions with related companies and persons

In addition to the activities mentioned above as a member of governing bodies, the following business transactions have taken place with related parties:

During the reporting period, members of the Management Board have stood surety in the amount of EUR 3,640 thousand each, for loans of the Grounds Group. For this purpose, a remuneration of 2 % p.a. was agreed in each case.

The receivables from related companies and persons are shown in Section 8.6. It results in interest income vis-à-vis related companies in the amount of EUR 0 thousand.

The liabilities to related companies and persons are shown in Section 8.11. It results in interest expenditure vis-à-vis related companies in the amount of EUR 14 thousand.

Expenses of EUR 28 thousand result from trading in goods and services with related companies.

No transactions with related companies and persons were conducted at non-market conditions during the reporting period.

## 10.3. Average number of staff

During the reporting period, the companies consolidated into the Group annual accounts employed on average two staff.

## 10.4. Fees of the external auditor of the Group annual accounts

The total fee (excluding turnover tax) charged by the external auditor of the Group for services rendered to Grounds AG and the companies included in the consolidated annual accounts for the reporting period amounts to EUR 26 thousand. It is composed as follows:

| | 2017 |
|---|---|
| Type of service | €000 |
| Related to the annual accounts | 21 |
| Other auditing services | 4 |
| Fiscal consultancy | 0 |
| Other services | 1 |
| **Total** | **26** |

Berlin, 7 May 2018
Management Board of The Grounds Real Estate Development AG

Hans Wittmann

Eric Mozanowski

# Opinion of the External Auditor



We have audited the consolidated annual accounts prepared by The Grounds Real Estate Development AG, Berlin, comprising the consolidated balance sheet, the consolidated profit-and-loss account, the consolidated statement of changes in equity, the consolidated statement on sources and application of funds and the explanations to the consolidated accounts, together with the Group Management Report of The Grounds Real Estate Development AG for the financial year from 1 January to 31 December 2017. Preparation of the consolidated accounts and the Group Management Report in accordance with the IFRS as applicable in the EU, with the additional requirements under German law as stipulated in Article 315e, Paragraph 1, Commercial Code, and with the complementary provisions of the Articles of Association is the responsibility of the Management Board of the Company. It is our responsibility to express an opinion on the Group annual accounts and the Group Management Report on the basis of the audit that we have carried out.

We have carried out the audit of the consolidated annual accounts in accordance with Article 317, Commercial Code, with full regard for the German rules of proper auditing of annual accounts, as laid down by the Institut der Wirtschaftsprüfer (IDW [Auditors' Institute]). According to those rules, the audit must be planned and carried out in such a way that irregularities and infractions that would have an essential impact on the impression of the capital, financial and earnings status that is conveyed by the way it is represented in the consolidated accounts and the Management Report of the Group, will be recognised with a sufficient degree of certainty. When determining the audit activities, consideration is given to the business activities and the economic as well as legal environment of the Group, and also to the expectations about possible errors. Within the framework of the audit, the efficacy of the internal accounting control system as well as the supporting records for the items on the Group accounts and the Group Management Report are assessed on random basis. The audit encompasses the assessment of the annual accounts of the companies that are included in the group annual accounts, delimiting the consolidation scope, the applied accounting and consolidation principles and the significant estimates of the Management Board as well as the overall presentation of the Group annual accounts and the Group Management Report. We take the view that our audit provides sufficiently stable grounds for reaching our audit opinion.

Our audit did not lead to any qualifications.

In our opinion, based on the findings of our audit, the consolidated annual accounts of The Grounds Real Estate Development AG, Berlin, do comply with the IFRS as applicable in the EU, with the additional requirements under German law as stipulated in Article 315e, Paragraph 1, Commercial Code, and with the complementary provisions of the Articles of Association and give a true and fair view of the net assets, financial and earnings positions of the Group. The Group Management Report is in tune with the Group annual accounts, provides an overall accurate picture of the situation of the Group and appropriately reflects the opportunities for and risks of future development.

Berlin, 7 May 2018

Buschmann & Bretzel GmbH
Audit Firm

Dipl.-Bw. (BA) Volker Bretzel
Auditor

# Financial Calendar
# Imprint
# Contact



## Financial Calendar

| | |
|---|---|
| 2 August 2018 | Annual General Meeting |
| August 2018 | Publication of provisional figures for H1 2018 |
| September 2018 | Publication of the semi-annual report for 2018 |
| November 2018 | Equity Forum 2018 |
| April 2019 | Publication of provisional figures for the financial year 2018 |
| May 2019 | Publication of the Annual Financial Statements for 2018 |
| June 2019 | Publication of the Annual Report for 2018 |

## Imprint

| | |
|---|---|
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| Day of Publication | 22 June 2018 |

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