THE GROUNDS
REAL ESTATE DEVELOPMENT AG

ANNUAL REPORT
2020

CONTENTS

INDICATORS

Group indicators

		2020	2019
Sales revenues	€000	31,263	13,940
… of which rental income	€000	1,176	1,003
Earnings before interest and taxation (EBIT)	€000	6,104	1,970
Consolidated profits	€000	4,008	54
Earnings per share	EUR	0.22	0.00
Balance sheet total	€000	87,428	32,411
Equity	€000	20,354	11,994
Equity ratio	%	23.3	37.0
Financial liabilities	€000	49,298	12,753
Cash flow from current business activities	€000	-24,027	13,281
Cash flow from financing activities	€000	-12,612	8,854
Cash flow from financing activities	€000	35,813	-23,213
Staff		11	9

Portfolio indicators

Existing		05/2021*	12/2020	12/2019
Living/usable area	m²	18,980	16,914	/
Units		300	262	/
Rental income per annum	€000	1,104	948	/

*The presentation shows all projects that have been economically transferred by May 2021. Additionally, 86 residential units with a total living area of 5,620 m² have been notarised and their economic transfer is expected to be realised in the coming months.

Privatisation		05/2021	12/2020	12/2019
Living/usable area	m²	8,321	4,704	/
Units		96	72	/
Rental income per annum	€000	714	374	/

Project development		05/2021	12/2020	12/2019
Planned living/usable area	m²	70,554	70,554	49,402

*The presentation shows all projects that have been economically transferred by May 2021. Furthermore, a project development with a planned usable area of 30,629 m² and two existing buildings with a usable area of 1,450 m² have been notarised.

The Grounds on the Capital Market (Share)

(XETRA prices)

		2020	2019
Market capitalisation (always per 31/12)	€000	49,885	14,954
Nominal capital	€000	17,805	15,105
Closing price	EUR	2.80	0.99
Lowest price	EUR	1.03	0.98
Highest price	EUR	3.16	2.08
ISIN			DE000A2GSVV5
Segment			Primary market Düsseldorf

LETTER TO SHAREHOLDERS

Arndt Krienen
Executive Board

Mr. Arndt Krienen (Attorney) has been an member of the Company's Executive Board since March 2020.

Before his current position, Mr. Krienen was CEO of Westgrund AG (Berlin) as well as of S-DAX listed Adler Real Estate AG. He was largely responsible for growing the portfolio to more than 50,000 existing apartments as well as managing a staff of more than 500 people. Arndt has an extensive knowledge of real estate industry.

Arndt Krienen is Chairman of the Supervisory Board of DIOK Real Estate AG (Köln) and Grillador AG (Remscheid).

Dear Shareholders, Dear Friends of The Grounds,

2020 was a year of new beginnings for us – and a very successful business year: We increased Group turnover to EUR 31.3 million (previous year: EUR 13.9 million), earnings before interest and taxation (EBIT) to EUR 6.1 million (previous year: EUR 2.0 million) and consolidated profits after taxation to EUR 4.0 million (previous year EUR 54 thousand). We also more than doubled the total footings of our consolidated balance sheet.

The important milestones of 2020 include:

- acquisition of a property portfolio with 262 residential and commercial units for the portfolio (Stendal/Prignitz);
- the non-cash capital increase carried out in summer of 2020, by means of which we have acquired five project developments with a total investment volume of more than EUR 100 million – mostly with building rights;
- the sale of a logistics property in Hangelsberg at the end of 2020 at a price significantly above book value;
- attracting excellent colleagues in order to implement the growth plans successfully. This process continued in 2021.

With the sale of the logistics property in Hangelsberg, we have initiated the purely residential concentration of The Grounds. Part of the agreement concluded is a debtor warrant, which – depending on the key figures of the development plan to be developed – can bring us up to EUR 9.5 million in additional proceeds.

The growth path we have taken has also convinced the capital market: our share was quoted at EUR 2.80 at the end of 2020. As a result, the market capitalisation of The Grounds on 31 December 2020 – also because of the increase in our share capital to EUR 17.8 million (previous year: EUR 14.1 million) – has increased to almost EUR 50 million (previous year: EUR 15 million), ergo more than tripled.

In the future, we want to focus more on the capital market. In February 2021, we placed a convertible bond with a volume of EUR 12 million, which was significantly oversubscribed. The proceeds from the convertible bond issue have enabled us to make further acquisitions in 2021, to expand the existing and privatisation portfolios. In 2021, we have already made purcases of residential properties worth EUR 25 million in the Berlin area, thereby expanding our portfolio to 386 units and our privatisation portfolio to 96 units.

With the publication of these annual accounts for 2020, Quirin Bank and SMC Research will begin covering of our share. Additionally, we will increasingly present ourselves at investor conferences. The virtual Spring 2021 Conference and the Quirin Champions Conference kicked things off.

For 2021, we are planning for consolidated revenues of EUR 23 million, with an EBIT of EUR 6 million at the previous year's level. If the special effect of Hangelsberg is excluded from the report for 2020, these figures mean rising revenues and results for 2021 in all areas of our operating business. We also expect further increases in revenue and earnings from 2023 onwards, when more revenue and earnings can be realised from the projects that we have brought in

In 2020, there were changes in our shareholder structure in conjunction with changes in the incumbents of the Management Board and the Supervisory Board, as well as the non-cash capital increase. The largest single investor is our Deputy Chairman of the Supervisory Board, Armin Hofmann, with just over 17%. In total, slightly more than 35% of Grounds shares are held by the Management Board / Supervisory Board.

Jacopo Mingazzini
Executive Board

Jacopo Mingazzini (Dipl. Kfm. and Real Estate Economist ebs) has been member of the Company's Executive Board since August 2020. Until March 2020 he was Managing Director of Accentro GmbH, which he founded in 1999 – additional since 2011 member of the Management Board of Accentro Real Estate AG.

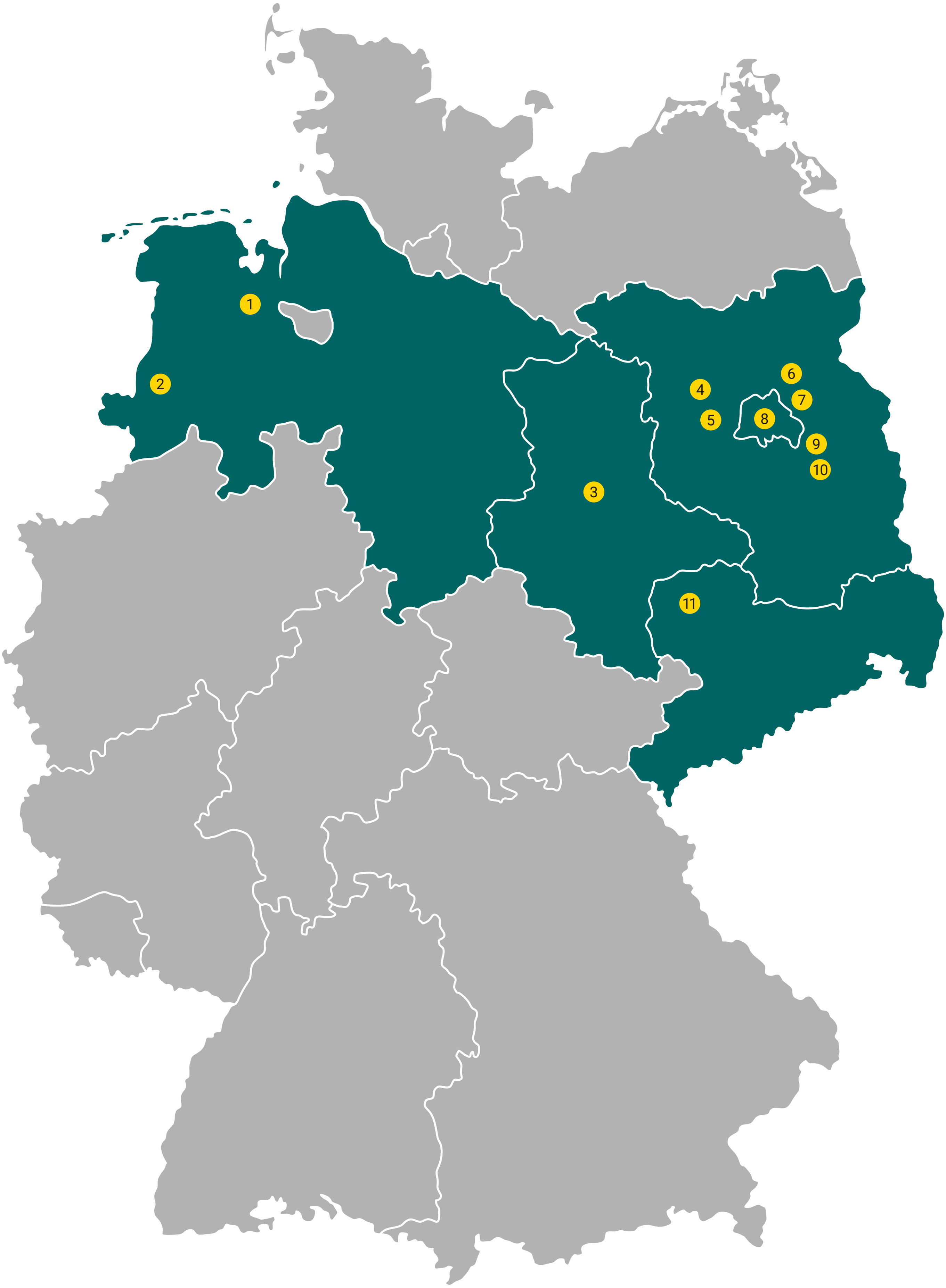
Jacopo Mingazzini is lecturer at IREBS and, amongst others, he is member of the Management Board of „Liberale Immobilienrunde“ as well of „Association to Promote residential property“ in Berlin.

We should like to thank you, dear shareholders, for your loyalty to our Company.

We should also like to express our gratitude to all employees of The Grounds Group for their dedicated commitment and to the Supervisory Board for the constructive cooperation at all times.

Berlin, June 2021

Arndt Krienen Jacopo Mingazzini
Board members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PORTFOLIO/PROPERTIES

Specialist for German residential property

The Grounds Group implements residential projects in German metropolitan regions. The Grounds Group also holds a steadily growing portfolio of fixed assets in the residential sector. The Grounds Real Estate Development AG is listed in the upper segment of the primary open market of the Düsseldorf Stock Exchange (ISIN: DE000A2GSVV5). It has its head office in Berlin.

Regional overview

1 **Bad Zwischenahn**
Recreation area

2 **Meppen**
Owner occupied

3 **Magdeburg**
Mikroapartments (39112 Magdeburg)
Urban district (39106 Magdeburg)
Office areas (39104 Magdeburg)
Lenne Quartier (39112 Magdeburg)

4 **Stendal/Prignitz**
Residential and commercial units (various locations)

5 **Dallgow-Döberitz**
Terraced houses

6 **Schorfheide**
Housing units

7 **Bernau**
Housing units

8 **Berlin**
Owner occupied

9 **Erkner**
Semi-detached house

10 **Rauen**
Housing units

11 **Leipzig**
Owner occupied

Existing properties/Privatisation
Development
Sold
Notarized, economic transfer after 31/12/2020

PORTFOLIO OVERVIEW

Existing properties

Our existing properties for rent

Residential and commercial units in Stendal/Prignitz
Various locations in Stendal/Prignitz
Rental
262 Residential and commercial units
Usable area: 16,914 m²

Housing units in Bernau
16321 Bernau
Rental
59 housing units
Usable area: 4,070 m²

Housing units in Schorfheide near Eberswalde
16244 Schorfheide
Rental
38 Housing units
Usable area: 2,066 m²

Housing units in Rauen near Fürstenwalde
15518 Rauen
Rental
27 Housing units
Usable area: 1,550 m²

Privatisation

Our locations in privatisation, Sale of owner-occupied units and terraced houses

Owner occupied

49716 Meppen

52 Housing units

Usable area: 3,211 m²

On sale

Owner occupied

13127 Berlin Pankow

24 Housing units

Usable area: 1,858 m²

On sale

Terraced houses

14624 Dallgow-Döberitz

28 Housing units

Usable area: 3,939 m²

Sales starting in Summer 2021

Project development

Here you will find an overview of our properties in project development, with information on the respective status and start of sales

Apartments + Hotel + Holiday Homes

26160 Bad Zwischenahn
255 Units
Usable area: 32,078 m²
In planning
Sales launch still open

Residential and commercial properties

39106 Magdeburg
655 Units
Usable area: 42,845 m²
In planning
Sales launch still open

Residential and commercial properties

39112 Magdeburg
64 Units
Usable area: 3,649 m²
Approved
Sales starting in Summer 2021

Owner occupied

39112 Magdeburg
181 Units
Usable area: 5,100 m²
Under construction
Sold already

Office property

39104 Magdeburg
Office areas
Usable area: 12,210 m²
In planning
Sales launch still open

Owner occupied

04277 Leipzig
138 Housing units
Usable area: 3,136 m²
Built
Sold already

Semi-detached houses

15537 Erkner
34 Houses
Usable area: 3,842 m²
In planning
Sales starting in Autumn 2021

THE GROUNDS ON THE CAPITAL MARKET

I. The Grounds Share (ISIN DE000A2GSVV5)

Development of The Grounds share from 1 January 2020 to 31 March 2021 (XETRA prices)

Spectacular stock market year 2020

2020 will long be remembered by international investors as one of the most memorable stock market years in history. The international financial markets were characterised by extremely strong and unprecedented volatility. The German benchmark index DAX initially climbed to a new record high of 13,795 points in February 2020. The shock came at the end of February with the realisation that the Coronavirus that had broken out in China had developed into a global pandemic. The DAX experienced an historic plunge. At its low in mid-March, it had fallen to 8,256 points – a drop in price of almost 40% within only a few weeks. This was followed by an equally rapid and surprising price recovery, notwithstanding the ongoing Corona pandemic. In the midst of the stock market rally, the Wirecard bankruptcy was announced in June 2020 – the first insolvency of a DAX stock – but with only moderate effects on the leading index. Even the nail-biter of the US presidential election at the beginning of November 2020 had hardly left a mark on the DAX. By the end of 2020, the price losses of the Corona shock had been made up for, the DAX climbed above the 13,900 mark for the first time after the 2020 Christmas holidays and closed 2020 at 13,719 points. Over the year, the share price gained 3.6%.

The share of The Grounds posted strong gains with significantly increased liquidity

The share of The Grounds performed strongly in the financial year 2020. Over the year as a whole, the price rose by 172% (XETRA), whilst at the same time stock exchange turnover increased significantly compared to the previous year. On XETRA alone, 1.9 million shares were traded in 2020 – indeed, compared to 2019 (0.8 million shares), the trading volume has more than doubled. Additionally, 0.8 million shares were traded on Tradegate, which were happened in only five months since being listed there at the end of July 2020. Of these, almost 240,000 units were traded on 29 September 2020 – the day with the highest turnover in the year under review.

This strong performance confirms that The Grounds was able to convince the capital market of the growth path it had embarked on in 2020. In 2020, The Grounds added several promising properties and projects to its portfolio of existing properties, privatisation and development projects. The non-cash capital increase is particularly worth mentioning here. On 15 July 2020, the Management Board and the Supervisory Board decided to acquire 89.9% of the shares of Capstone Opportunities AG, Berlin. The shares were contributed as a non-cash capital increase within the framework of an increase in authorised capital by issuing 2,700,000 new shares. As a result, the share capital increased to EUR 17,805,517.00. In conjunction with the closing price of EUR 2.80 reported at the end of 2020, the market capitalisation of The Grounds more than tripled year-on-year to almost EUR 50 million on 31 December 2020.

The non-cash capital increase, though also the changes of incumbents of the Management Board and Supervisory Board during the year under review, also resulted in changes in the shareholder structure. The largest single shareholder of The Grounds is Millennium Verwaltungs GmbH with just under 17%, followed by the Deutsche Balaton Group with more than 16%. Around 26% of the shares are in free float.

The Grounds Share at a Glance

ISIN / WKN	DE000A2GSVV5/ A2GSVV
Exchange segment	Primary Market, Düsseldorf Stock Exchange
Trading venues	XETRA Tradegate Open market in Berlin, Frankfurt, Munich, Stuttgart
Type of shares	Registered share without par value
Number of shares on 31/12	17,805,517 (2019: 14,105,517)

	2020	2019
Share price at the beginning of the financial year*	€ 1.03	€ 1.98
Share price at the end of the financial year*	€ 2.80	€ 0.99
Percentage change during the year	+171.8 %	-50.0 %
Market capitalisation on 31/12	€ 49,855,448	€ 14,954,462
Annual high*	€ 3.16	€ 2.08
Annual low*	€ 1.03	€ 0.98

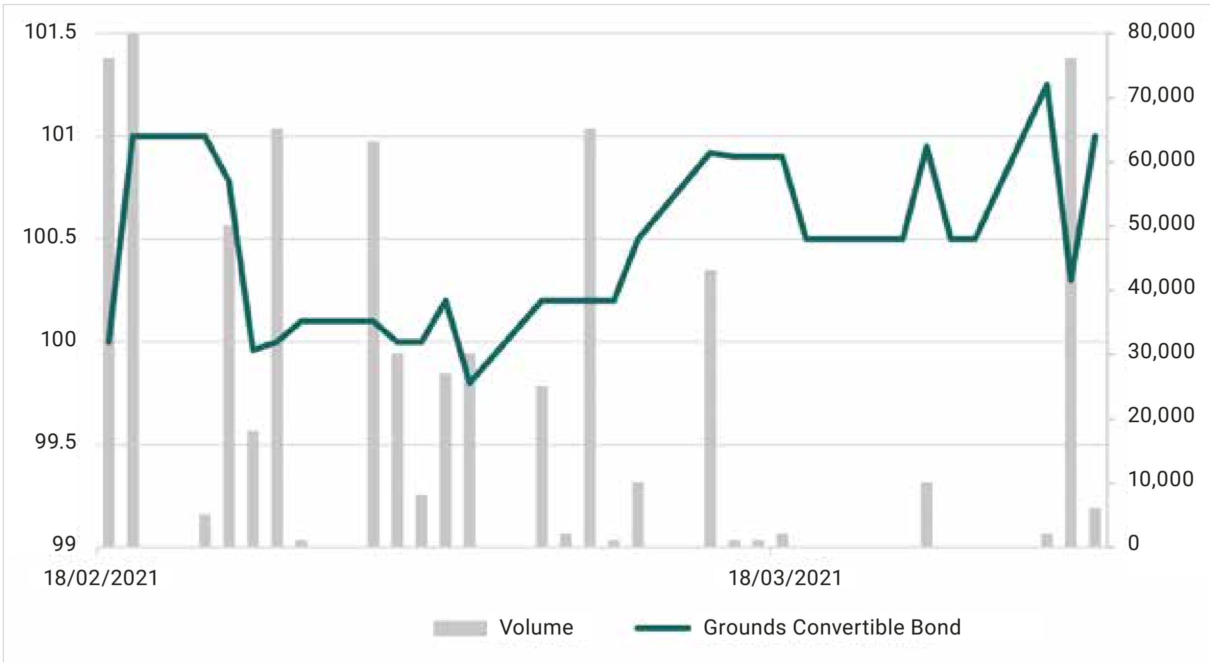
* Prices XETRA trading system of Deutsche Börse AG

Shareholder structure (in Dezember 2020)

Millennium Verwaltungs GmbH	**17.1 %**
Deutsche Balaton Gruppe	> 16 %
Tarentum GmbH (Single Family Office)	12.4 %
ZuHause Immobilien Handelsgesellschaft mbH	12.9 %
RESI Beteiligungs GmbH	10.4 %
Management	5.5 %
Free float (approx.)	25.7 %

II. The Grounds 6.00% Convertible Bond (2021/2024; ISIN DE000A3H3FH2)

Development of The Grounds convertible bond from 18 February 2021 to 31 March 2021 (Frankfurt prices)



The Grounds successfully issues its first convertible bond with a volume of EUR 12 million

In mid-February 2021, The Grounds successfully issued its first convertible bond with a volume of EUR 12 million, which was significantly oversubscribed. Demand so significantly outstripped the issue size that major shareholders in the Company withdrew from a significant portion of their original subscription notices of approximately EUR 5 million, with the aim of broadening the Company's investor base. For The Grounds, this represents a successful issuing debut and a first important milestone for further establishing itself on the capital market.

