Annual Report 2018

THE GROUNDS
REAL ESTATE DEVELOPMENT AG

Indicators

Group indicators

		2018	2017
Sales revenues	€000	31,104	18,945
Earnings before interest and taxation (EBIT)	€000	8,646	1,355
Consolidated profits	€000	4,188	1,197
Earnings per share	EUR	0.23	0.08
Balance sheet total	€000	56,368	27,953
Capital assets	€000	11,299	2,515
Equity	€000	12,558	7,438
Equity ratio	%	22.3	26.6
Financial debts	€000	18,839	4,001
Cash flow from current business activities	€000	-11,025	-15,822
Cash flow from investment activities	€000	-7,065	-668
Cash flow from financing activities	€000	18,028	18,747
Staff		9	4

Portfolio indicators

		2018	2017
Investment volume – 31/12/2018 (pr. year until 15/05/2018)	€000	50,000	38,000
Plot size	m^2	631,781	308,128
Usable area	m^2	167,356	101,729

The Grounds on the capital market

		2018	2017
Market capitalisation (always per 31/12)	€000	31,419	32,114
Share capital	€000	15,105	15,105
Closing price	EUR	2.08	2.13
Lowest price	EUR	1.68	2.05
Highest price	EUR	2.50	3.54
ISIN		DE000A2GSVV5	
Segment		Primary market Düsseldorf	

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Letter to Shareholders

Dear shareholders,
dear friends of The Grounds,

The financial year 2018 was very successful for The Grounds Real Estate Development AG. We have added promising and very attractive project developments in Magdeburg, Leipzig, Heubach (Stuttgart metropolitan area) and Bad Zwischenahn (Oldenburg metropolitan area) to our real estate portfolio through the acquisition of six plots of land with an area of slightly more than 256,000 m² and planned investment volumes of around EUR 169 million. It includes the urban district planned on the premises of the former Börde brewery. On an area of 38,200 m², an extended-stay apartment block, rental and owner-occupied apartments, age-appropriate living and a children's day-care centre will be built. We have also been able to successfully sell two of our project developments and a real estate portfolio (Emden). At the end of the financial year 2018, we have sold the planned micro-apartment facility (extended-stay apartment block, 205 residential units) in Frankfurt's Gutleutstrasse, along with a granted building permit, for around EUR 21.5 million, by way of an asset deal. And we have also sold the planned micro-apartment facility for student living in Leipzig for EUR 13.35 million to an institutional investor, by means of a forward deal. Here, we will erect through a joint venture a total of 136 micro-apartments on a plot of 1,317 m². Currently, skeleton construction is under way – completion is expected in 2020.

We have managed to very significantly enhance consolidated sales revenues from EUR 18.9 million in 2017 to EUR 31.1 million in the year under review. We have increased consolidated profits before taxation to EUR 8.6 million (previous year EUR 1.4 million) and the net profits to EUR 4.2 million (previous year EUR 1.2 million) – our strategy is working.

Even though it may have seemed very quiet to you in the first few months of 2019 with a view to the news flow, we have worked internally with all our might on our project pipeline and pushed the projects forward. Most recently, in June 2019, we have successfully sold our Oldenburg project development, the planned Ammergaustrasse residential complex with 10 owner-occupied apartments, by way of an asset deal.

Thomas Prax
Chairman

CFO in the Red Rock Group since July 2017. Mr. Prax has extensive knowledge of the sector as a result of various senior management positions held in the real estate sector since 2006, inter alia as Finance Director Europe of Heitman Germany (former Grainger Deutschland). Previously Mr. Prax worked in auditing in major companies such as Deloitte or PWC.

In the current financial year, we aim to purchase at least one further property in our portfolio and thereby strengthen the Group's earnings power in the long term. In 2019, we plan to invest a total of up to EUR 60 million in further projects. As part of it, we hope to make acquisitions to the tune of double-digit millions in the area of project development. Because the sale of micro-apartment facility project in Frankfurt's Gutleutstrasse was originally planned for the current financial year, we expect clearly lower consolidated sales revenues in 2019 than in the previous year. By contrast, we are planning to sell further smaller projects and also the major T3 Zeppelinheim project, with the transfer of benefits and burdens, with Group revenues then realised only in 2020. Whilst, in the case of forward deals, the revenues may only materialise in later years. It is therefore not possible to give you any prospect of a further improvement in earnings in 2019, after the record figures of the previous year. However, our consolidated balance sheet will be strengthened by the implementation of the purchase agreements for the year under review relating to the urban district in Magdeburg and the planned recreational area in Bad Zwischenahn. The financing for both project has been secured. From 2020 onwards, these projects will then provide concrete sales and earnings leverage.