The convertible bond matures on 18 February 2024 and carries a coupon of 6.00% per annum. The conversion price is EUR 3.20 per share. On 18 February 2021, the convertible bond was included for trading on the Quotation Board of the Frankfurt Stock Exchange. Since then, the convertible bond has traded slightly above its issue price.

The proceeds from the convertible bond issue have already enabled The Grounds to make further acquisitions in the first quarter of 2021, to expand its existing and privatisation portfolios.

The Grounds Convertible Bond at a Glance

ISIN / WKN	DE000A3H3FH2/ A3H3FH
Exchange segment	Quotation Board, Frankfurt Stock Exchange
Duration	18/02/2021 – 18/02/2024
Volume / Denomination	€12 million / 12,000 of EUR 1,000 nominal value
Interest coupon	6.00% per annum
Conversion price	€3.20
Conversion price	€3.20

REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

2020 was a very successful financial year for The Grounds Group. With consolidated earnings of EUR 31.3 million (previous year: EUR 13.9 million), consolidated net income after taxation increased significantly to EUR 4.0 million (previous year: EUR 54 thousand). The real estate portfolio was greatly expanded through several acquisitions, especially through the non-cash capital increase in the middle of the year. Additionally, with the sale of the logistics property from the fixed assets, a process of strategic reorientation towards purely residential projects could be initiated.

Also in the year under review, the Supervisory Board of The Grounds Real Estate Development AG discharged the duties incumbent upon it by law, the Articles of Association and the Rules of Procedure in full. Based on the detailed written and oral reports submitted by the Management Board, the Supervisory Board monitored and advised the Management Board in managing the Company. There was also a regular exchange of information between the Chairman of the Supervisory Board and the Management Board and the full Management Committee outside the joint Supervisory Board meetings. Accordingly, the Supervisory Board was always informed about the current business development of all companies of The Grounds Group, the corporate planning, the financial situation and the status of the individual projects, including the project pipeline. The Supervisory Board was involved in all decisions of fundamental importance at an early stage and adopted the resolutions required by law, the Articles of Association and/or the Rules of Procedure on the basis of the resolutions proposed by the Management Board (see below under Work of the Supervisory Board in the year under review).

Incumbents of the Management Board and the Supervisory Board

The operational and strategic successes achieved during the year under review have also been flanked by a new line-up of incumbents on the Management Board and the Supervisory Board:

On 3 March 2020, the Supervisory Board resolved on expanding the Management Board with immediate effect by designating Mr Arndt Krienen, solicitor and director of Capstone Opportunities AG, Berlin.

Thomas Prax resigned from the Management Board with effect from 31 July 2020. On 20 July 2020, the Supervisory Board designated in his place Mr Jacopo Mingazzini, MBA, real estate economist (ebs), as a further member of the Management Board with effect from 1 August 2020.

The members of the Supervisory Board Sönke Schwartz and Andreas Ingendoh have resigned from their Supervisory-Board mandates with effect from 27 April 2020 and 28 April 2020, respectively. Upon the request of the Management Board, Berlin-Charlottenburg District Court designated Messrs Eric Mozanowski, businessman, Stuttgart, and Hansjörg Plaggemars, management consultant, Stuttgart, as new members of the Supervisory Board by resolution of 29 April 2020. At the constituent meeting held the same day, Prof. Dr Schwatlo was confirmed as Chairman of the Supervisory Board and Mr Mozanowski was elected as his deputy. Accordingly, elections to the Supervisory Board were held at the Annual General Meeting on 28 August, and both gentlemen were elected to the Supervisory Board by the shareholders.

Prof. Dr Schwatlo resigned from his mandate with effect from 31 December 2020. As his successor, Berlin-Charlottenburg District Court designated Mr Armin H. Hofmann, legal scholar and entrepreneur, Berlin, as a new member of the Supervisory Board by resolution of 16 December 2020, upon the request of the Management Board. The Supervisory Board reconstituted itself as follows: Mr Mozanowski was elected Chairman of the Supervisory Board and Mr Hofmann was elected Deputy Chairman.

Work of the Supervisory Board in the Year under Review

During the financial year 2020, the Supervisory Board has held a total of four ordinary meetings on 6 February, 29 April, 15 June and 14 September 2020, with attendance of the Management Board. In view of the Corona pandemic that has been rampant in Germany since spring 2020, the majority of these meetings have been held as video/telephone conferences. Additionally, the Supervisory Board has held several telephone conferences during the year, in order to discuss and subsequently adopt necessary resolutions by circulation. Resolutions adopted outside the ordinary meetings of the Supervisory Board concerned the changes of incumbents of the Management Board that took place during the year, the agenda for the Annual General Meeting of 28 August 2020 and approvals of property purchases and sales. Furthermore, on 15 July 2020, the Supervisory Board approved the non-cash capital increase for the contribution of 89.9% of the shares in Capstone Opportunities AG, Berlin, against issuance of 2,700,000 new shares.

At the joint meetings with the Supervisory Board, the Management Board informed the Supervisory Board about the current business development in The Grounds Group, the liquidity situation and planning, the corporate strategy and planning, the status of the property projects as well as potential land/property acquisitions along with possible property/project sales and changes in the major shareholders. Furthermore, the meeting on 15 June 2020 constituted the balance sheet meeting of the Supervisory Board for the financial year 2019.

Consolidated Annual Accounts on 31 December 2020

The audit firm Buschmann & Bretzel GmbH, Certified Auditors (hereinafter Buschmann & Bretzel), Berlin, elected by the Annual General Meeting on 28 August 2020 for the financial year 2020, has audited the annual accounts drawn up by the Management Board in accordance with the HGB (Handelsgesetzbuch [Commercial Code]) and with the IFRS, together with the management report for the group, and has issued an unqualified opinion for both.

All members of the Supervisory Board were provided with the annual accounts, the consolidated annual accounts the management report for the group and the auditor's reports in good time for their own review, prior to the meeting of the Supervisory Board of 22 June 2021. The auditor reported comprehensively on the scope, previously determined focal points and the main results of his audit. No material weaknesses in the internal control system and the risk management system were reported.

The auditor answered additional questions from the Supervisory Board. The Supervisory Board agrees with the results of the audit. According to the final result of its own examination, no objections need to be raised. The Supervisory Board has approved the annual accounts and the consolidated annual accounts. Accordingly, the annual accounts for 2020 of The Grounds Real Estate Development AG have been determined.

Furthermore, on 22 June 2021, the Supervisory Board discussed and resolved upon the report of the Supervisory Board at hand as well as the agenda for the Annual General Meeting 2021, which, against the background of the ongoing Corona pandemic, will again be held virtually, without the physical presence of the shareholders.

Because of the Corona pandemic, 2020 has been a particularly challenging year. The Supervisory Board would like to express its sincere thanks to all employees of The Grounds Group as well as the Management Board for their active commitment and the contribution they have made to the success of the Company.

Berlin, 22 June 2021

Eric Mozanowski
Chairman of the Supervisory Board

GROUP MANAGEMENT REPORT 2020

Contents

1. Basic information about the Group

1.1 Overview

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

The Grounds Group implements residential projects in German metropolitan regions and urban agglomerations. The business activities comprise three core areas: building an own real estate portfolio, developing tenant-oriented selling of existing flats to private investors or owner-occupiers, and development and implementation of new housing projects with the aim of selling them to institutional investors, private investors and owner-occupiers.

1.2. Group structure and management system

The Grounds Real Estate Development AG is the parent company. The Grounds acts as the management holding company. Central areas such as legal, accounting, taxes, audit, staff, sales, financing, risk management, procurement, commercial and technical asset management are located here.

The Group is structurally subdivided into further subgroups and property companies, each of which owns real estate portfolios and is consolidated in the annual accounts of The Grounds. For a complete overview of the individual group and related companies of The Grounds, please refer to the notes to the consolidated annual accounts.

The Grounds holds several strategic investments in project development companies that are not included as subsidiaries in the consolidated annual accounts. If the participation exceeds 20%, the pro rata result is included in the at-equity result in the profit-and-loss account. For all other participations, the profit contributions are reported as income from participations.

In view of the size of the company, The Grounds Group does not subdivide its reporting into segments.

Group earnings before interest and taxes (EBIT) serve as the financial performance indicator for corporate management. Depending on the value chain, key control parameters such as the sales result of properties or the management results are included in the control system. Additionally, further factors are included in the control system for individual control of each property, depending on its strategic orientation. Accordingly, factors such as the development of rents or the devel-

opment of vacancies play a role for the existing portfolios. In the field of retail sales, reservations and viewings are early indicators of the Company's development. For the purpose of the management report, turnover and EBIT are used.

1.3 Business model

The Grounds realises residential projects in German metropolitan regions as well as in cities with positive population development and good economic prospects. The core business consists of generating sustainable cash flows from the management of existing properties and achieving attractive sales results from the development and sale of residential properties in Germany.

The project development segment comprises the development – up to turnkey construction – of residential properties with the aim of selling them both individually and as a whole to institutional end investors.

The Grounds then benefits 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 is aiming for stronger positioning on the capital market.

On balance sheet date, the portfolio of The Grounds contained the following projects:

Project development

Location	Project	Usable area in m^2	Type	Status
Magdeburg	Housing	5,100	Development / retail sale	Under construction, sold*
Magdeburg	Commercial	12,210	Development / on-sale	Planning
Magdeburg	Housing	42,845	Development / on-sale	Planning
Leipzig	Housing	3,136	Development / on-sale	Completed, sold
Magdeburg	Housing	3,649	Development / retail sale	Approved
Erkner	Housing	3,842	Development / retail sale	Planning

* 100% of the residential units were sold already by Q1 2021. Additionally, the project will be reported as a fully consolidated subsidiary in the financial year 2021, through a further share acquisition.

Moreover, a purchase agreement has been concluded for a project development in Bad Zwischenahn with a planned usable area of 30,628 m² and two existing buildings with a usable area of 1,450 m², the full purchase price of which will be paid after implementation of the development plan. Thirdly, The Grounds is involved as a joint venture partner in two commercial project developments with a total usable area of 7,587.6 m².

Existing

Location	Project	Units	Usable area in m^2	Co-income p.a. in €000
Stendal and surroundings	Housing	262	16,914	948

Privatisation

Location	Project	units	Usable area in m^2	Co-income p.a. in €000	Type
Meppen	Housing	44	2,846	185	stock / retail ale
Berlin	Housing	24	1,858	189	stock / retail sale

1.4 Organs and staff

In the year under review, several changes in the composition of the Management Board and the Supervisory Board have occurred.

By resolution of the Supervisory Board of 3 March 2020, the Management Board was expanded with immediate effect to include Mr Arndt Krienen, solicitor and member of the Board of Directors of Capstone Opportunities AG, Berlin.
On 20 July 2020, the Supervisory Board designated Mr Jacopo Mingazzini, MBA, real estate economist (ebs), as an additional member of the Management Board with effect from 1 August 2020. At the same time, Thomas Prax resigned from the Management Board with effect from 31 July 2020. Since 1 August 2020, Arndt Krienen and Jacopo Mingazzini have been managing The Grounds as equal board members, with Mr Krienen primarily responsible for the capital markets, finance and legal departments, whilst Mr Jacopo Mingazzini focuses on project developments, acquisitions and sales.

The members of the Supervisory Board Sönke Schwartz and Andreas Ingendoh have resigned from their Supervisory-Board mandates with effect from 27 April 2020 and 28 April 2020, respectively. Upon the request of the Management Board, Berlin-Charlottenburg District Court designated Messrs Eric Mozanowski, businessman, Stuttgart, and Hansjörg Plaggemars, management consultant, Stuttgart, as new members of the Supervisory Board by resolution of 29 April 2020. At the constituent meeting, Prof. Dr Schwatlo was confirmed as Chairman of the Supervisory Board and Mr Mozanowski was elected as his deputy. Accordingly, elections to the Supervisory Board were held at the Annual General Meeting on 28 August, and both gentlemen were elected to the Supervisory Board by the shareholders. Prof. Dr Schwatlo resigned from his mandate with effect from 31 December 2020. As his successor, Berlin-Charlottenburg District Court designated Mr Armin H. Hofmann, legal scholar and entrepreneur, Berlin, as a new member of the Supervisory Board by resolution of 16 December 2020, upon the request of the Management Board.

The Supervisory Board reconstituted itself as follows: Mr Mozanowski was elected Chairman of the Supervisory Board and Mr Hofmann was elected Deputy Chairman.

Additionally, the number of staff of Grounds Group was increased in 2020. On balance sheet date 31 December 2020, The Grounds Group employed 11 staff (previous year: nine).

2. Report on the Economy

2.1. Overall economic development[1]

The Corona pandemic has left visible traces in 2020. German economic output slumped by 4.9%, ending a period of growth of ten years. There were few winners in the crisis, most economic sectors recorded significant declines in turnover, especially the services sectors (trade, transportation and hotels and restaurants: price-adjusted economic output -6.1%), but also the manufacturing sector (excluding construction: -9.7%) and the processing sector (-10.5%). One of the beneficiaries of the Corona crisis was online retailing, whilst the construction industry also held its own. Here, price-adjusted gross wealth creation increased by 2.8%.

A historic decline was recorded in private consumption, which fell by 6.1%. Government consumption expenditure, on the other hand, increased by 3.3%, mainly driven by the procurement of protective equipment and hospital services. At -3.1%, gross fixed capital formation fell as strongly as it last did during the financial and economic crisis of 2008/2009. Whilst investment in equipment (-12.1%) and other facilities (-1.1%) decreased, investment in construction against the trend and increased by 1.9%.

For the first time since 2009, imports (-8.5%) and exports (-9.4%) fell.

In the German labour market, employment growth, which had been sustained for 14 years, has come to a standstill. The number of people in employment fell by 1.6% or 747,000 to 44.8 million.

2.2. Conditions per sector

German building sector

In 2020, the increase in turnover in the German main construction sector was stronger than initially expected at 6.0% to approximately EUR 143,000 million. At the end of 2020, the leading

[1] Cf. https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/02/PD21_081_81.html

construction associations were still assuming a nominal increase in turnover of 3.0%[2]

Housing construction came most robustly through the Corona crisis. Turnover in this sector rose by 10.0% to EUR 54,300 million.[3] In 2020, the construction of 368,400 residential units was approved, an increase of 2.2% compared to the same period last year.[4] Although the Corona crisis resulted in a brief drop in orders in April and May 2020, incoming orders increased again visibly thereafter. In the first three quarters of 2020, an order growth of 5.7% was recorded here.[5] For 2020 as a whole, this results in a plus of 7.6%, which, however, is also likely to be due to pull-forward effects of the reduction in the VAT rate that expired in December 2020.[6] The demand for housing in urban agglomerations has not weakened, and interest in owner-occupied homes has even expanded in the wake of the Corona crisis, driven by the growing trend towards home offices. The fundamentally positive framework conditions of the low-interest-rate environment remain unchanged. Completions are expected to reach nearly 300,000 units in 2020.[7]

In 2020, commercial construction was the sector that suffered most from the Corona crisis (nominal turnover increase of 1.2% to EUR 49,800 million). Although based on the strong growth of the first quarter of 2020, building permits in commercial construction had still increased by 2.3% year-on-year at the end of September 2020, the third quarter showed a double-digit decline. Order intake fell even more sharply, with a minus of 4.4% at the end of the third quarter of 2020,[8] a minus of 4.8% for 2020 as a whole.[9] Construction of commercial buildings in particular was characterised by a visible decline in investment, because the large manufacturing sectors and, even more seriously, many service sectors with direct customer contact recorded sharp declines in turnover in the wake of the Corona lockdown. In 2020, civil engineering alone was responsible for the increase in turnover in commercial construction, which benefited from the investment activity of the utilities and waste disposal companies as well as Deutsche Bahn AG.[10]

[2] Cf. https://www.zdb.de/fileadmin/dokumente/Meldungen/2020/Argumentationlinie_gemPK_HDB-ZDB_final.pdf page 5 below and d https://www.zdb.de/meldungen/konjunkturmotor-bauwirtschaft-laeuf
[3] Cf. https://www.zdb.de/meldungen/konjunkturmotor-bauwirtschaft-laeuft
[4] Cf. https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/03/PD21_131_31111.html
[5] Cf. https://www.zdb.de/fileadmin/dokumente/Meldungen/2020/Argumentationlinie_gemPK_HDB-ZDB_final.pdf page 3
[6] Cf. https://www.zdb.de/meldungen/konjunkturmotor-bauwirtschaft-laeuft
[7] Cf. https://www.zdb.de/fileadmin/dokumente/Meldungen/2020/Argumentationlinie_gemPK_HDB-ZDB_final.pdf page 3
[8] Cf. ibid, page. 4
[9] Cf. https://www.zdb.de/meldungen/konjunkturmotor-bauwirtschaft-laeuft
[10] Cf. ibid, page 4

Residential properties / housing[11]

In the investment market for residential housing (transactions of 50 units or more), the second-strongest result ever was achieved in 2020 with a transaction volume of EUR 19,700 million, whilst at the same time exceeding the previous year's figure by 12% and the five-year average by 14%. The Corona pandemic and the unchanged high supply of liquidity to the capital markets by the central banks have further increased the interest of domestic and foreign investors in the crisis-proof and stable investment of residential real estate. In 2020, the share of portfolio transactions increased significantly to 71% or EUR 13,900 million, which is largely due to the takeover of Adler Real Estate by Ado Properties – the hitherto second-largest transaction on the German residential real estate market. The increased focus on eastern German states and Lower Saxony was reflected in average prices of around EUR 115,000 per existing unit (down 7% on 2019).

In 2020, investors were uncertain about the asset class of micro and student flats. These were traded in a volume of only EUR 563 million, which is merely half of the previous year's result. The lockdowns in spring and at the end of the year to contain the Corona pandemic as well as the digital university semesters have put the segment to the test.

Commercial properties[12]

The Corona pandemic left its mark on the investment market for commercial real estate in 2020. Transaction volumes declined by 20% to EUR 59,000 million compared to 2019, but the gap to the five-year average was relatively small at -6%, considering the Corona pandemic. Although weak transaction volumes in the second and third quarters of 2020 were followed by a significantly stronger final quarter, this only accounted for 28% (previous year: 39%) of the total annual volume. The stability of rental income became more important during the course of the Corona pandemic and the higher risk aversion of investors leads to a decreasing number of properties with core status.

Thus, the majority of demand focused on crisis-proof properties with sustained cash flows, which included logistics properties, food retail properties, offices (with long-term leases with the public sector or other users with strong creditworthiness) and niches such as data centres. For logistics properties, the prime yield fell at the end of the year to 3.5% (20 basis points lower than the previous year), for supermarkets and discounters to 4.9% (also 20 basis points lower than the previous year) and for offices in the top six cities to 2.8% (3 basis points lower than the previous year). On the other hand, prime yields for shopping

[11] Cf. https://www.savills.de/insight-and-opinion/savills-news/308952/wohninvestmentmarkt-deutschland-2020
[12] Cf. https://www.savills.de/insight-and-opinion/savills-news/308953/gewerbeinvestmentmarkt-deutschland-2020

centres (+70 basis points) and retail parks (+35 basis points) picked up.

Office properties accounted for EUR 27,600 million or 47% of the total volume in 2020, followed by retail properties (EUR 12,000 million) and industrial/logistics properties (EUR 6,600 million). The strongest declines in transaction volume were recorded by hotels (-66%), mixed-use properties (-26%) and offices (-21%). The focus of the investors was once again on the seven A-cities (55%), even though 24% of the transaction volume was attributable to locations outside the ABC cities.

3. Business Performance

The business performance of The Grounds Group in the financial year 2020 can be described as very positive, especially in view of the uncertainties of the Corona pandemic. Group turnover of EUR 31.3 million (previous year EUR 13.9 million) more than doubled with an increase of 124%. EBIT tripled to EUR 6.1 million (previous year EUR 2.0 million).
Sales revenues, especially the sale of a logistics property in Grünheide-Hangelsberg, contributed significantly to the consolidated result of EUR 4 million and the turnover of EUR 31.3 million. The sales agreement for the logistics property in Hangelsberg also provides for a debtor warrant that can bring us additional proceeds of up to EUR 9.75 million in the future, depending on the key figures of the development plan to be developed. Additionally, the sale initiated the process of strategic reorientation towards purely residential projects.

In addition to successful sales, the project volume was significantly expanded through the contribution of 89.9% of Capstone Opportunities AG, Berlin, by way of a non-cash capital increase through by issuing 2,700,000 new shares. The total investment volume of these project developments amounts to more than EUR 100 million. Furthermore, the economic transfer of a real estate portfolio with 262 residential and commercial units, spread over 21 apartment blocks in the states of Saxony-Anhalt and Brandenburg with annual net rental income of more than EUR 0.9 million, took place in December. Also in December, an existing building with 24 residential in Berlin-Pankow, which is already divided in accordance with the Homeowners Act and is intended for privatisation, as well as a plot in the direct vicinity of the Tesla Gigafactory, on which 17 semi-detached houses are being built, were economically transferred.

3.1. Earnings position

The key revenue and earnings figures for The Grounds Group developed as follows in the financial year 2020:

	Financial Year 2020	Financial Year 2019
	€000,000	€000,000
Sales revenues	31.3	13.9
EBIT	6.1	2.0
Consolidated profits	4.0	0.1

At EUR 31.3 million (previous year: EUR 13.9 million), Group turnover was significantly higher than the original forecast for the reporting year 2020. The major part of the Group's revenue of EUR 29.3 million was generated from the sale of real estate projects and from a period-related revenue realisation from a project development in Leipzig. Besides, rental income of EUR 1.2 million rose by 20 % (previous year: EUR 1.0 million).
In the financial year, part of the positive result also came from the fair value adjustment of EUR 2.8 million of the investment property. Details may be found in Paragraph 8.4 of the explanations to the consolidated annual accounts.

The result from companies consolidated at equity rose from EUR 0.0 million to EUR 0.1 million and comes from the proportionate results of the joint venture projects in Magdeburg and near Frankfurt. Other operating income of EUR 0.1 million (previous year: EUR 1.3 million) fell, compared to the previous year.

The cost side was characterised accordingly by a significant increase in operating activities, compared to the previous year. Cost of materials increased to EUR 24.9 million (previous year EUR 9.5 million) and mainly includes expenses from the sale of inventory properties and investment properties. The increased number of staff and the expansion of the Management Board to two members resulted in an increase in staffing costs to EUR 1.0 million (previous year EUR 0.4 million).

Other operating expenses in the amount of EUR 1.8 million (previous year EUR 2.2 million) mainly comprised external services and work, legal and consulting costs, capital market costs and non-deductible input tax.

Accordingly, EBIT rose significantly to EUR 6.1 million (previous year EUR 2.0 million).

Despite the increase in financial liabilities, the financial result also improved visibly from EUR -2.0 million to EUR -0.9 million. The decisive factor for the development is a higher share of borrowing costs from project developments that are capitalised during the production phase. Additionally, a large part of the acquisitions transitioned economically in the last quarter of 2020. Accordingly, The Grounds was able to achieve a consolidated profit before taxation of EUR 5.1 million (previous year: EUR -18 thousand). Consolidated net income after taxation increased significantly to EUR 4.0 million (previous year: EUR 54 thousand). Therefore, earnings per share increased to EUR 0.22 (previous year EUR 0.00).

3.2. Financial and assets positions

The consolidated balance sheet was also visibly strengthened in 2020: consolidated total footings more than doubled to EUR 87.4 million (previous year: EUR 32.4 million) on the balance sheet date of 31 December 2020, reflecting the successful expansion of the property portfolio during the year under review.

On the assets side of the consolidated balance sheet, both long-term assets at EUR 21.6 million (previous year: EUR 11.2 million) and shot-term assets at EUR 65.8 million (previous year: EUR 21.2 million) increased strongly. Within the long-term assets, the strongest growth occurred in investment properties (EUR +4.4 million to EUR 14.0 million euros) through the acquisition of a residential property portfolio with 262 units. Treasury shares recognised using the equity method in the amount of EUR 2.7 million increased within the framework of the contributed projects through a non-cash capital increase to acquire 89.9% of Capstone Opportunities AG. The acquisition of Capstone Opportunities AG also resulted in an increase in goodwill from EUR 0.8 million to EUR 1.9 million. Furthermore, deferred income tax assets of EUR 2.0 million (previous year: EUR 0.6 million) were also partly responsible for the increase in long-term assets.
Under short-term assets, stocks rose sharply to EUR 32.2 million (previous year: EUR 14.2 million). This item is largely made up of properties under construction and properties ready for sale (EUR 30.9 million) and down payments received (EUR 1.3 million). Additionally, contract assets were recognised stemming from a period-related revenue recognition in conjunction with the construction of a residential complex in Leipzig in the amount of EUR 12.4 million, the acceptance of which took place in December 2020. The increase in other short-term assets from EUR 5.6 million to EUR 20.4 million was of significance to the rise in other assets. This includes payment claims from a notary escrow account in the amount of EUR 15.7 million. Cash and cash equivalents decreased to EUR 0.6 million (previous year: EUR 1.3 million).

On the liabilities side, The Grounds achieved significant growth in group equity to EUR 20.4 million (previous year: EUR 12.0 million). Apart from the achieved consolidated result of EUR 4.0 million, this could be attributed to the increase in subscribed capital to EUR 17,805,517.00 (previous year: EUR 15,105,517.00) following the non-cash capital increase. The equity ratio fell to 23.3% on balance sheet date (previous year: 37.0%). This is primarily the result of the higher total footings following increase in financial liabilities to finance the acquisitions.

Liabilities increased to EUR 67.1 million (previous year: EUR 20.4 million) because of the financing of purchases and real estate projects/acquisitions during the year under review, and primarily as a result of the non-cash capital increase. The major part of this, EUR 45.6 million (previous year: EUR 16.1 million), could be attributed to short-term liabilities. Financial liabilities increased to EUR 30.9 million (previous year: EUR 10.3 million). Moreover, the other liabilities in the amount of EUR 5.3 million (previous year: EUR 0.3 million), mainly in respect of liabilities to related undertakings/persons and liabilities to associated undertakings of EUR 4.4 million. And provisions increased from EUR 0.6 million to EUR 2.4 million, mostly because of an increase in provisions for outstanding invoices.
Long-term liabilities increased to EUR 21.5 million (previous year: EUR 4.3 million) and are mainly characterised by the increase in financial liabilities to EUR 18.4 million (previous year: EUR 2.5 million).

At EUR 0.6 million (previous year: EUR 1.3 million), cash and cash equivalents are below the previous year's level. The main reason for the change in cash and cash equivalents is the negative cash flow from operating activities of EUR -24.0 million (previous year: EUR 13.3 million), which is mainly due to the increased investments in stocks and the increase in other receivables. The cash flow from investment activities is EUR -12.6 million (previous year EUR 8.9 million) and mainly includes the changes in investment property and shares in companies accounted for by using the equity method. The increase in financial liabilities emanating from further growth contributed mainly to a positive cash flow from financing activities of EUR 35.8 million (previous year: EUR -23.2 million).

3.3. Financial and non-financial performance indicators

The Grounds uses several performance indicators when managing the Group. The key performance indicators are turnover and EBIT. The objective of the corporate strategy is building 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 the portfolio properties. Additionally, sustainable contributions to earnings should be realised through selling property developments and the privatisation of portfolio properties.
Specific financial and non-financial performance indicators are used in the individual operational areas. In the area of long-term portfolio proper-

ties, occupancy rates or vacancy rates as well as new contract rents are used as an important indicator for developing the properties.

In the field of project development, the developer yield is used as an important financial performance indicator. Investments in new projects depend particularly on the possibility of acquiring the requisite plots. A determinant factor for the investment decision is 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 at least 15% in the development segment. Furthermore, for existing properties, factors such as the number of existing reservations for owner-occupied units and the turnover rate are used as significant control variables that contribute to the sales result. The actual values of the sales are also recorded in terms of quantity and sales volume.

In view of the current size of the Group, non-financial performance indicators have not yet been 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 11 staff. It is envisaged to expand the workforce further, so that all strategic and management-related functions within the Company can be mapped, covering particularly transaction management, asset management, financing and accounting. A core prerequisite for business development is the commitment and professional know-how of the employees and managers. Over the past eight months, experienced staff and managers have been recruited in the most important areas.
Other administrative functions, mainly property management, are outsourced to service providers that can flexibly offer the capacities required for servicing the growth of the portfolio and the requirements.
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

For the financial year 2020, the Management Board had originally expected a level of revenue and earnings at Group level that is comparable to 2019.
Following the presentation of the provisional half-year figures for 2020, the Management Board has raised the forecast for 2020 as a whole to an expected consolidated net income after tax-

ation of EUR 2 million, based on a revaluation in the property portfolio and against the backdrop of the developments during the first half of the year and the expectations for the coming months.
In December 2020, The Grounds sold a commercial property in Grünheide (Mark) for a basic purchase price that was due for payment immediately and was significantly higher than the book value, and in view of the impact of the earnings on the sales proceeds for 2020, the Group earnings forecast was raised further to EUR 4 million after taxation. Indeed, in the year under review, The Grounds Group generated revenues of EUR 31.3 million (previous year: EUR 13.9 million) and, as expected, a consolidated profit after taxation of EUR 4.0 million (previous year: EUR 54 thousand).

4. Opportunities and Risks

4.1. Risk management

The Grounds Group has established an appropriate risk management and internal surveillance system for identification and evaluation at an early stage of developments that could endanger the continued existence of the Company. 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. Particularly, 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 to creditworthy counterparties.

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) serve to assess risks in the medium term. On-the-spot tools are used for ongoing internal auditing of the real estate portfolio and liquidity management.

4.2. Risks in detail

4.2.1. Overall economic risks

In the year under review, the Corona crisis has resulted in the most severe slump in the global economy in the last 70 years: global economic output shrank by 3.8%.[13] The German gross domestic product declined by 4.9% in 2020.[14] While most industries, especially the service sector and the hotel, catering and events industry, recorded heavy losses in turnover, the construction/real estate industry was able to hold its own amidst this negative environment. Investors increasingly focused on properties that provide stable cash flows even during the crisis. For this reason, the search for long-term stable returns continued to fuel demand in the German residential real estate market: 2020 was the second-strongest year ever in terms of turnover, with a transaction volume of EUR 19,700 million.[15] Demand for alternative, non-cyclical asset classes such as health care and social real estate or data centres also remained strong.[16]

The Corona pandemic mainly affected the hotel sector, but also temporary housing as well as shopping centres and retail (other than food).[17] Demand for office properties dropped significantly, relocation plans were postponed for the time being and/or extensions of agreements within the existing spaces were sought.[18]

In spite of the Corona crisis, the general conditions for investments in real estate, especially housing, remain favourable against the background of unchanged low interest rates and highly volatile stock markets. In view of the central banks‘ expansive monetary policy, market experts do not expect any further price collapses on the real estate market. Whilst uncertain economic times may reduce the appetite for long-term borrowing for real estate financing, evidence to date has shown that private investors and large investors continue to back real estate investments.[19]

[13] Cf. https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf page 2
[14] Cf. https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/02/PD21_081_81.html
[15] Cf. https://www.savills.de/research_articles/260049/309568-0
[16] Cf. https://www.cbre.de/de-de/research/germany-sector-outlook
[17] Cf. https://www.savills.de/research_articles/260049/307657-0
[18] Cf. https://www.jll.de/content/dam/jll-com/documents/pdf/research/emea/germany/de/Bueromarktueberblick-JLL-Deutschland.pdf
[19] Cf. https://www.cash-online.de/allgemein/2021/deka-immobilien-corona-beschleunigt-trends-fonds-unter-druck/557508

The Company has no influence on such constantly changing factors and must therefore continuously monitor and reassess them and make business decisions accordingly. Due to the streamlining of the portfolio, which has already been carried out in large parts, and the consistent residential orientation in the future, The Grounds Group is operating in an even in times of the Corona pandemic high-demand growth market and does not expect any significant macroeconomic risks with a negative impact on the net assets, financial and earnings positions in 2021.

4.2.2. Market risks

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

The Grounds Group focuses exclusively on residential real estate in Germany – mainly in aspiring German metropolitan areas – and does therefore depend on national and also regional market developments.

As previously outlined under 4.2.1 Overall economic risks, the Corona crisis has had varying degrees of negative impact on the individual property segments. The residential property market has developed robustly. According to Destatis, residential property prices (house prices index) in Germany rose by an average of 8.1% year-on-year in the fourth quarter of 2020, notwithstanding the Corona crisis. Prices for flats, detached and semi-detached houses increased by 2.6% compared to the third quarter of 2020. The price of residential property rose sharply in the top seven cities (detached and semi-detached houses: +12.1%; owner-occupied units: +5.7%) as well as in rural districts (more densely populated; detached and semi-detached houses: +9.8%; owner-occupied units: +8.9%).20 At the same time, the pandemic has increased the trend of moving from the cities to the surrounding countryside.

The Grounds Group does continuously monitor the development of the German real estate market. Until now, the Corona pandemic has caused delays in project development (especially in the coordination with local municipalities and the finalisation of zoning plans) as well as in the granting of financing, but the demand for residential properties remains high, which is also confirmed by the Company's recent successful acquisitions and sales. The Grounds Group does not foresee in this risk any negative effects on its net assets, financial and earnings positions for the financial year 2021.

[20] Cf. https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/03/PD21_154_61262.html

4.2.2.2. Competition

Within the scope of its business activities, The Grounds Group is confronted with various competitors in the fields of property development, building portfolios as well as privatisation of residential property in Germany and is exposed to intense competition.

The Grounds Group's direct competitors in the acquisition of residential property and the sale of developed plots and real estate portfolios are particularly middle-class real estate companies. In the case of a similar purchasing profile and market focus, 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.

The Grounds Group, like its competitors, endeavours to distinguish itself from comparable real estate companies through corresponding unique selling points and individual usage concepts in order to avoid 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 Company completely repositioned itself during the year under review. With its two board members Arndt Krienen and Jacopo Mingazzini as well as the likewise newly composed Supervisory Board and the expanded staff in the group, the team complements itself optimally with extensive and long-standing experience in the areas of project development, portfolio management and privatisation. In view of its many years of activity in the real estate industry, The Grounds Group has an extensive network that has proved itself. This enables The Grounds Group to secure properties through off-market transactions and to not have to compete publicly with other competitors.

Additionally, the Company currently operates in the activity of purchasing residential portfolios/properties in a range of investment volumes that is too small for larger competitors and at the same time represents the upper end of the investment volume for smaller investors. 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 pri-

vatisation 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 only regionally positioned, so that the Company is primarily faced with regional competitors.