Thank you for your patience!

Dear shareholders – we thank you for your patience. In view of the development of the share price as well as a period without much information becoming available, you have been put to more of a test than we should have liked. However, please but be reassured – we are working systematically on further corporate success and the expansion of our real estate portfolio, which should also be reflected in a higher share price in the medium term.

I thank our staff for their tireless commitment for the benefit of the Company. I should also like to take this opportunity to thank my predecessors Hans Wittmann and Eric Mozanowski for their ongoing advisory support and the Supervisory Board for their effective and trusting cooperation.

Your

Thomas Prax
Chairman

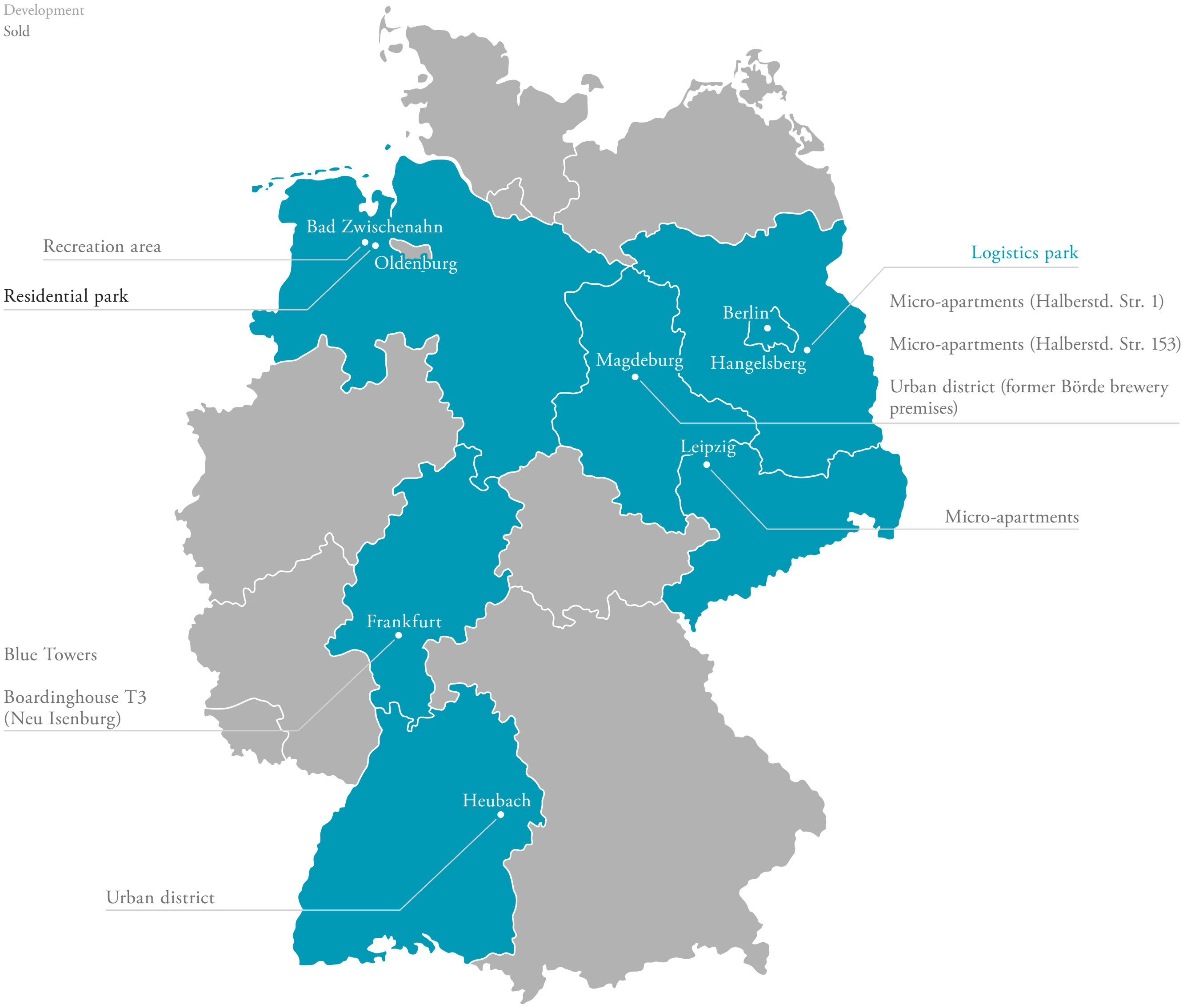
Portfolio / Properties

Clear focus: Acquisition, project development and sustainable management

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

Regional overview

Existing properties
Development
Sold



Portfolio overview – Portfolio and development

(Status: 15 June 2019)

Logistics park in Greater Berlin (Hangelsberg)

Existing

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

Blue Towers in Frankfurt on Main

Development (joint venture)

Federal state		Hesse
Plot size	m^2	14,502
Usable area	m^2	17,790
Investment amount (pro rata)	€000	2,000

Hotel Terminal 3 in Neu-Isenburg

Development

Federal state		Hesse
Plot size	m^2	8,400
Usable area	m^2	10,062
Investment amount	€000	40,000

Micro-apartment facility in Magdeburg (Halberstädter Str. 153)

Development

Federal state		Saxony-Anhalt
Plot size	m^2	2,090
Usable area	m^2	3,580
Investment amount	€000	10,500

Micro-apartment facility in Magdeburg (Halberstädter Str. 1)

Development

Federal state		Saxony-Anhalt
Plot size	m^2	2,709
Usable area	m^2	5,075
Investment amount	€000	16,000

Urban district in Magdeburg (former Börde brewery premises)

Development

Federal state		Sachsen-Anhalt
Plot size	m^2	38,200
Usable area	m^2	40,000 - 45,000
Investment amount	€000	10,000

Urban district in the Stuttgart metropolitan area (Heubach)

Development
(joint venture)

Federal state		Baden-Württemberg
Plot size	m^2	10,652
Usable area	m^2	6,860
Investment amount	€000	25,000

Recreational area in the Oldenburg metropolitan area (Bad Zwischenahn)

Development

Federal state		Lower Saxony
Plot size	m^2	201,443
Usable area	m^2	33,950
Investment amount	€000	92,000