4.2.2.3. Regulary risks

The business activities of The Grounds Group depend to a large extent on the applicable legal framework conditions for residential 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 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.

In the future, too, there may be changes in the legal framework and a tightening of it, for example with regard to tenant protection (for example, shortening the notice periods for tenants or limiting the possibility of rent increases). The Mietendeckel-Gesetz (Rent Ceiling Act), which recently came into force in Berlin on 22 February 2020 and had a validity period restricted to five years, was declared null and void by the Federal Constitutional Court on 15 April 2021, because it was incompatible with the constitution.[21] However, it is not improbable that the debate about regulating the rental market will continue and that new demands to regulate the rental market at the federal level may develop after the federal elections in September 2021. The Grounds has deliberately concentrated on Berlin's "Speckgürtel" (affluent suburbs), in order not to be subject to these legal regulations in urban agglomerations. Nevertheless, the fundamental data in the metropolitan regions and especially in Berlin continue to be positive, so we are keeping our investment options alive there.
Statutory changes in fire protection, environmental protection (for example, for saving energy), pollutant legislation (for example, regarding asbestos) and resulting remediation obligations, as well as with regard to the general conditions for real estate investments, may also have a significant negative impact on the profitability of investments and the earnings situation of The Grounds Group. Changes in the legal framework

[21] Cf. https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/DE/2021/bvg21-028.html

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.
Most recently, the new Gebäudeenergiegesetz (GEG [Building Energy Act]) came into force on 1 November 2020, which contains requirements for the energy quality of buildings, the preparation and use of energy performance certificates and the use of renewable energies in buildings.[22]

Another risk lies in the amendment to the Grunderwerbsteuergesetz (GrEStG [Landed Property Acquisition Tax Act]), the reform of which had stalled. On 7 May 2021, the Federal Council has approved the bill, the core of which is a tightening of share deals. For share acquisitions from 1 July 2021 onwards, the shareholding threshold triggering landed property acquisition tax will be lowered from previously 95% to 90%, whilst at the same time the observation period will be extended from five years to ten years. It is stipulated in Article 1, Paragraph 2, Clause b, GrEStG-E, that landed property acquisition tax is triggered if at least 90% of the shares in a real estate-owning corporation is transferred to new shareholders within ten years. Only listed companies in the regulated market have been exempted from this new regulation by virtue of the “stock exchange clause”, but not companies listed in the OTC market, such as The Grounds. It remains to be seen whether subsequent adjustments to the act will be made, because the stock exchange clause in its current version puts real estate companies in OTC trading at a massive disadvantage.[23]

Additionally, the German Bundestag (Lower House of the Federal Parliament) has passed the Baulandmobilisierungsgesetz (Building Land Mobilisation Act) on 7 May 2021. This contains, inter alia, stricter regulations regarding the conversion of rental flats into owner-occupied flats. The “conversion ban” should become binding for all areas in Germany where the housing market is considered to be tight, which the state governments may determine in each case by ordinance. The requirement to obtain a permit should apply until 31 December 2025 at the latest and will apply if there are more than five units in the residential building.[24] The states are also allowed to increase the permit requirement to include a range of up to 15 units. Notwithstanding criticism and sometimes considerable resistance, it was passed by the Federal Council on 28 May 2021.[25]

[22] Cf. https://www.bmi.bund.de/DE/themen/bauen-wohnen/bauen/energieeffizientes-bauen-sanieren/energieausweise/gebaeudeenergiegesetz-node.html
[23] Cf. https://www.noerr.com/de/newsroom/news/reform-der-grunderwerbsteuer-auf-der-zielgeraden und https://www.stb-web.de/news/article.php/id/24871
[24] Cf. https://www.bmi.bund.de/SharedDocs/pressemitteilungen/DE/2021/05/baulandmobilisierung.html
[25] Cf. https://www.haufe.de/immobilien/entwicklung-vermarktung/marktanalysen/umwandlungsverbot-von-miet-in-eigentumswohnungen_84324_511416.html

The privatisation projects of The Grounds have already been legally divided, so the impact on the current stock is very small. In general, however, the conversion ban can have an impact on the business model, so The Grounds does analyse investments in privatisation projects in individual submarkets carefully, before making an investment decision.

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.

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 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. Removal of contaminated sites and polluted soil or compliance with legislation governing construction and heritage protection

It cannot be ruled out that plots owned by The Grounds Group may be contaminated with pollutants or war ordnance, such as bombs. 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 rest upon by The Grounds Group, irrespective of the cause of the concerned pollution or contamination.

It might be that it there is no recourse against third parties, even if they have caused the contamination. The removal of any burdens in this sense and the appurtenant additional measures could lead to loss of rental income, considerably delay construction work, make it impossible or

eco-nomically 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 concerned properties. 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 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 should no longer be 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. Currently, the Company considers the risk of losing those key persons to be low, since the members of the core management team have also in the past worked successfully and trustfully together for several years in other real estate companies and therefore there is good coordination between them. The Company is seeking to retain qualified specialists in the Group in the long term, by means of an appropriate incentives scheme. As a measure for long-term employee retention, The Grounds has introduced in the financial year 2020 a share option programme for members of the Management Board and employees, with a maximum volume of 1,750,000 share options.

4.2.3.4. Financial and interest rate risks

For its business model and the planned expansion of its business activities, The Grounds Group requires substantial financing, which must be raised in either the form of equity or debt capital. For this, The Grounds Group needs funds for financing 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, The Grounds Group is constantly reviewing favourable bank financing and other forms, such as mezzanine financing. And at short notice, the port-

folio 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. This should facilitate the raising of debt and equity in the future. The convertible bond with a volume of EUR 12 million, which was successfully placed in full in February 2021, represents a first important milestone in establishing the Company on the capital market.

4.2.3.5. Liquidity and financing risks

The Grounds Group needs sufficient liquidity for its ongoing operations. Liquidity management has a special focus of Group management in order to recognise and cushion negative developments from individual business areas in good time. To this end, regular reports on current liquidity and a liquidity forecasts are provided to board members. Short- and medium-term liquidity planning instruments are used for this purpose, with which the current business transactions are mirrored against the planning data at the Group level.

The business activities of The Grounds and growth path taken depend, inter alia, on the availability of financing. A more restrictive lending policy might, for example, a negative impact on the business development of The Grounds. To minimise the risk, The Grounds works with numerous banks and also has the possibility of using the capital market for further financing.

4.2.3.6. Taxation

Fiscal law is subject to constant change. 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.

Consequently, there is a risk of facts of relevance to taxation being determined to the disadvantage of the Group companies. During current and 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.

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. Furthermore, The Grounds has significantly intensified the implementation of project developments in the residential real estate sector. The Company is thereby exposed to the risk that the contractual parties involved in such new building or 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 new building and modernisation work.

Furthermore, there is a risk that major contractual parties may terminate agreements (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 reasons of creditworthiness.

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

4.2.3.8. Rental income

The economic success of The Grounds Group does in future also depend to a large extent on maintaining the income from letting the residential properties in the portfolio at the planned level or to increase 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 immediately let the respective rental properties again on at least comparable economic conditions, it would lead to loss of rental income and it 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 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. Properties with a short residual rental term and/or a high vacancy rate are only taken into consideration if, on the basis of The Grounds Group's asset management approach, vacancy reductions 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 the risks

The focus of The Grounds Group is on building up a high-quality real estate portfolio of a significant size that enables the generation of stable income, as well as on the implementation of project developments and privatisation of existing properties with the intention of realising sustainable sales results. The real estate portfolio should be expanded significantly by the end of 2021.

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. Additionally, some projects earmarked for sale will start to be marketed in 2021. However, due to the continued positive market environment in financing and in the marketing of real estate, we do not see any risks that could threaten the existence of the Company, whether individually or in their entirety

4.3 Opportunities

The German residential property market has hitherto proved to be relatively robust in the face of the Corona pandemic. Whilst the office, retail and hotel property markets have been severely impacted due to the lockdown to contain the spread of the virus, demand for residential property has actually strengthened even further in

2020. 2020 was the second-strongest year ever in terms of turnover, with a transaction volume of EUR 19,700 million.[26] The price collapse feared by market experts has not materialised; residential property prices have even risen significantly (status Q3 2020).[27] In addition, there is growth potential for housing construction in view of the shift to working from the home office. The trend of moving out of the cities into the surrounding areas has intensified in 2020.
Overall, the macroeconomic and real estate conditions for the German residential real estate market continue to be favourable. Demand for residential space remains high in Germany, as is clear from the very strong transaction volume in the year under review.

The business model of The Grounds that is focused on residential real estate, is based on the three pillars of portfolio management, privatisation and project development. The portfolio of currently 300 or so residential units will be expanded continuously. Within only a few months, three properties had already been acquired for privatisation. In project development, The Grounds Group is pursuing the implementation of an attractive project pipeline with a volume of over EUR 400 million within the next three years.

In the financial year 2020, The Grounds achieved significant strategic and operational successes. The acquisition and sales transactions completed by the end of 2020 have made a decisive contribution to the Company's consistent residential orientation in the future. The residential real estate portfolio was strongly expanded in 2020 through investments in diversified real estate projects with attractive returns, and further acquisitions for the portfolio and privatisation were made at the beginning of 2021. The Grounds intends to sell the remaining commercial projects in the medium term and to clean up the portfolio, thereby consolidating the Company's consistent orientation on residential properties. At the same time, following the changes in the composition of Management and Supervisory Boards and the significant increase in the number of staff at Group level, The Grounds now has a powerful team with experience in the areas of portfolio management, privatisation and project development, along with an extensive network. Thanks to this professional network, The Grounds was able to realise its latest purchases. On this basis, The Grounds significantly strengthened its earning power in 2020 by realising a consolidated profit after taxation of EUR 4.0 million (previous year: EUR 54 thousand).

[26] Cf. https://www.savills.de/research_articles/260049/309568-0
[27] Cf. https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/12/PD20_534_61262.html

Further growth opportunities also arise from the now stronger addressing of the capital market. In February 2021, the Company successfully placed a convertible bond with a volume of EUR 12 million, thereby establishing itself once again on the capital market. In the future, further equity and debt capital measures will be taken on the capital market, in order to finance the growth of the Company. In respect of financing real estate, The Grounds aims for a ratio of 20% equity and 80% debt capital.

In the coming years, additional earnings potential will result from the debtor warrant of the logistics property sold at the end of 2020 in the amount of up to EUR 9.75 million, after approval of the zoning plan.

5. Prognosis

5.1. Overall economic development[28]

For 2021, the German government expects German GDP to grow by 3%, lowering its latest forecast of autumn 2020 (+4.4%). The German government does not expect the pre-crisis level to be reached until mid-2022. The lockdown introduced from November 2020 onwards has caused a considerable slowdown in economic momentum, so that economic output in the first quarter of 2020 will still be significantly affected by the pandemic. The economy will only gain momentum after the pandemic situation has stabilised through the vaccination of larger population groups and the withdrawal of restrictions on public life.
The “Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung” (Council of Economic Experts) also revised its forecast downwards in mid-March 2021. Instead of +3.7%, the economic experts assume +3.1% for 2021. The ongoing containment measures will lead to a 2.0% decline in German economic output for the first quarter of 2021. They see the greatest risk in a third wave of infection, which could also result in plant closures in industry. Depending on the length of the prolonged lockdown, economic growth could also be as low as +2.1%.

The German labour market will only continue its recovery from spring 2021 onwards (total employment expected to remain at the previous year’s level with the unemployment rate improving slightly to 5.8%), which will then support private consumption (private consumer spending forecast to increase by 3.6%). Government consumption is also expected to grow somewhat

[28] Cf. https://www.bmwi.de/Redaktion/DE/Publikationen/Wirtschaft/jahreswirtschaftsbericht-2021.pdf?__blob=publicationFile&v=12 page 107 and https://www.tagesschau.de/wirtschaft/konjunktur/bip-konjunktur-prognose-wirtschaftsweise-sachverstaendigenrat-101.html

more moderately than in 2020. In terms of gross fixed capital formation, the German government expects a significant increase in the course of the revival of investment in equipment. Expanded investments in construction will also have a growth-promoting effect. Exports (+6.4%) and imports (+7.2%) will also recover visibly.

5.2 Conditions per sector

German building sector[29]

The last forecast for 2021 by the leading construction associations dates from the end of 2020, when the final figures for 2020 were not yet available. Accordingly, the associations expected nominal stagnation of turnover in the construction industry in 2021 at the level of 2020 (in real terms without price increases a minus of 2%). If this forecast is maintained, it would mean a decline in turnover compared to 2020 from today's perspective. The following key data of the forecast for the individual building sectors are therefore also outdated.

Residential construction will continue to be the most important construction sector in 2021 as well, with a forecast turnover of EUR 52,600 million. The basic situation of the continuing low interest rate policy will not change for the time being and the attractiveness of investments in residential construction will remain unbroken. The leading construction associations expect completions at the high level of 2020.

In 2021, commercial construction will again be the sector that will suffer most from the consequences of the Corona crisis. Here, a decline in turnover to EUR 48,700 million is expected. In commercial building construction, a continuing significant decline in investment should be expected, whilst commercial civil engineering will still have a stabilising effect in 2021. For example, the federal government is further increasing its investment subsidies to more than EUR 7,300 million.

In public construction, too, the leading construction associations are forecasting sales revenues of EUR 29,500 million. Although the draft of the federal budget for 2021 provides for an 8 % increase in investments in federal trunk roads, federal waterways and the promotion of cycling, their realisation is in question due to inadequate management capacities.

Residential properties / housing[30]

In the residential market, Savills expects an above-average transaction volume in 2021, which could

[29] Cf. https://www.zdb.de/fileadmin/dokumente/Meldungen/2020/Argumentationlinie_gemPK_HDB-ZDB_final.pdf pages 2-5
[30] Cf. https://www.savills.de/insight-and-opinion/savills-news/308952/wohninvestmentmarkt-deutschland-2020

even reach the level of 2020. Demand for residential property is being driven by the Corona-related uncertainties in the commercial property markets. One of the defining themes in the residential real estate market in 2021 and the coming years will be the increased use of home offices and the early identification of increasingly sought-after locations. Working in a home office could decouple more spatially the labour and housing markets.

Following the sharp drop in transaction volumes in the market for micro and student flats in 2020, Savills anticipates an increase in activity in the investment market in the second half of 2021 at the latest, when demand in the user market should pick up again.

Commercial properties[31]

For 2021, Savills expects the commercial real estate market to reach the EUR 50,000 million mark in transaction volume again, although transaction activity will remain rather below average in the first half of the year. In 2020, many investors did not reach their purchase targets and increasing investor funds in search of adequate and stable returns should further increase the investment pressure. Due to concurrently increased risks in the user markets, Savills expects that the investment strategies of individual investors will become more differentiated beyond the lowest denominator of “logistics, residential, AAA office”.

5.3. The Company

In 2020, The Grounds initiated its focus on residential property. Following the new appointments to the Management and Supervisory Boards, the increase in staff numbers and the extensive acquisition and sales transactions completed by the end of 2020, which primarily include the acquisition of the Stendal/Prignitz portfolio, the non-cash capital increase and the sale of the logistics park in Hangelsberg, The Grounds will now be consistently oriented towards residential properties.

For this purpose, the Management Board plans to sell the remaining commercial projects in the medium term and at the same time acquire further real estate projects for the portfolio, project development and privatisation.
To finance the next growth steps, The Grounds successfully placed a convertible bond with subscription rights for shareholders with a volume of EUR 12 million in February 2021. The stronger addressing of the capital market should continue

[31] Cf. https://www.savills.de/insight-and-opinion/savills-news/308953/gewerbeinvestmentmarkt-deutschland-2020

to provide The Grounds Group with flexible options for raising capital in the future. The placed convertible bond was a first important milestone in establishing the Company on the capital market.

In 2021, The Grounds has already acquired further residential properties. At the end of January 2021, the existing and privatisation portfolio was supplemented by two further residential properties in Bernau (residential complex with 59 flats with around 4,070 m² of lettable space) and in Dallgow-Döberitz (terraced housing complex with 28 rented houses offering between 135 and 143 m² of living space, plus space in the basement and attic). The Grounds intends to hold the residential complex in Bernau as an investment, whilst the terraced housing complex in Dallgow-Döberitz are earmarked for privatisation. In view of their affiliation with the federal state of Brandenburg, neither complex was affected by the Berlin rent cap regulation.
This was followed in March 2021 by the purchase of a residential complex with 38 units (lettable area: 2,066 m²) and 22 garages near Eberswalde and a residential complex with 27 units and around 1,550 m² of lettable area in Fürstenwalde. The Grounds intends to hold the residential complexes as part of its own assets and, if opportune, to exploit existing potential for further densification in the medium term.
In the financial year 2021, we expect a significantly diversified contribution to earnings from sales as well as rising rental income compared to the same period of the previous year. Overall, we expect a significant increase in Group turnover compared to the previous year's turnover, adjusted for the sale of the logistics property in Hangelsberg, combined with earnings before interest and taxation (EBIT) at the previous year's level. Accordingly, Group turnover would then be EUR 23 million and Group EBIT EUR 6.1 million. From 2022 onwards, we expect further significant increases in turnover, because some project developments will be ready for implementation.

6. Remuneration Report

The new service agreements concluded in the financial year 2020 with the Management-Board members Arndt Krienen and Jacopo Mingazzini each run until December 2024.

Ordinary termination is not provided for during the validity period of the agreements. However, for the event of a "change of control", the agreements contain a special termination right.

The remuneration of the members of the Management Board consists of a fixed, non-performance-related annual basic remuneration and a variable bonus to be determined between the Management Board and the Supervisory Board. The basic remuneration of both board members is EUR 180,000 per year, increasing to EUR 240,000 from 1 March 2021 onwards. The variable remuneration component is linked to the profit after taxation of the consolidated annual accounts of the Company as per IFRS. Valuation gains are only included in the assessment basis on a pro rata basis. Additionally, the bonus is capped at EUR 480,000.

The board members have a company car at their disposal and The Grounds has taken out directors-and-officers liability insurance.

Furthermore, both members of the Management Board have each received share option rights for 700,000 shares as a long-term remuneration component. The stock option programme provides for a four-year vesting period from the date of issue, during which exercising the granted stock options is excluded. For information on the expenses related to these share-based payments in the reporting period, reference is made to the explanations.

No pension commitments or other retirement benefits have been granted to the members of the Management Board. No agreements have been made with the board members in respect of benefits in the event of premature departure, with the exception of the Company's right to discharge the board members from their duties for the duration of a notice period and to discharge them with continuation of payment of salary, and the right of the board members to demand immediate payment of remuneration for the remaining validity period of the agreement in this case. Moreover, the employment agreements contain a post-contractual non-competition clause.

In addition to reimbursement of their expenses, the members of the Supervisory Board receive a fixed annual remuneration for each full financial year of their membership of the Supervisory Board.

Berlin, 22 June 2021

The Management Board
Arndt Krienen Jacopo Mingazzini

CONSOLIDATED BALANCE SHEET

of The Grounds Real Estate Development AG, Berlin, of 31 December 2020

in EUR	Appendix	31/12/2020	31/12/2019
Capital assets			
Long-term assets			
Intangible assets	**8.1**	14,778.65	12,479.65
Goodwill	**8.1**	1,938,753.85	777,753.85
Tangible assets	**8.1**	138,763.16	144,400.00
Usage rights	**8.2**	481,441.89	0.00
Properties held as financial investment	**8.6**	14,000,000.00	9,600,000.00
Participations	**8.4**	152,103.93	25,129.79
in accordance with the equity method	**8.5**	2,672,676.02	0.00
Other financial assets	**8.7**	228,160.22	10,000.00
Deferred tax on earnings	**8.21**	2,010,671.04	597,690.68
Total long-term assets		**21,637,348.76**	**11,167,453.97**
Short-term assets			
Goods in stock	**8.8**	32,237,207.18	14,174,059.71
Contractual assets	**8.9**	12,399,092.07	0.00
Receivables from goods and services	**8.10**	136,001.80	153,797.24
Other receivables	**8.11**	20,395,701.65	5,585,343.06
Cash and cash items	**8.12**	623,108.40	1,330,371.69
Total short-term assets		**65,791,111.10**	**21,243,571.70**
Balance sheet total		**87,428,459.86**	**32,411,025.67**

in EUR	Appendix	31/12/2020	31/12/2019
Equity			
Subscribed capital	**8.13**	17,805,517.00	15,105,517.00
Adjustment item for corporate acquisition	**8.13**	-12,452,550.00	-12,452,550.00
Capital reserves	**8.13**	1,996,162.29	777,753.85
Retained profit	**8.13**	155,465.51	155,465.51
Unappropriated surplus	**8.13**	10,979,529.43	7,378,377.84
Attributable to shareholders of the parent company		18,484,124.23	10,964,564.20
Attributable to non-controlling shareholders		1,870,163.19	1,029,397.42
Total equity		**20,354,287.42**	**11,993,961.62**
Debts			
Long-term debts			
Financial liabilities	**8.14**	18,409,862.15	2,467,447.92
Liabilities from leasing	**8.15**	382,173.32	0.00
Other commitments	**8.19**	106,523.38	97,794.54
Deferred tax liabilities	**8.21**	2,602,186.19	1,735,596.63
Total long-term debts		**21,500,745.04**	**4,300,839.09**
Short-term debts			
Provisions	**8.16**	2,441,266.15	655,611.57
Financial liabilities	**8.14**	30,888,567.55	10,286,022.96
Liabilities from leasing	**8.15**	120,618.83	0.00
Received down payments	**8.18**	131,357.95	0.00
Current tax on earnings	**8.20**	5,512,787.73	4,120,177.16
Payables for goods and services	**8.17**	1,187,755.78	770,879.86
Other commitments	**8.19**	5,291,073.41	283,533.41
Total short-term debts		**45,573,427.40**	**16,116,224.96**
Balance sheet total		**87,428,459.86**	**32,411,025.67**

GROUP PROFIT-AND-LOSS ACCOUNT

of The Grounds Real Estate Development AG, Berlin, of 31 December 2020

in EUR	Appendix	01/01/20 - 31/12/20	01/01/19 - 31/12/19
Sales revenues	**8.22**	31,263,225.00	13,939,957.67
Value change of the real estate held as financial investment	**8.6**	2,754,482.74	35,589.67
Other operating income	**8.26**	81,958.48	1,303,391.64
Stock changes	**8.23**	-312,764.29	-1,147,113.32
Cost of materials	**8.24**	-24,907,939.30	-9,515,087.56
Staffing costs	**8.25**	-1,011,443.80	-443,875.31
Depreciation of intangible and tangible assets	**8.1**	-59,142.70	-32,414.54
Other operating expenditure	**8.27**	-1,836,561.92	-2,169,518.03
EBIT before result from associates undertakings		**5,971,814.21**	**1,970,930.22**
Earnings from associated companies	**8.5**	132,083.87	-7,393.09
EBIT		**6,103,898.08**	**1,969,537.13**
Interest income	**8.28**	114,731.60	75,299.56
Interest expenditure	**8.28**	-1,099,604.58	-2,056,567.24
Financial Result		**-984,872.98**	**-1,981,267.68**
Results before taxation		**5,119,025.10**	**-17,730.55**
Tax on profits	**8.29**	-1,110,569.42	71,968.39
Consolidated profits		**4,008,455.68**	**54,237.84**
of which attributable to non-controlling shareholders		409,536.92	51,974.06
of which attributable to shareholders of the parent company		3,598,918.76	2,263.78
Earnings per share	8.30	**0.22**	**0.00**

CONSOLIDATED CHANGES IN EQUITY

of The Grounds Real Estate Development AG, Berlin, 1 January 2020 to 31 December 2020

in EUR	Subscribed capital	Adjustment item for corporate acquisition	Capital reserves	Retained profit	Net surplus / shortfall	Attributable to non-controlling shareholders	Total
Status 01/01/2019	**15,105,517.00**	**-12,452,550.00**	**1,688,318.52**	**155,465.51**	**6,393,225.09**	**1,688,132.89**	**12,558,109.01**
Withdrawal from capital reserves			-890,564.67		890,564.67		0.00
Acquisition of interests of non-controlling shareholders					92,324.30	-710,709.53	-618,385.23
Total earnings of the Group					2,263.78	51,974.06	54,237.84
Status 31/12/2019	**15,105,517.00**	**-12,452,550.00**	**777,753.85**	**155,465.51**	**7,378,377.84**	**1,029,397.42**	**11,993,961.62**

in EUR	Subscribed capital	Adjustment item for corporate acquisition	Capital reserves	Retained profit	Net surplus / shortfall	Attributable to non-controlling shareholders	Total
Status 01/01/2020	**15,105,517.00**	**-12,452,550.00**	**777,753.85**	**155,465.51**	**7,378,377.84**	**1,029,397.42**	**11,993,961.62**
Capital increase	2,700,000.00		1,161,000.00				**3,861,000.00**
Share-based remuneration			57,408.44				**57,408.44**
Acquisition of shares of non-managing shareholders						442,118.40	**442,118.40**
Disposal of interests of non-managing shareholders					2,232.83	-10,889.55	**-8,656.72**
Consolidated total earnings					3,598,918.76	409,536.92	**4,008,455.68**
Status 31/12/2020	**17,805,517.00**	**-12,452,550.00**	**19,996,162.29**	**155,465.51**	**10,979,529.43**	**1,870,163.19**	**20,354,287.42**

CONSOLIDATED CASH FLOW

of The Grounds Real Estate Development AG, Berlin, 1 January 2020 to 31 December 2020

	in EUR	01/01/20 - 31/12/20	01/01/19 - 31/12/19
	Consolidated profits	4,008,455.68	54,237.84
+	Depreciation of fixed assets	30,223.38	32,414.54
+	Depreciation of rights of use	28,919.32	0.00
-/+	Earnings from associated companies/participations accounted for in accordance with the equity method	-132,083.87	7,393.09
+/-	Increase / reductions in provisions	1,785,654.58	-1,690,610.69
+	Other non-cash changes	3,190,870.12	-360,526.48
-/+	Value change of the real estate held as financial investment	-2,754,482.74	-35,589.67
-/+	Profit / loss resulting from divestment of fixed assets	-457,638.80	
-/+	Profit / loss resulting from divestment of properties held as financial investment	-4,650,000.00	-1,554,752.99
-/+	Increase / decrease in stocks, receivables from goods sold , contractual assets and services rendered as well as other assets that do not come under investment or financing activities	-31,712,811.09	15,252,976.89
+/-	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	5,189,287.55	-203,411.74
+/-	Interest expenditure/interest income	984,872.98	1,981,267.68
+/-	Income tax expenditure/revenues	1,061,080.52	-71,968.39
-/+	Payments of tax on earnings	-599,649.05	-130,903.19
=	**Cash flow from current business activities**	**-24,027,301.42**	**13,280,526.89**
+	Receipts from divestments of tangible assets	100,180.64	0.00
+	Receipts from divestments of financial assets	483,004.59	0.00
+	Proceeds from disposals of real estate held as financial investment	0.00	8,886,556.72
-	Payments for acquisition of subsidiaries	0.00	-33,615.62
-	Payments for investments in intangible assets	-4,485.59	0.00
-	Payments for investments in tangible assets	-123,826.59	-2,245.54
-	Payments for investments in financial assets	-369,254.15	-26,983.25
-	Payments for treasury shares recognised in accordance with the equity method	0.00	0.00
-	Payments for properties held as financial investment	-12,745,517.26	0.00
+	Received interest	48,070.00	30,577.22
=	**Cash flow from financing activities**	**-12,611,828.36**	**8,854,289.53**
+	Incoming payments from issuing bonds and drawing down (financing) loans	38,442,060.09	0.00
-	Outflows because of loan redemptions and (financial) overdrafts	-1,897,101.27	-21,156,472.98
-	Repayment of lease liabilities	-7,569.06	0.00
-	Paid interest	-724,389.42	-2,056,567.24
=	**Cash flow from financing activities**	**38,813,000.34**	**-23,213,040.22**
	Changes in cash and cash equivalents	-826,129.44	-1,078,223.80
+	Changes in the scope of consolidation	118,866.15	0.00
+	Cash and cash equivalents at the beginning of the period	1,330,371.69	2,408,595.49
=	**Cash and cash equivalents at the end of the period**	**623,108.40**	**1,330,371.69**

Explanatory notes in Section 8.31 of the explanations to the consolidated annual accounts

EXPLANATIONS FOR THE FINANCIAL YEAR 2020

Contents

1. Fundamental Information

The Grounds Real Estate Development AG (hereinafter: "Grounds AG") is domiciled in Berlin, Germany. It is registered at Berlin-Charlottenburg District Court under number CRB 191556 B.

The shares of the Company are traded under ISIN DE000A2GSVV5 in the primary segment of the OTC market of the Düsseldorf Stock Exchange.

The Company's operating business consists of the implementation of residential projects in German metropolitan area and agglomerations; its business activities comprise three core areas. This includes the development of its own real estate portfolio, the tenant-oriented sale of existing residential units to private investors or owner-occupiers, and the development and implementation of new housing projects with the aim of selling them to institutional investors, private investors and owner-occupiers. Grounds AG functions primarily as the operating holding company for its real estate companies.

2. Reporting Principles

According to the stipulations of Article 293, Handelsgesetzbuch (HGB [Commercial Code]), Grounds AG is not obliged to prepare consolidated annual accounts for the financial year 2020. These consolidated accounts at hand – 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 2020. Accordingly, the consolidated annual accounts have been 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 IFRS requirements 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 AG Group (hereinafter: Grounds Group"). Individual items of the consolidated profit-and-loss account and the balance sheet have been combined, in order to enhance clarity of presentation. Those items have been further broken down and clarified in the explanations.

The consolidated profit-and-loss account has been drawn up in accordance with the total-cost method. It comprises only one profit-and-loss account, because there are no components to be recognised directly in equity and therefore no other comprehensive income needs to be reported.

Grounds AG has not yet divided its business activities into reportable segments within the meaning of IFRS 8, also in terms of size and structure of the Company, which is why segment reporting has not been prepared.

The accounting principles applied in these consolidated annual accounts are the same as those applied to the consolidated annual accounts of 31 December 2019, except for the changes explained below.

For better presentation, the result from associated companies was for the first time reclassified from the financial result to EBIT. In this regard, the subtotals of comprehensive income and operating result have been deleted and the new subtotal EBIT has been inserted. For operational reasons, Grounds AG participates primarily in joint ventures or associated companies. In view of the resulting proximity to the original operating business activity, the result from associated companies is allocated to EBIT.

After adoption by the EU, it was mandatory for the first time for the financial year 2020 to apply the following or new principles and interpretations to the consolidated annual accounts under IFRS rules:

Standard/Interpretation	First-time mandatory application in the EU
Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”: new definition of materiality	1 January 2020
Amendments to IFRS 3 “Business Combinations”: definition of a business operation	1 January 2020
Amendments to IFRS 9 “Financial Instruments”, IFRS 7 “Financial Instruments: Disclosures” and IAS 39 “Financial Instruments: Recognition and Measurement”: Interest Rate Benchmark Reform (Phase 1)	1 January 2020
Amendments to IFRS 16 “Leases”: Accounting for lease concessions in conjunction with the coronavirus pandemic	1 June 2020
Amendments to references to the framework in IFRS standards	1 January 2020

The resulting changes to IFRS accounting standards have not had any material impact on the consolidated annual accounts of Grounds AG.

The following accounting standards, newly issued or amended by the IASB and – as far as is shown – in some cases not yet adopted by the EU, will only have to be observed in future annual accounts provided that they will have been adopted by the EU (perhaps after some amendments) and have not been applied prematurely by Grounds AG:

Standard/Interpretation	First-time mandatory application as per IASB	First-time mandatory application in the EU
Amendments to IFRS 4 “Insurance Contracts”: Deferral of the Application of IFRS 9	1 January 2021	1 January 2021
Amendments to IFRS 9 “Financial Instruments”, IFRS 4 “Insurance Contracts”, IFRS 7 “Financial Instruments – Disclosures”, IFRS 16 “Leases” and IAS 39 “Financial Instruments – Recognition and Measurement”: Interest Rate Benchmark Reform (Phase 2)	1 January 2021	1 January 2021
IFRS 14 “Regulatory Deferral Accounts”	1 January 2016	Not recognised by the EU
IFRS 17 “Insurance Contracts”	1 January 2023	Not yet known
Amendments to IFRS 3 “Business Combinations”: Reference to the Framework	1 January 2022	Not yet known
Amendments to IFRS 16 “Leases”: Coronavirus Pandemic-Related Lease Concessions after 30 June 2021	1 April 2021	Not yet known
Amendments to IAS 1 “Presentation of Financial Statements”: Classification of liabilities as current or non-current	1 January 2023	Not yet known
Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023	Not yet known
Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”: Definition of Accounting Estimates	1 January 2023	Not yet known
Amendments to IAS 16 “Property, Plant and Equipment”: Revenue before Intended Use	1 January 2022	Not yet known
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”: Adverse contracts – Cost of implementing the agreement	1 January 2022	Not yet known
Annual improvements project Cycle 2018-2020	1 January 2022	Not yet known

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 are stated in thousands of euros (€000). Both individual and total values represent the value with the smallest rounding difference. Therefore, small differences to 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 have on 22 June 2021 been approved by the Management Board for disclosure.

3. Reporting Currency and Translation 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 of which the Group can directly or indirectly control the financial and business policies. A listing of subsidiaries included in the consolidated annual accounts of Grounds AG for the reporting period may be found in Section 4.4.1.

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

Acquired subsidiaries are accounted for using the purchase method. The acquisition costs correspond to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the time of the transaction (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 consolidated 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 subsidiary companies are 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 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 the 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 a component of the book value of the shares and is not tested separately for impairment. Any amount that is in excess of the acquisition cost of the acquired interest in the fair values of the identifiable assets, liabilities and contingent liabilities, is recognised in the acquisition period when determining the share of the associated company in the profit or loss.

4.4. Consolidation scope

4.4.1. Included companies

The consolidated annual accounts of Grounds AG of 31 December 2020 include the parent company and all subsidiary companies listed below.

List of subsidiary companies

Company name	Domicile	Capital share
The Grounds Real Estate GmbH	Berlin	94.9 %
TGA Immobilien Erwerb 11 GmbH [1)]	Berlin	100 %
TGA Immobilien Erwerb 4 GmbH [1)]	Berlin	100 %
TGA Immobilien Erwerb 5 GmbH [1)]	Berlin	100 %
TGA Immobilien Erwerb 7 GmbH [1)]	Berlin	100 %
Silent Living Grundbesitz GmbH [1)]	Berlin	100 %
TGA Immobilien Erwerb 12 GmbH	Berlin	100 %
TGA Immobilien Erwerb 13 GmbH	Berlin	100 %
TGA Immobilien Erwerb 14 GmbH	Berlin	100 %
TGA Immobilien Erwerb 15 GmbH	Berlin	100 %
Grundstücksentwicklung Halberstädter Straße 153 GmbH	Berlin	94.9 %
The Grounds App 1 GmbH & Co. KG	Berlin	100 %
The Grounds App 2 GmbH & Co. KG	Berlin	100 %
MDSG Lagerwirtschaft und Distributionsgesellschaft mbH[1)]	Berlin	100 %
BORBICO GmbH [6)]	Zossen	51 %
Gesellschaft für Dienstleistungen Logistikzentrum Hangelsberg mbH (vormals CS3 GmbH) [2)]	Berlin	100 %
Capstone Opportunities AG [2)]	Berlin	89.9 %
CS1 GmbH [2), 3)]	Berlin	100 %
CSO Verwaltung GmbH [2), 3)]	Berlin	100 %
TGA Immobilien Erwerb 8 GmbH [2), 3)]	Berlin	100 %
Wohnen am Haseknie GmbH & Co. KG [2), 3)]	Berlin	100 %

Additionally, the consolidated annual accounts comprise the following related companies:

List of related companies

Company name	Domicile	Capital share
WMKG GmbH [2), 3)]	Berlin	50.0 %
Grundstücksgesellschaft LennéQuartier mbH & Co. KG [5)]	Berlin	52.55 %
Zeppelin One GmbH [2), 4)]	Berlin	50.0 %
CS2 GmbH [2), 3)]	Berlin	49.0 %

[1)] Held indirectly via The Grounds Real Estate GmbH.
[2)] Additions during the financial year.
[3)] Held indirectly via Capstone Opportunities AG.
[4)] Held indirectly via TGA Immobilien Erwerb 8 GmbH.
[5)] Partly directly, partly indirectly held and received via Capstone Opportunities AG.
[6)] Held indirectly via TGA Immobilien Erwerb 12 GmbH.