Portfolio overview – Portfolio and development

(Status: 15 June 2019)

Projects already sold – Benefits and burdens not yet transferred

"Ammergauer" residential complex in Oldenburg

Development

Federal state		Lower Saxony
Plot size	m^2	1,617
Usable area	m^2	1,082
Investment amount	€000	1,100

The Grounds has sold this project as planned in June 2019, by way of an asset deal. It was agreed to keep the price confidential.

Micro-apartment facility in Leipzig

Development

Federal state		Saxony
Plot size	m^2	1,317
Usable area	m^2	3,013
Investment amount	€000	10,700
Selling price (October 2018, forward deal)	€000	13,350

Report of the Supervisory Board

Dear Ladies and Gentlemen,

Below, we should like to inform you about the work of the Supervisory Board of The Grounds Real Estate Development AG (hereinafter referred to as the "Company") in the financial year 2018.

In the year under review, the Supervisory Board has again discharged with great care all tasks incumbent upon it by law, the Articles of Association and the Company's rules of procedure. After 2017 was marked by the restructuring of the Company, including amendments to the Articles of Association, capital measures and the establishment of the Group structure with the first real estate projects, the focus in 2018 was on a significant expansion of the portfolio. A glance at the key financial figures for the year 2018 and at the track record shows that it was a successful financial year: The Grounds added a number of promising, high-quality project developments to its portfolio, whilst successful sales were also reflected in a strong increase in consolidated sales revenues to EUR 31.1 million (previous year EUR 18.9 million) and an improvement in consolidated net profits to EUR 4.2 million (previous year EUR 1.2 million).

The Supervisory Board has monitored the management of the Company by the Management Board and has advised it in managing it. Through regular written and verbal reports of the Management Board, both during and outside joint meetings and telephone conferences, the Supervisory Board was always informed about current business developments and significant business transactions. As such, it was involved in all decisions of fundamental importance at an early stage and, if necessary within the framework of transactions requiring approval, adopted the corresponding resolutions. Particularly, the Chairman of the Supervisory Board has regularly coordinated with the Management Board, also outside meetings.

Incumbents of the Management Board and the Supervisory Board

During the year under review, there have been mutations in the designated members of both the Management Board and Supervisory Board.

In July 2018, Round Rock Wealth Management Limited of Birmingham acquired 70.2 % of the shares in The Grounds (on balance sheet date, transfer in rem was still outstanding). Against the background of the change in major shareholder, the directors Hans Wittmann and Eric Mozanowski have relinquished their positions on 23 July 2018, with effect from 30 July 2018. In their place, the Supervisory Board has designated Mr Thomas Prax, CFO of Red Rock Group, as new managing director of the Company, with immediate effect.

On the Supervisory Board, the deputy chairman Manuel Köppel relinquished his position on 11 October 2018, with effect from 8 November 2018. After he left, the Supervisory Board was reconstituted as follows: Dr Peter Maser was confirmed as chairman of the Supervisory Board, whilst Mr Carsten Haug was elected to be his deputy.

By balance sheet date, a fourth member of the Supervisory Board had not again been designated – therefore, on 31 December 2018, it had three members. For reason of the existing quorum on the Supervisory Board, there was no addition of a fourth member to the Supervisory Board by court order in the current financial

2019 year either. Instead, elections for the Supervisory Board will be held at the Annual General Meeting 2019 on 22 August 2019 in Berlin.

Work of the Supervisory Board during the year under review

The Supervisory Board has held a total of four meetings during the financial year 2018, with members in physical attendance. They were held on 27 February in Stuttgart, on 9 May in Berlin and on 23 July and 13 November in Stuttgart. Additionally, the Board has discussed current topics in several telephone conferences and adopted the requisite resolutions. In the year under review, these mainly related to the acquisition of land for project developments and the concomitant financing. The Management Board always participated in the meetings or telephone conferences and sometimes also guests.

Significant topics during and outside the joint meetings included particularly the current business performance of all Group companies, the internal organisation, the development of the relevant (including regional) markets, the acquisition and sale of real estate/project developments and their current status and timing, matters of strategy, liquidity and corporate planning.

Group Annual Accounts on 31 December 2018

The auditors Buschmann & Bretzel GmbH, Certified Auditors, Fiscal Consultants, Berlin, elected by the Annual General Meeting on 2 August 2018, 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 of the Group, and has issued an unqualified audit opinion for both.

These documents and the reports of the auditor have been submitted to all members of the Supervisory Board in good time before the meeting of the Supervisory Board on 27 June 2019, for the purpose of reviewing them. In addition to the Management Board, a representative of the auditor also took part in the meeting by telephone, explaining the essential findings of his audit and was available for answering all questions of the Supervisory Board. Following its own comprehensive review of the documents making up the annual accounts, the Supervisory Board concurred with the findings of the auditor. There were no objections to be raised and, accordingly, the Supervisory Board has approved the consolidated annual accounts and the management report of the Group for the financial year 2018. The annual accounts have thereby been determined.

The report at hand of the Supervisory Board and the agenda for the Annual General Meeting on 22 August 2019 have also been discussed at the meeting of the Supervisory Board on 27 June 2019.

At this point, the Supervisory Board would like to thank all staff members of the Group for their personal commitment in the year under review. The Supervisory Board would also like to especially thank the former managing directors Hans Wittmann and Eric Mozanowski for their strong commitment to the establishment and expansion of The Grounds Group. Both of them continued to be available for advice to the Company beyond balance sheet date. The Supervisory Board also owes thanks to the sole member of the Management Board, Thomas Prax, for his trusting cooperation and commitment to the successful development of The Grounds Group.

Berlin, June 2019

Dr. Peter Maser
Chairman of the Supervisory Board

Group Management Report 2018

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1. Basic information about the Group

1.1 Overview

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

The Grounds is a project developer with clear focus on trading in and sustainable management of residential properties / housing in Germany. As a full-service provider, the Grounds Group offers the business areas of investment (including property and asset management), development and trading. The focus is on residential properties / housing, particularly also on special properties such as student and retirement living in the German metropolitan areas and on attractive locations and in aspiring outskirts in Germany. In the medium term, a significant high-quality real estate portfolio should be built that should permit stable income to be generated and thereby distribution of attractive dividends to the shareholders of the Grounds. The Grounds Group aims to position itself as one of Germany's leading real estate companies through housing development and concomitant development of market capitalisation.