Finally, on balance sheet date, Grounds AG held the following participations:

List of participations

Company name	Domicile	Capital share	Result for the year (€000)	Equity (€000)
ZuHause in Heubach GmbH & Co. KG [7)]	Stuttgart	10.01 %	-2,797	-2,556
PropTech1 Fund I Carry GmbH & Co.KG [8)]	Berlin	5.5 %	7	-4
ERIC Group GmbH [8)]	Berlin	1.2 %	-306	1,262

All participations were held directly.
[7)] Data according to preliminary annual accounts of 31 December 2020.
[8)] Data according to the annual accounts of 31 December 2019.

4.4.2. Changes in the reporting period

Compared to 31 December 2019, the consolidation scope has changed as follows during the period under review:

- Following a non-cash capital increase resolved upon by the bodies of the Company on 15 July 2020 and entered in the commercial register on 11 August 2020, Grounds AG acquired 89.9% of the shares in Capstone Opportunities AG, Berlin. Grundstücksgesellschaft LennéQuartier mbH & Co. KG, in which a share of 5.1% was previously held, has become a related company of Grounds AG accordingly. Capstone Opportunities AG and its subsidiaries and related companies have been included in the consolidated accounts for the first time by way of full consolidation respectively the equity method.
- The 7.5% participation in SQUADRA Erste Immobiliengesellschaft mbH, Frankfurt am Main, held until the previous, year was sold.

5. Significant Accounting and Evaluation Policies

The annual accounts of the subsidiaries have been included in the consolidated annual accounts in accordance with the following uniform accounting policies. Where significant deviations from the Group's accounting policies have been identified in the individual accounts of the related companies, an adjustment was also made in the consolidated accounts.

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 purpose of the Group annual accounts for the reporting period 2020, no impairment of the reported goodwill resulting from the contribution of the shares in The Grounds Real Estate AG in 2017, which was presented as a reverse acquisition, had to be assumed. The goodwill from the acquisition of Capstone Opportunities AG did not require any impairment either.

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. Leases

The Company's agreements are assessed at inception, in order to determine whether they constitute or contain a lease. A lease always exists if the contractual agreements give rise to the right to control the use of an identified asset for a certain period, against payment of a consideration.

5.3.1. Contractual relationships as lessee

The Grounds Group is the lessee of the following categories of assets, whilst these leases are of minor significance overall:

- business and office space;
- motor vehicles;
- (other) operating and office equipment.

With the exception of short-term leases, the Grounds Group recognises an asset for the right-of-use item and a liability for the payment obligations incurred in respect of all identified leases in which it is the lessee.

The right of use is measured at cost at the time of acquisition. These result from the initial value of the lease liability as well as any ancillary costs (payments made before the start of the term, directly attributable contract acquisition costs, agreed dismantling obligations) and reductions (incentive payments received). Lease and non-lease components in the leases are separated and the identified non-lease components are recognised immediately as expenses.

The lease liability is measured at the present value of the lease payments to be made over the term of the lease. The payment obligations are generally discounted using the marginal capital interest rate, because the implicit interest rates of the leases cannot be determined reliably. The marginal capital interest rate is based on the interest rate that the Company would have to pay for borrowing funds under comparable economic conditions. A uniform discount rate is applied to portfolios of similarly structured leases (for example similar assets, similar residual maturities, etc.).

The lease payments included in the measurement of the lease liability comprise:

- fixed payments, including de facto fixed payments and minus incentives granted by the lessor;
- variable payments linked to an index or reference interest rate are (initially) assessed by using the index or interest rate value prevailing on the provision date;
- amounts expected to be incurred in conjunction with guaranteed residual value;
- exercise prices for call or renewal options, if it is sufficiently certain that the option will be exercised;
- penalties for early termination of the lease, if it is sufficiently certain that the termination will occur.

When determining the term of the lease, in addition to the fixed basic term, periods are also taken into account that are added as expected through exercising extension options and the non-exercising of termination options.

For the purpose of subsequent measurement, the right of use is amortised on a straight-line basis over the lease term. The lease liability is carried forward using the effective interest method, whilst taking the lease payments made into account. Additionally, the right of use is written down for any impairment and is adjusted on an ongoing basis for certain revaluations of the lease liability.

Lease liabilities are assessed anew if future lease payments change on account of changes in interest rates or indices, if estimates of expected payments must be adjusted in view of a guaranteed residual value, a new assessment arises in view of the exercising of a purchase, extension or termination option or if de facto fixed lease payments change. In the case of revaluation of the lease liability, a corresponding adjustment is made to the book value of the right of use. To the extent that this adjustment would result in a reduction of the book value of the right of use to below zero, the adjustment amount is recognised in the consolidated profit-and-loss account.

The rights of use to be recognised from leases are reported separately on the consolidated balance sheet, under non-current assets. The corresponding lease liabilities are also shown separately in the consolidated balance sheet, under non-current and current liabilities respectively.

For short-term leases with a residual maturity of up to 12 months, no right-of-use asset or lease liability is recognised, in deviation from the principles described above. Instead, the lease payments made are recognised as an expense in accordance with the contractual agreements, unless a straight-line distribution of expenses over the term of the contract appears to be more appropriate.

5.3.2. Contractual relationships as lessor

The Grounds Group is a lessor within the framework of leasing real estate. Such leases must be distinguished according to whether they are financing leases or operating leases. The determinant classification feature is which contractual partner bears the material opportunities and risks pertaining to the ownership of the asset in the lease. For the purpose of this assessment, certain indicators are used, such as whether the lease covers the major part of the useful economic life of the asset. If, after an overall assessment of the contractual agreements, the lessee bears the main opportunities and risks, it is a financing lease, else it is an operating lease.

The leases of Grounds Group with tenants are generally classified as operating leases. They mainly relate to privatisation projects of the Group, though partly also to properties held as financial investment. The monthly rental payments received are recognised as revenue in accordance with the provisions of the lease agreement, unless a straight-line distribution of income over the term of the lease appears to be more appropriate. If an agreement includes non-lease as well as lease components, the contractually agreed consideration is apportioned in accordance with the stipulations of IFRS 15.

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, then 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 consolidated profit-and-loss account for the period in which they arise.

A 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 consolidated 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 held for investment at the time that 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.

5.5. Impairment of assets

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 whether impairment has occurred, assets are grouped at the lowest level 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 or repair costs, however.

5.6. Financial instruments

5.6.1. Financial assets

Purchases and sales of financial assets are captured on the day of fulfilment. They are recognised at fair value prevailing at the time of acquisition. Directly attributable transactions costs have the effect of increasing the acquisition value, if there is no recognition at fair value.

Financial assets are classified into the following measurement categories based on the Company's business model for managing such assets and the characteristics of the contractual cash flows:

- measured at amortised acquisition costs (AC);
- measured at fair value through other comprehensive income with changes in value recognised directly in equity (FVTOCI);

- measured at fair value through profit or loss with changes in value recognised in the result for the period (FVTPL).

Both in the period under review and in the corresponding period of the previous year, the Grounds Group recognised in addition to equity investments (participations) only loans and receivables that were measured as before at (amortised) cost in accordance with IAS 39. The recognised participations consist of assets of the category "FVTPL".

The participations reported on balance sheet date are conceptually recognised at their fair values, which are determined on the basis of their estimated future earnings value on the respective balance sheet date. In the case of immaterial participations, it has been assumed in some cases that the amortised cost corresponds to the fair value. Deferred income tax is provided on any differences at the balance sheet date between the carrying amount of a participation in accordance with IFRS and the relevant tax base, to the extent that the related future capital gains are not tax-exempt and the amounts are material.

Impairment losses on financial assets measured at amortised cost are recognised in profit or loss and determined in accordance with the so-called simplified impairment model in accordance with IFRS 9.5.5.15. This model determines an impairment requirement taking into account existing collateral in the amount of the expected credit losses over the entire maturity period of the assets. 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. As soon as it is apparent that a receivable has become uncollectible, the full amount is derecognised in the profit-and-loss account.

Changes in the fair value of equity investments in the "FVTOCI" category are recognised directly under other earnings. Gains and losses accumulated in other income are not classified as income or expense upon disposal of these financial assets. However, dividends are recognised in profit or loss.

5.6.2. 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 consolidated profit-and-loss account over the maturity period of the liability, 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 the fair value, the 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.

5.7. 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 measuring 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 hierarchical measurement categories:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities, whilst the accountant must have access to those active markets on assessment 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 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).

5.8. Goods in stock

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. The 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 before 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.

5.9. Cash and cash equivalents

Cash and cash equivalents are recognised on the balance sheet at acquisition cost For the purpose 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 not longer than three months.

5.10. Share-based remuneration

For share-based remuneration commitments (option rights) granted by Grounds AG for the first time during the reporting period, settlement through equity instruments (shares) is provided for, whilst the Company does also have the alternative of settling the obligation in cash. The fair value is determined at the time the options are issued and is recognised as an expense pro rata over the vesting period of the beneficiaries, with a corresponding increase in equity. With regard to capital market-dependent performance conditions of the remuneration commitments, the fair value of the options granted is determined as per issue date by using a recognised mathematical valuation model (Black-Scholes model) and is carried forward unchanged, whilst taking these conditions into account. Accordingly, for such capital market dependent performance conditions there is no adjustment between expected and actual results. On the other hand, the amount recognised as an expense is adjusted for changes in the number of options granted. Such changes may also be due to the expected fulfilment of service and/or capital market independent performance conditions.

5.11. Cost 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, provided that they related to the issuance of new equity instruments. 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 by using appropriate keys.

5.12. 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 is expecting 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 ed 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.

5.13. Deferred taxes 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 losses 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 the reserves.

5.14. Cost of debt capital

Costs of debt capital that relate to the production of a qualifying asset are capitalised. A qualifying asset is one that takes a substantial period of time to get ready for its intended use or sale. This requirement is met in particular for the project developments carried out in the Grounds Group. Other costs of debt capital are recognised as an expense in the consolidated profit-and-loss account for the period in which they are incurred.

5.15. Realisation of revenue

Revenue from customer agreements is recognised in the consolidated profit-and-loss account as soon as control of the matter to be delivered or the service to be provided has been transferred to the customer. They are recognised in the amount of the consideration to which the Group is expected to be entitled after fulfilling its performance obligation at a specific moment or over a specific period, in accordance with the contractual agreements.

Revenues of the Grounds Group are primarily generated from the development and sale of residential units and project properties as well as from rental income and operating cost settlements.

Revenues from the sale of real estate mainly include a single performance obligation within the meaning of IFRS 15. In the case of sale of real estate without an economically relevant construction obligation, there is usually a time-related performance obligation. In principle, the power of disposal over the property passes to the buyer with the transfer of possession, benefit, encumbrances and risk. At this moment, an enforceable claim for payment arises. In the case of sales of property companies, this moment coincides with the in rem execution of the share transfer. The revenue corresponds to the amount that is charged for the transaction. Because the consideration is generally due for payment upon transfer of the legal title, it does not contain a significant financing component. Where obligations to provide subsequent improvement or remediation work are assumed with the sale, any resulting revenue is not realised until they will have been honoured, because these must be regarded as a separable performance obligation.

If implementation of property purchase agreements with customers involves significant construction obligations, revenue is generally recognised over time based on the stage of completion of the construction project, from the moment onwards of concluding the agreement with the customer. The percentage of completion is generally determined on the basis of the ratio of construction costs already incurred to the expected total costs of the project (cost-to-cost method). The resulting revenue is determined on the basis of the consideration stipulated in the customer agreement. If part payments have been agreed that are calculated or collected in accordance with the performance-related milestones in the progression of the construction work, a contract asset is capitalised for all services rendered until a milestone is reached and reported separately on the consolidated balance sheet. If the milestone payment exceeds the revenue previously recognised by using the cost-to-cost method, a contract liability is recognised in the amount of the difference. The purchase agreements generally do not include a significant financing component, because the period between recognition of the revenue and the respective milestone payment is shorter than one year.

Real estate projects for which purchase agreements have not been signed yet with customers are recognised as inventory properties in accordance with IAS 2, until the agreements will have been signed.

Rental income is recognised on an accrual basis over the term of the lease in accordance with the underlying contractual provisions and is shown under revenue. Service/operating costs charged to tenants are recognised as revenue, because the Group acts as the primary responsible party (principal) in respect of the promised services to tenants and bears risk on the stock.

Interest income is recognised in proportion to time and is accrued in accordance with the outstanding nominal amount and 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.

5.16. Commission for mediation

Commissions for mediation (brokers' fees) in specific business transactions with customers must always be capitalised as an asset and depreciated according to schedule. In view of their short-term nature, commission of the Grounds Group is recognised as an expense at the time of fulfilling the mediated transaction. Up to this point, commissions already paid are reported under other receivables as contract acquisition costs.

6. Capital Management and Financial Risk Management

With the help of capital management, Grounds AG aims to sustainably strengthen the liquidity and the 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. Particularly, 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.

Responsibility for liquidity risk management rests upon 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.

Estimates and assumptions did particularly have 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.
- Estimation of the disclosable hidden reserves within the scope of the purchase price allocation for company acquisitions.
- Valuation of goodwill.

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

The intangible and tangible assets developed as follows:

	Goodwill		Other intangible assets		Tangible assets	
€000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Acquisition / manufacturing costs	778	778	25	25	211	266
Cumulative depreciation	0	0	12	8	67	38
Book value on 1 January	**778**	**778**	**13**	**17**	**144**	**228**
Additions (+)	1,161	0	0	0	90	2
Additions from first consolidation (+)	0	0	7	0	55	0
Disposals (–)	0	0	0	0	-101	-58
Depreciations (–)	0	0	-2	-4	-28	-28
Additions depreciations from first consolidation (–)	0	0	-3	0	-21	0
Book value on 31 December	1,939	778	15	13	139	144
Acquisition / manufacturing costs	1,939	778	32	25	199	211
Cumulative depreciation	0	0	17	12	60	67

8.2. Usage Rights

The usage rights from leases differentiated by asset category developed as follows during the period under review:

	Business and office space		Motor vehicles		Other expenditure	
€000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Procurement costs	0	0	0	0	0	0
Cumulative depreciation	0	0	0	0	0	0
Book value on 1 January	**0**	**0**	**0**	**0**	**0**	**0**
Additions (+)	447	0	51	0	12	0
Additions from first consolidation (+)	0	0	0	0	0	0
Disposals (–)	0	0	0	0	0	0
Depreciations	-22	0	-3	0	-3	0
Additions depreciations from first consolidation (–)	0	0	0	0	0	0
Book value on 31 December	425	0	48	0	9	0
Procurement costs	447	0	51	0	12	0
Cumulative depreciation	22	0	3	0	3	0

Short-term leases to which application relief of IFRS 16.6 applies, did not exist on balance sheet date.

8.3. Lessor relationships

The rental agreements of the Grounds Group that are classified as operating leases, resulted in rental income of EUR 1,176 thousand during the reporting period (previous year: EUR 1,008 thousand). Of this amount, EUR 81 thousand (previous year: EUR 0) is attributable to stock or project properties and EUR 1,095 thousand (previous year: EUR 1,008 thousand) to investment properties.

The operating leases of Grounds Group mainly relate to the leasing of warehouse space for logistics operations and the leasing of residential properties with a statutory notice period of three months. Because the logistics operations were sold in 2020, Grounds AG does in 2021 essentially only generate revenue from renting residential properties. Minimum lease payments of approximately EUR 1,336 thousand are expected to be generated from the existing leases of the real estate portfolio during the financial year 2021, of which EUR 388 thousand is attributable to the inventory properties that should be sold as part of the individual privatisation. The future minimum lease payments for the basic rental period of the longer-term leasing of commercial properties that cannot be terminated, are of minor significance.

8.4. Participations

The reported participations are a share of 10.1% in ZuHause in Heubach GmbH & Co. KG, Stuttgart, a share of 5.5% in PropTech1 Fund I Carry GmbH & Co. KG, Berlin and a share of 1.2% in ERIC Group GmbH, Berlin, which are recognised at acquisition cost. Because there were no differences between the book values of the participations as per IFRS and the fiscal values, deferred taxation did not need to be accrued.

The 7.5% stake in SQUADRA Erste Immobiliengesellschaft mbH, Frankfurt, held in the previous year was sold during the period under review. A profit of EUR 459 thousand was obtained from the sale.

8.5. Treasury shares recognised in accordance with the equity method

Treasury shares recognised in accordance with the equity method have developed as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Beginning of the financial year	**0**	**24**
Additions of shares	2,541	0
Disposals of shares due to transition to full consolidation	0	-17
Shares in profits and losses	132	-7
End of the financial year	**2,673**	**0**

8.6. Properties held as financial investment

	31/12/2020	31/12/2019
	€000	**€000**
Status at the beginning of the financial year	**9,600**	**9,500**
Additions (+)	12,746	64
Disposals (–)	-11,100	0
Appreciations (+)	2,754	36
Status at the end of the financial year	**14,000**	**9,600**

The disposal in 2020 relates to the sale of a commercial property in Hangelsberg with a total of 83 units and a total rental area of 57,000 m².

The addition in 2020 relates to 21 rented apartment blocks with partly minor commercial usage and a total rental area of 16,883 m².

Book values in the amount of EUR 8,700 thousand (previous year EUR 3,000 thousand) of properties held as financial investments are encumbered with mortgages in order to secure liabilities to financial institutions.

Independent expert opinions were obtained for determining the fair values of real estate held as financial investment on balance sheet date. Valuations are based on estimates that cannot be observed on the market, especially expected future rental income and management costs. On this basis, the fair value was determined to be a total amount of EUR 14,000 thousand on balance sheet date.

The following overview shows the significant assumptions and results used in determining the fair value of the investment properties held as financial investments within the framework of valuation in accordance with the income capitalisation approach:

Valuation parameters	Unit	Mean value	Range
Property interest rate	in %	4.3	3.5 - 5.5
Residual useful life	years	38	35 - 40
Market rent	EUR/m²	4.99	4.50 – 6.25
Operating costs	% of gross profit	25.7	15.5 - 29.8

Net provisioning results	Unit	Mean value	Range
Target rents multiplier	Factor	13.9	11.3 – 15.9
Market value per m²	EUR/m²	829	611 – 1,050

If the property interest rate used for determining the fair value of these properties were to have been increased by 0.5 percentage points, it would have resulted in a fair value of EUR 13,060 thousand in total. Conversely, if the interest rate were to have been reduced by 0.5 percentage points, the result would have been a fair value of EUR 15,110 thousand in total. A reduction of the market rent by 10% would result in a fair value of the properties of EUR 12,900 thousand. Conversely, if the market rent would have increased by 10%, the fair value of the properties would be EUR 15,670 thousand in total.

The valuation of investment property at fair value is allocated to Level 3 in accordance with the valuation hierarchy as per IFRS 13.

The consolidated profit-and-loss account contains the following items in relation to real estate held as financial investments:

	2020	2019
	€000	**€000**
Rental income (revenues)	1,095	1,008
Cost of materials	-269	-80
Maintenance expenditure	-17	-323
Total	**809**	**605**

In view of the low vacancy rate of 0.8% (previous year: 0.8%), the expenditure in relation to vacant properties held as financial investment is immaterial.

8.7. Other financial assets

The other financial assets are made up as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Cooperative shares	10	10
Long-term loan	213	0
Other securities	5	0
Total	**228**	**10**

The loan to third parties of EUR 213 thousand bears interest at 5% per annum.

8.8. Stock

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

	31/12/2020	31/12/2019
	€000	**€000**
Work in progress	0	22
Properties under construction	22,478	1,387
Properties ready for sale	8,471	6,940
Down payments made	1,288	5,825
Total	**32,237**	**14,174**

Properties under construction encompass project developments in the planning and construction stages.

8.9. Contractual assets

The contractual assets amounting to EUR 12,399 thousand (previous year EUR 0) are classified as current. They fully relate to construction services already rendered for a residential construction project in Leipzig, for which the contractually agreed progress payments could not yet be collected because the next milestone of the construction project had not yet been reached on reporting date.

8.10. Receivables from goods and services

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:

	31/12/2020	31/12/2019
	€000	**€000**
Receivables from goods and services (gross)	136	154
Value adjustments	0	0
Receivables from goods and services (net)	**136**	**154**

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

	31/12/2020	31/12/2019
	€000	**€000**
Receivables from goods and services	136	154
of which on reporting date not impaired and not overdue	111	0
of which on reporting date not impaired and overdue up to 30 days	16	32
of which on reporting date not impaired and overdue from 31 to 60 days	2	0
of which on reporting date not value-adjusted and overdue between 61 and 90 days	4	0
of which on reporting date not value-adjusted and overdue between 91 and 180 days	0	0
of which on reporting date not value-adjusted and overdue between 181 and 360 days	3	119
of which on reporting date not value-adjusted and overdue for more than 360 days	0	3
Net value of value-adjusted receivables from goods and services	0	0

As in the previous year, there were no value adjustments of receivables from goods and services in the financial year 2020. The default risk of receivables overdue by more than 30 days was estimated to be insignificant on balance sheet date.

8.11. Other receivables

As in the previous year, other receivables contained only current items on balance sheet date, which were made up as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Claims against companies in which we participate	0	1,713
Receivables from related undertakings	431	0
Receivables from loans to related companies/persons	1,316	1,303
Other receivables from related companies/persons	193	21
Receivables from loans to third parties	1,604	1,588
Claims to disbursement from notarial escrow account	15,650	0
Receivables in relation to turnover tax	178	850
Tax refund claims	388	23
Surety deposits	34	0
Miscellaneous other receivables	602	117
Total	**20,396**	**5,585**

Receivables from related companies in the previous year are in the amount of EUR 1,533 thousand the result of a credit line agreement. During the period under review, the credit line bore interest at 0.5% per annum.

The recognised loans to related companies for a total amount of EUR 1,316 thousand (previous year: EUR 1,303 thousand) bear interest at 1% per annum.

The loan to third parties of EUR 1,500 thousand bears interest at 3% per annum and is secured by a mortgage.

There were no depreciations on other receivables

8.12. Cash and Cash Items

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

8.13. Equity

On balance sheet date, the capital stock of the Company amounts to EUR 17,805,517 and is divided into 17,805,517 ordinary shares. During the period under review, it has developed as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Beginning of the financial year	15,105,517	15,105,517
Non-cash capital increase	2,700,000	0
End of the financial year	17,805,517	15,105,517

The non-cash capital increase during the financial year 2020 was carried out on the basis of a resolution by the Management Board and the Supervisory Board on 15 July 2020 by using the prevailing authorised capital. The subject of the capital increase was the contribution of 89.9% of the shares of Capstone Opportunities AG, Berlin, for which 2.7 million new shares were granted at an issue price of EUR 1.00 per share.

By resolution of the Annual General Meeting of 28 August 2020, the Management Board was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions until 27 August 2025 by up to a total of EUR 8,750 thousand against cash and/or non-cash contributions, whilst shareholders' subscription rights may be excluded (Authorised capital 2020/ I).

By resolution of the Annual General Meeting of 28 August 2020, the share capital of the Company has been conditionally increased by up to EUR 1,750 thousand with a view to the introduction of the share option programme (Conditional capital 2020/I). The Conditional capital 2018/I of 2 August 2018 is cancelled in the amount of EUR 400 thousand by resolution of the Annual General Meeting of 28 August 2020. After this partial cancellation, it still amounts to EUR 7,152,758.

The capital reserve includes issue amounts for shares obtained in past capital increases in excess of the amount of subscribed capital, as well as additions from the issuance of share-based payments. These amounts are reduced by equity procurement costs (after deduction of income taxes) and by withdrawals for loss compensation.

The change in the capital reserve during the reporting period is made up as follows: On the one hand, the difference between the applicable stock market price and the issue amount of the new Grounds shares in the amount of EUR 1,161 thousand in total had to be taken into account in conjunction with the mentioned non-cash capital increase. In view of the economic nature of the non-cash capital increase, the associated expenses were not classified as equity procurement costs and were therefore recognised in full in profit or loss for the period. On the other hand, a total of EUR 57 thousand was added to the capital reserve as a result of the (first-time) issuance of share-based payments (option rights) within the meaning of IFRS 2.

Retained earnings result from transactions not recognised in profit or loss when the Group annual accounts in accordance with IFRS were drawn up for the first time.

The adjustment item from company acquisition is the result of reverse company acquisition between Grounds AG and The Grounds Real Estate GmbH (previously: AG) during the financial year 2017.

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

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

8.14. Financial liabilities

The financial liabilities of the Company are made up as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Long-term financial liabilities		
Liabilities to financial institutions and other lenders	18,410	2,467
Total long-term financial liabilities	**18,410**	**2,467**
Short-term financial liabilities		
Liabilities to financial institutions and other lenders	30,889	10,286
Total short-term financial liabilities	**30,889**	**10,286**
Total financial liabilities	**49,299**	**12,753**

Mortgages amounting to EUR 49,025 thousand (previous year: EUR 11,500 thousand) exist for liabilities to financial institutions. Furthermore, the liabilities are secured by pledges on bank accounts, the cession of claims for damages, and the cession of sales and rental receivables. Additionally, a member of the Supervisory Board and a former member of the Management Board have each issued directly enforceable sureties in the amount of EUR 2,223 thousand (previous year: EUR 2,790 thousand) for these liabilities. And three related companies have committed themselves through guarantees of EUR 200 thousand each.

There are also contractual obligations to comply with financial covenants for financial liabilities amounting to EUR 8,700 thousand (previous year: EUR 0). The financial ratios essentially relate to the covenants customary in the industry with regard to the so-called loan to value (ratio between the debt balance and the market value of the collateral object) as well as the debt service cover ratio or interest coverage ratio, meaning the ability to service the expected debt service through income.

Financial liabilities include subordinated loans of EUR 3,773 thousand granted by related undertakings, which bear interest of between 3% and 12% per annum.

All loans are denominated in euros.

8.15. Liabilities from leasing

The liabilities emanating from leasing are made up as follows:

Due date	up to 1 year		> 1 year to 5 years		> 5 years	
€000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Payments	130	0	454	0	0	0
Interest portion	25	0	46	0	0	0
Redemption portion	105	0	408	0	0	0

Expenditure emanating from short-term leases to which application relief under IFRS 16.6 applies, did not exist during the period under review.

8.16. Provisions

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

	Staff	Pending invoices	Annual accounts and audit	Miscella-neous	Total
		€000	**€000**	**€000**	**€000**
1 January 2020	**0**	**421**	**184**	**51**	**656**
Additions from changes in the consoli-dation scope	0	399	15	0	414
Utilisation	0	807	132	48	987
Release	0	13	33	0	46
Additions	282	1,971	153	1	2,407
Reductions from selling companies	0	1	2	0	3
31 December 2020	**282**	**1,970**	**185**	**4**	**2,441**

The other provisions essentially comprise provisions for custody.

8.17. Payables for goods and services

Payables for goods and services have developed as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Payables for goods and services	**1,188**	**771**

8.18. Received down payments

Received down payments have developed as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Received down payments	**131**	**0**

8.19. Other commitments

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

	31/12/2020	31/12/2019
	€000	**€000**
Commitments to related undertakings/persons	1,171	240
Payables to associated undertakings	3,232	0
Collateral retentions	107	98
Turnover tax	55	0
Landed property acquisition tax	741	0
Miscellaneous other payables	92	44
Other commitments	**5,398**	**382**

The remaining other liabilities include, inter alia, income tax.

8.20. Current tax on earnings

Current income tax liabilities in the amount of EUR 5.513 thousand (previous year: EUR 4.120 thousand) comprise corporation tax liabilities in the amount of EUR 3.112 thousand (previous year: EUR 1,972 thousand) and trade tax liabilities in the amount of EUR 2,401 thousand (previous year: EUR 2,148 thousand).

8.21. Deferred taxes

The changes in deferred tax items are as follows:

	2020	2019
	€000	**€000**
Deferred tax assets	598	737
Deferred tax liabilities	-1,736	-1,649
Balance of deferred tax items at the beginning of the financial year	**-1,138**	**-912**
Deferred tax liabilities from company acquisition as per IFRS 3	-1,838	0
Expenditure (-) / Revenue (+) in the P&L	2,385	-226
Balance of deferred tax items at the end of the financial year	**-591**	**-1,138**
Deferred tax assets	2,011	598
Deferred tax liabilities	-2,602	-1,736

The changes in deferred tax assets are explained as follows:

Cause	From differences in goods in stock	Equity procurement costs	Tax losses carried forward	Total
	€000	**€000**	**€000**	**€000**
Status 1 January 2020	**0**	**4**	**594**	**598**
Amounts recognised in the profit-and-loss account	73	0	1,340	1,413
Status 31 December 2020	**73**	**4**	**1,934**	**2,011**

Deferred tax assets from losses 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 subsidiary companies. Based on its planning, the company expects to be able make use of the resulting losses carried forward in the next five financial years. No deferred tax assets have been recognised for certain carried forward trade tax losses in the amount of EUR 527 thousand (previous year EUR 0) and certain carried forward corporation tax losses in the amount of EUR 453 thousand (previous year EUR 368 thousand), because there is insufficient certainty about their realisation.

The changes in deferred tax liabilities are explained as follows:

Cause	From differences in financial assets	From differences in financial liabilities	From differences in goods in stock	From differences in real estate held as financial investment	Total
	€000		**€000**	**€000**	**€000**
Status 1 January 2020	**-5**	**0**	**0**	**-1,731**	**-1,736**
Deferred tax liabilities from company acquisition as per IFRS 3	-216	0	-1,622	0	-1,838
Amounts recognised in the profit-and-loss account	-57	-187	-136	1,352	972
Status 31 December 2020	**-278**	**-187**	**-1,758**	**-379**	**-2,602**

8.22. Sales revenues

The sales revenues of the Grounds Group that relate exclusively to domestic real estate, are made up as follows:

	2020	2019
	€000	€000
Turnovers profits on the sale of properties	29,311	12,937
Rental proceeds	969	855
Income from operating costs charged on	207	148
Turnovers from the sale of participations	459	0
Services	195	0
Miscellaneous	122	0
Total	**31,263**	**13,940**

The reported rental income relates to the net cold rents from operating leases of the Grounds Group as defined in IFRS 16. Revenues from passed-on operating costs include apportionable ancillary costs and do not include a margin. They are considered separate non-lease components and fall within the scope of IFRS 15.

The distribution of revenue from customer agreements in accordance with IFRS 15 is as follows in terms of the time of recognising the revenue:

	Real estate sales		Operating cost income		Sales of participations		Services	
€000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Time-related services	16,912	12,937	0	0	459	0	0	0
Period-related services	12,399	0	207	148	0	0	195	0
Total revenues from customer agreements	29,311	12,937	207	148	459	0	195	0

8.23. Stock changes

The changes in stock during the financial year 2020 relate to the reduction of EUR 313 thousand in work in progress (previous year: EUR 1,147thousand).

8.24. Cost of materials

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

	2020	2019
	€000	**€000**
Acquisition costs of sold properties and building costs	-23,928	9,434
Expenditure for raw materials and consumables	0	2
Procured services	-980	79
Total	**-24,908**	**9,515**

8.25. Staffing costs

The staffing costs are made up as follows:

	2020	2019
	€000	**€000**
Salaries, other benefits	939	382
Social security contributions and expenditure on old-age care and support	72	62
Total	**1,011**	**444**

Social security contributions and expenditure for old-age care and support include expenses for old-age care of EUR 1 thousand (previous year: EUR 1 thousand).

For share-based payments granted (for the first time) to executives in the financial year 2020, an expense of EUR 57 thousand was recognised in the item salaries, other benefits. For further details on the determination of the fair value of this remuneration component, please refer to Paragraph 10.2 Share-based payments. In view of the lack of tax deductibility of the expenses from the share-based payments, no deferred income taxes have been accrued.

8.26. Other Operating Income

The other operational income contains the following amounts:

	2020	2019
	€000	**€000**
Reversal of negative difference	0	360
Reversals of provisions	46	758
Miscellaneous other operating income	36	185
Total	**82**	**1,303**

8.27. Other Operating Expenditure

The other operational expenditure contains the following amounts:

	2020	2019
	€000	**€000**
Housing costs	138	190
Insurance, contributions and charges	62	42
Repairs and maintenance	34	55
Vehicle costs	13	21
Advertising and travel expenses	40	57
Legal and consultancy fees	237	442
Annual accounts and audit fees	133	186
Losses from divestment of fixed assets	1	0
Non-deductible input tax	226	6
Compensation for damage	0	119
Third-party services and work	665	892
Miscellaneous other operating expenditure	287	160
Total	**1,836**	**2,170**

8.28. Financial Result

The other operating expenditure contains interest expenditure from previous periods amounting to EUR 7 thousand (previous year: EUR 0).

8.29. Income tax expenditure/revenues

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

	2020	2019
	€000	**€000**
Deferred income tax expenditure/revenues	-3,496	295
Deferred income tax expenditure/revenues	2,385	-223
Summe	**-1,111**	**72**

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

Tax reconciliation account	2020	2019
	€000	**€000**
Results before taxation	5,119	-18
Income taxes calculated on the basis of the income tax rate of the parent company	-1,545	5
Effect from		
• tax-exempt revenues / non-deductible expenditure	20	446
• non-recognition of deferred tax assets on losses carried forward	-34	-333
• First-time recognition of deferred tax assets on losses carried forward	369	0
• consolidation entries recognised directly in equity	17	0
• other causes	62	-46
Ausgewiesener Ertragsteueraufwand/-ertrag	**-1,111**	**72**

The tax reconciliation is based on a cumulative income tax rate for the parent company of 30.175%.

8.30. 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 time-weighted average number of shares issued during the financial year, excluding treasury shares held by the Company.

	2020	2019
	€000	**€000**
Profit attributable to the shareholders of the parent company (€000)	3,599	2
Average number of shares issued (nominal)	16,230,517	15,105,517
Undiluted earnings per share (EUR)	**0.22**	**0.00**

In the financial year 2020, no dividend was paid for the preceding financial year. No dividend is expected to be distributed for the financial year 2020 either.

8.31. 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. It is EUR -24,027 thousand (previous year: EUR 13,281 thousand). It contains income tax payments in the amount of EUR 600 thousand (previous year: EUR 131 thousand).

Liabilities from financing activities consist of the Group's long-term and short-term financial liabilities. During the period under review, they developed as follows:

	2020	2019
	€000	**€000**
Opening balance	**12,753**	**33,910**
Changes affecting payments	34,331	-10,372
Changes not affecting payments		
Changes in the consolidation scope	2,214	-10,785
Closing balance	**49,298**	**12,753**

The liquidity reported under cash and cash equivalents includes balances at banks and is composed as follows:

	31/12/2020	31/12/2019
	€000	**€000**
Cash and Cash Items	623	1,330
Cash and cash equivalents at the end of the period	**623**	**1,330**

8.32. Contingent liabilities and other financial commitments

On reporting date, there was an obligation in relation to the acquisition of treasury shares in the amount of EUR 750 thousand, which did not become effective until 2021.

In July 2018, The Grounds App 1 GmbH & Co. KG concluded a purchase agreement for a project development site in Bad Zwischenahn with a planned usable floor space of 30,628 m², of which the payment of the purchase price is linked to a resolution on the interpretation of the development plan and the occurrence of the readiness to submit a building application. This results in an obligation of EUR 18,896 thousand on 31 December 2020.

The Group‘s contingent liabilities are shown in Section 8.14 Financial liabilities.

8.33. Additional information on financial instruments

a) Classes and evaluation categories

The following tables show the book values and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. They do not show fair value information for financial assets and financial debts that are not measured at fair value, if the book value is an appropriate approximation of the fair value.

	Book value				Fair value
31/12/2019	FVTPL equity instruments	Financial assets at amortised acquisition cost	Other financial liabilities	Total	Total
	€000	**€000**	**€000**	**€000**	**€000**
Participations	25	0	0	25	25
Receivables from goods and services	0	154	0	154	154
Other receivables and assets	0	5,585	0	5,585	5,585
Total financial assets	**25**	**5,739**	**0**	**5,764**	**5,764**
Financial liabilities	0	0	12,753	12,753	12,753
Received down payments	0	0	0	0	0
Payables for goods and services	0	0	771	771	771
Other commitments	0	0	381	381	381
Total financial liabilities	**0**	**0**	**13,905**	**13,905**	**13,905**

	Book value				Fair value
31/12/2020	FVTPL equity instruments	Financial assets at amortised acquisition cost	Other financial liabilities	Total	Total
	€000	**€000**	**€000**	**€000**	**€000**
Participations	152	152	0	152	152
Receivables from goods and services	136	136	0	136	136
Other receivables and assets	20,396	20,396	0	20,396	20,396
Total financial assets	**20,684**	**20,684**	**0**	**20,684**	**20,684**
Financial liabilities	49,298	0	49,298	49,298	49,298
Received down payments	131	0	131	131	131
Payables for goods and services	1,188	0	1,188	1,188	1,188
Other commitments	5,398	0	5,398	5,398	5,398
Total financial liabilities	**56,015**	**56,015**	**56,015**	**56,015**	**56,015**

With regard to the recognised participations, their acquisition costs represent an appropriate estimation of their fair value, because the conditions have not changed significantly since acquisition.

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 basically apply to down payments received, payables from goods and services and to other liabilities.

Financial liabilities were initially recognised at fair value minus transaction costs, which regularly corresponded to the acquisition costs.

Consequently, the book value of financial liabilities on balance sheet date represents the amount that would be measured at amortised cost by using the effective interest method. Taking into account the rapid redemption of the loans, the fair value in subsequent periods approximates the amortised cost.

The accruals of transaction costs according to the effective interest method have led to a reduction of financial liabilities by EUR 621 thousand (previous year: EUR 25 thousand).

Net earnings from financial instruments as per measurement categories in accordance with IFRS 9 for the period from 1 January to 31 December 2020 are as follows:

	Financial assets at amortised acquisition cost		Other financial liabilities	
	2020	2019	2020	2019
	€000	€000	€000	€000
Interest income	115	75	0	0
Interest expenditure	0	0	-1,110	-2,057
Net earnings	115	75	-1,110	-2,057

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

b) Financial risks

The activities of the Group expose it to various risks. They are particularly liquidity risk, default risk and interest rate risk. Through targeted financial risk management, 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:

31/12/2020	Book value	Total cash outflows	Outflows in the next reporting period	Outflows in the reporting period follo-wing the next period	Later outflows
	€000	**€000**	**€000**	**€000**	**€000**
Outflows under financial liabilities	**49,298**	**51,638**	**31,976**	**10,799**	**8,863**
Payables for goods and services	1,188	1,188	1,188	0	0
Other commitments	5,398	5,398	5,291	0	107
Payables from goods and services and other liabilities	**6,586**	**6,586**	**6,479**	**0**	**107**
Outflows under liabilities within the scope of IFRS 7	**55,884**	**58,224**	**38,455**	**10,799**	**8,970**

31/12/2019	Book value	Total cash outflows	Outflows in the next reporting period	Outflows in the reporting period follo-wing the next period	Later outflows
	€000	**€000**	**€000**	**€000**	**€000**
Outflows under financial liabilities	**12,753**	**13,446**	**10,555**	**344**	**2,547**
Payables for goods and services	771	771	771	0	0
Other commitments	381	381	283	0	98
Payables from goods and services and other liabilities	**1,152**	**1,152**	**1,054**	**0**	**98**
Outflows under liabilities within the scope of IFRS 7	**13,905**	**14,598**	**11,609**	**344**	**2,645**

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 623 thousand (previous year: EUR 1,330 thousand) are available for covering 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 of attaching 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 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. With regard to outstanding financial liabilities on 31 December 2020, an interest rate that is higher or lower by 0.5% per annum would have increased respectively reduced interest expenditure by around EUR 246 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 of the currently consistently favourable capital market conditions.

9. Events after Balance Sheet Date

Through the acquisition of a further 50% of the shares in WMKG GmbH and 42.35% of the limited partner's shares in Grundstücksgesellschaft LennéQuartier mbH & Co. KG, the two companies have become subsidiaries.

In February 2021, Grounds AG issued a convertible bond with an issue volume of EUR 12 million, which was placed in full primarily with institutional investors and in part with major shareholders of the Company. The convertible bond carries an interest rate of 6% with a period of three years. The conversion price is EUR 3.20 per share.

Additionally, a further 152 units with a usable floor space of 11,625 m² and a total acquisition volume of approximately EUR 25 million have been acquired in the Berlin area in 2021. The projects are either intended as properties held as financial investment or for privatisation.

Other than these, no events of particular significance for the net assets, financial position and results of operations of the Grounds Group occurred after the end of the reporting period. Particularly, the Management Board of the Company does not expect the ongoing Coronavirus pandemic and the resulting global economic consequences to have a significant negative impact on the business activities and economic situation of the Grounds Group

10. Other Information

10.1. Incumbents 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 drawing up of the annual accounts:

- Thomas Prax, Wiesbaden, merchant (until 31 July 2020)
- Arndt Krienen, Remscheid, solicitor (since 3 March 2020)
- Jacopo Mingazzini, Berlin, MBA and real estate economist (since 1 August 2020)

Total emoluments for Management-Board activities amounted to EUR 573 thousand during the reporting period (previous year: EUR 120 thousand). They are in respect of EUR 516 thousand (previous year: EUR 120 thousand) of short-term fixed and variable remuneration due for current Management-Board activities and EUR 57 thousand (previous year: EUR 0) of expenses from share-based payments granted during the reporting period. In the annual accounts, provisions for bonuses in the amount of EUR 235 thousand have been recognised as an expense. The bonus for the financial year 2020 and the share-based remuneration were not due for payment in the reporting year.

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:

- Prof. Dr Winfried Schwatlo, Munich, merchant and Professor of Real Estate Management, Chairman (until 31 December 2020)
- Sönke Schwartz, Frankfurt am Main, Certified Public Accountant, Deputy Chairman (until 28 April 2020)
- Andreas Ingendoh, Berlin, solicitor (until 28 April 2020)
- Eric Mozanowski, Stuttgart, merchant, Deputy Chairman (since 29 April 2020) and Chairman (since 1 January 2021)
- Hansjörg Plaggemars, Stuttgart, Management Consultant (since 29 April 2020)
- Armin A. Hofmann, Frankfurt am Main, legal scholar and entrepreneur, Deputy Chairman (since 1 January 2021)

Total emoluments for Supervisory-Board activities amounted to EUR 73 thousand during the reporting period (previous year: EUR 80 thousand). These are exclusively short-term remunerations for current Supervisory-Board activities.

10.2. Share-based remuneration

In October 2020, Grounds AG introduced a share option programme for members of the Management Board and employees with a maximum volume of 1,750,000 share options, of which 1,400,000 are attributable to the Management Board and 350,000 to employees. The option rights issued free of charge grant the beneficiary employees a claim to purchase one no-par value share of the Company per option, at an exercise price of EUR 2.00 per share. Fulfilment of the share-based commitments may, at the discretion of the Company's governing bodies, take the form of a capital increase, treasury shares or cash settlement. It is currently assumed that all options will be fulfilled by physical delivery of shares.

The stock option programme provides for a four-year vesting period from the date of issue, during which exercising the granted stock options is excluded. Additionally, issued stock options may be forfeited under certain conditions if the beneficiary's employment with companies of the Grounds Group ends within a period of three years from the date of issue.

The number of share options granted is at the discretion of the Company's governing bodies and is not based on the achievement of specific performance targets formalised in the share option scheme. However, exercising the option rights granted after expiry of the waiting period requires achievement of a capital market-dependent performance target. It requires that the price of the Grounds share in XETRA® trading or a comparable successor system will have increased by at least 20%, compared to the exercise price at the issue date. The mean value of the price for a Grounds share determined in the closing auction in XETRA® trading or a comparable successor system on the Frankfurt Stock Exchange on the ten stock exchange trading days prior to the first day after expiry of the waiting period will be decisive for determining whether the exercise hurdle has been met.

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

Number of options	Outstanding on 1 January	Issued during the year under review	Outstanding on 31 December	Residual period until exercisability
Tranche 2020	0	1,400,000	1,400,000	45
Total	0	1,400,000	1,400,000	45

All share options issued during the reporting period have been issued on the same day. The fair value of the share options issued was determined using the Black-Scholes model on the basis of the following significant valuation parameters on issue date:

Option valuation parameters	Tranche 2020
Fair value on issue date (in EUR)	0.66
Share price on issue date (in EUR)	2.04
Exercise price (in EUR)	2.00
Exercise hurdle (in EUR)	2.40
Expected volatility (in %)	49.35
Expected period (in years)	4
Expected dividends (in EUR)	0.00
Risk-free interest rate (in %)	-0.045

The expected volatility at the issue date of the share options was estimated on the basis of the arithmetic mean of the historical volatilities for a six-months and twelve-months reference period. The risk-free interest rate was based on the yield for long-term German government bonds, derived from the average value determined for a three-months reference period on issue date.

For information on the expenses related to these share-based payments in the reporting period, please refer to Paragraph 8.18 Staffing costs. For detailed information on the remuneration report, please refer to the Group management report (Paragraph 6).

10.3. Transactions with related undertakings and persons

Related parties include all subsidiaries mentioned in Paragraph 4.4.1 as well as the related companies of Grounds AG. Related persons are the members of the Management and Supervisory Boards, who are considered to be key management staff, and their close relatives. Additionally, related undertakings include undertakings over which Management-Board members or Supervisory-Board members or their close relatives can exercise a significant influence or in which they hold a significant share of the voting rights.

In addition to the activities mentioned above in Paragraph 10.1 as a member of governing bodies, the following business transactions have taken place with related parties:

	Value of the business transactions		Balances outstanding on 31 December	
	2020	**2019**	**2020**	**2019**
	€000	**€000**	**€000**	**€000**
From services and other exchanges of services – receivables				
Members of the management in key positions	4	0	0	0
Other related persons and undertakings	0	100	193	21
Vis-à-vis related undertakings	195	0	0	0
From services and other exchanges of services – liabilities				
Other related persons and undertakings	451	64	1,171	240
From financing agreements – liabilities				
Members of the management in key positions	2	0	0	0
Other related persons and undertakings	243	278	3,773	3,073
Vis-à-vis related undertakings	81	0	3,232	0
From financing agreements – receivables				
Other related persons and undertakings	13	66	1,316	1,303
Vis-à-vis related undertakings	0	0	431	0

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

10.4. Average number of staff

During the reporting period, the undertakings included in the consolidated annual accounts have, on average, employed 11 staff members (previous year: 10).

10.5. 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 25 thousand. They are composed as follows:

	2020	2019
Type of service	**€000**	**€000**
Related to the annual accounts	25	25
Other auditing services	0	0
Fiscal consultancy	0	0
Other services	0	0
Total	**25**	**25**

Berlin, 22 June 2021

Management Board of The Grounds Real Estate Development AG

Arndt Krienen Jacopo Mingazzini

OPINION OF THE INDEPENDENT AUDITOR

To The Grounds Real Estate Development AG, Berlin

Audit Opinions

We have audited the consolidated annual accounts of The Grounds Real Estate Development AG, Berlin, and its subsidiary companies (the Group) - comprising the consolidated balance sheet of 31 December 2020, the consolidated profit-and-loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2020, and the notes to the consolidated annual accounts, together with a description of their accounting policies. We have also audited the Group management report of The Grounds Real Estate Development AG, Berlin, for the financial year from 1 January to 31 December 2020. In accordance with German legal requirements, we have not audited the contents of the components of the Group management report listed in the Appendix.

In our opinion, based on the findings of our audit, the accompanying consolidated annual accounts

- comply in all material respects with the IFRS as adopted by the EU, the additional requirements of German law as stipulated in Article 315e, Paragraph 1 of the HGB (Handelsgesetzbuch [German Code of Commercial Law]) and give a true and fair view of the net assets and financial position of the Group on 31 December 2020 and of its results of operations for the financial year from 1 January to 31 December 2020 in accordance with the German principles of orderly accounting, and
- the attached Group management report as a whole provides a realistic view of the position of the Group. In all material respects, this Group management report is consistent with the Group annual accounts, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the contents of the components of the Group management report listed in the appendix.

In accordance with Section 322, Paragraph 3, Clause 1 of the HGB, we declare that our audit has not led to any objections against the correctness of the consolidated annual accounts and the management report of the Group.

Basis of our Audit Opinions

We have carried out our audit of the consolidated annual accounts and management report of the Group in accordance with Section 317 of the German Code of Commercial Law, with full regard for the German rules of proper auditing of annual accounts, as determined by the Institut der Wirtschaftsprüfer (IDW [Auditors' Institute]). Our responsibility under those regulations and principles is described in more detail in the section "Responsibility of the External Auditor in Auditing the Consolidated Annual Accounts and the Management Report of the Group" of our audit report. We are independent of the Group companies as stipulated in the German commercial and professional regulations and have performed our other German professional duties in accordance with these requirements. We are of the opinion that the records we have obtained are sufficient and suitable to serve as basis for issuing our opinion on the consolidated annual accounts and management report of the Group.

Responsibility of the legal representatives and the Supervisory Board for the consolidated annual accounts and management report of the Group

The legal representatives are responsible for drawing up the consolidated annual accounts in accordance with the IFRS as adopted by the EU, and for ensuring that they comply in all material respects with the additionally applicable requirements under German law as stipulated in Section 315e, Paragraph 1 of the German Code of Commercial Law, and that the consolidated annual accounts provide a true and fair view of the actual assets, financial and earnings positions of the Group, in accordance with the German principles of orderly accounting. The legal representatives are also responsible for the internal controls that they have determined to be necessary in conformity with the German principles of orderly accounting to enable consolidated annual accounts to be drawn up that are free from material misrepresentations, whether wilful or unintentional.

When drawing up the consolidated annual accounts, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. Additionally, they are responsible for disclosing matters relating to the continuing operation of the company, if of pertinent relevance. Whilst moreover, they are responsible for accounting for the continuing operation of the Group on the basis of the accounting principles, unless actual or legal circumstances determine otherwise.

Additionally, the legal representatives are responsible for drawing up the management report for the Group that is in tune with the consolidated annual accounts and provides an overall, in all material respects accurate, picture of the situation of the Group, complies with the German legal stipulations and appropriately reflects the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have considered to be necessary to enable the drawing up of a Group management report in accordance with the applicable German legal stipulations and to provide sufficient suitable supporting evidence for the statements made in it.

The Supervisory Board is responsible for monitoring the financial reporting process of the Group as the basis of drawing up the consolidated annual accounts and management report of the Group.

Responsibility of the External Auditor in Auditing the Consolidated Annual Accounts and the Management Report of the Group

Our objective is to obtain reasonable assurance as to whether the consolidated annual accounts as a whole are free from material misrepresentations, whether wilful or unintentional, whether the management report for the Group as a whole conveys a suitable view of the Group's position and is consistent, in all material respects, with the annual accounts and the findings of our audit, and complies with German legal requirements and fairly presents the opportunities and risks of future development, and to issue an opinion that includes our audit judgments on the consolidated annual accounts and the management report of the Group.

Sufficient assurance means a high degree of certainty, but does not amount to a guarantee that an audit conducted in accordance with Article 317, Commercial Code, and with the German principles of proper auditing as promulgated by the Auditor's Institute (IDW), will always uncover a material misrepresentation. Misrepresentations may result from violations or inaccuracies and are considered to be of material significance if it could reasonably be expected that they would individually or collectively influence the economic decisions of users made on the basis of these consolidated annual accounts and the management report of the Group.

During the audit, we exercise our dutiful judgment and apply a critical approach.

Additionally

- we identify and evaluate the risks of material misrepresentations, whether wilful or unintentional, in the consolidated annual accounts and management report of the Group, plan and perform audit procedures in response to those risks, and obtain supporting evidence that is sufficient and appropriate for providing a basis for our audit opinions. The risk that material misrepresentations will not be uncovered is greater for violations than for inaccuracies, because violations may involve fraudulent collusion, falsification, intentional incompleteness, misleading representations, or the overriding of internal controls.

- we gain an understanding of the internal control system of relevance to auditing the consolidated annual accounts and of the procedures and measures of relevance to auditing the management report of the Group, in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those corporate systems.

- we assess the appropriateness of the accounting principles and the reasonableness of estimates and their concomitant information as applied by the legal representatives.

- we draw conclusions about the appropriateness of the accounting principles applied by the legal representatives for continuation of the company‘s activities and, on the basis of the audit findings, whether there is any material uncertainty in conjunction with events or circumstances that could cast significant doubt on the Group‘s ability to continue as a going concern. If we come to the conclusion that there is a material uncertainty, we are required to express an opinion on the appurtenant statements in the consolidated annual accounts and management report of the Group or, if the information is inappropriate, to modify our respective opinion. We draw our conclusions on the basis of the records submitted up to the date of our issuing our audit report. However, future events or circumstances may lead to the Group no longer being able to continue its business activities.

- we express an opinion on the overall presentation, structure and content of the consolidated annual accounts, including the explanations, as well as on whether the consolidated annual accounts present the underlying transactions and events in such a way that they convey a true and fair view of the net assets, financial and earnings positions of the Group in accordance with the IFRS as applicable in the EU and the additionally applicable German principles of proper accounting as stipulated in Article 315e, Paragraph 1 of the Commercial Code.

- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to be able to express an opinion on the consolidated annual accounts and the management report of the Group. We are responsible for directing, monitoring and carrying out the audit of the consolidated annual accounts. We are solely responsible for our audit opinions.

- we assess the harmony of the management report of the Group with the consolidated annual accounts, its compliance with the law and the picture conveyed by it of the situation of the Group.

- we perform audit procedures on the forward-looking statements in the management report of the Group, as presented by the legal representatives. On the basis of sufficient and suitable records, we particularly verify the significant assumptions on which the forward-looking statements of the legal representatives are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not ourselves express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant though unavoidable risk that future events may differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

Berlin, 22 June 2021

Buschmann & Bretzel GmbH	Dipl.-Bw. (BA) Volker Bretzel
Audit Firm	Auditor

FINANCIAL CALENDAR / CONTACT IMPRINT

Financial calendar

August 2021	Publication of provisional figures for H1 2021
27 August 2021	Annual General Meeting 2021, virtual
September 2021	Publication of the semi-annual report for 2021
November 2021	Deutsches Eigenkapitalforum, Frankfurt am Main

Imprint

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Photos: The Grounds Real Estate Development AG, istockphoto.com

Statements and prognostications
This annual report may contain statements and prognostications about the future. These are based on assumptions, estimates and expected developments of individual events. The forward-looking statements are based on current expectations and have been made on the basis of certain assumptions. Therefore, they encompass a number of risks and uncertainties and may change over time. Many factors, many of which are beyond the Company's control, could cause actual results and events - both positive and negative - to differ from the expected results and events.

THE GROUNDS
REAL ESTATE DEVELOPMENT AG

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