1.2 Company structure

On balance sheet date 31 December 2018, the Grounds Group comprised at the top level the parent company The Grounds Real Estate Development AG. Other than in the previous year, the Group comprised, other than the 94.9 % owned subsidiary company The Grounds Real Estate GmbH (hereinafter TGRE GmbH; named The Grounds Real Estate AG until 28 October 2018; amalgamated with TGA Immobilien Erwerb 2 GmbH on 29 October 2018), several additional subsidiary companies. These are shelf companies or property companies that hold real estate. At the third level, TGRE GmbH also controls shelf companies and property companies (that hold real estate).
The subsidiary company TGRE GmbH, domiciled in Berlin, has been active on the German real estate market since it was founded in 2014 and participates directly or indirectly in the following companies: It holds 100 % of the shares in each of

- TGA Immobilien Erwerb 4 GmbH (hereinafter "TGA 4"), shelf company
- TGA Immobilien Erwerb 5 GmbH (hereinafter "TGA 5"), shelf company
- TGA Immobilien Erwerb 6 GmbH (hereinafter "TGA 6"), in turn, holds 94.9 % of the shares in Gutleut 296 GmbH
- TGA Immobilien Erwerb 7 GmbH (hereinafter "TGA 7") holds 100 % of the shares in Ammergauerstrasse Project in Oldenburg
- TGA Immobilien Erwerb 8 GmbH (hereinafter "TGA 8"), in turn, holds 94.9 % of the shares in Zeppelin One GmbH
- TGA Immobilien Erwerb 11 GmbH (hereinafter "TGA 11"), fully liable partner
- MDSG Lagerwirtschaft und Distributionsgesellschaft mbH (hereinafter "MDSG"; trading until 11 January 2018 as TGA Immobilien Erwerb 9 GmbH)
- Silent Living Grundbesitz GmbH, purchase and sale of housing units and housing packages

Moreover, TGRE GmbH holds 7.5 % of the shares in Squadra Erste Immobilien Gesellschaft GmbH (Blue Towers project).

Furthermore, directly under the parent company The Grounds Real Estate Development AG come the following companies:

- the wholly-owned subsidiary company TGA Immobilien Erwerb 12 GmbH (hereinafter “TGA 12”), which, in turn, holds 51.0% of the shares in Borbico GmbH
- the wholly-owned subsidiary company TGA Immobilien Erwerb 13 GmbH (hereinafter “TGA 13”), shelf company
- the wholly-owned subsidiary company TGA Immobilien Erwerb 14 GmbH (hereinafter “TGA 14”), shelf company
- the wholly-owned subsidiary company TGA Immobilien Erwerb 15 GmbH (hereinafter “TGA 15”), shelf company
- the 94.9 % owned subsidiary company Halberstädterstrasse 153 GmbH holds all of the shares in the project of the same name
- the wholly-owned subsidiary company The Grounds App 1 GmbH & Co. KG, fully liable partner of TGA 11, Bad Zwischenahn recreational area project
- the wholly-owned subsidiary company The Grounds App 2 GmbH & Co. KG, fully liable partner of TGA 11, Sievertorstrasse project in Magdeburg
- the wholly-owned subsidiary company The Grounds App 3 GmbH & Co. KG, fully liable partner of TGA 11, Halberstädterstrasse 1 project in Magdeburg
- the 10.1 % owned subsidiary company The Grounds App 4 GmbH & Co. KG, severally liable partner of At Home Projektentwicklungs GmbH, Heubach urban district project

1.3 Business Model

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

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

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

In the year under review, the Grounds Group considerably expanded its portfolio to include further attractive project developments. Three plots in Magdeburg and also premises in Leipzig, Bad Zwischenahn (Oldenburg metropolitan area) and Heubach (Stuttgart metropolitan area) have been acquired for the purpose of developing micro-apartment housing, urban districts and a recreational area. The micro-apartments project in Leipzig and the micro-apartments project in Frankfurt's Gutleut district have been successfully sold. However, the economic transfer of the projects did not take place until after balance sheet date. Accordingly, on balance sheet date the portfolio of the Grounds Group comprised 12 projects in total, on locations in Berlin, Leipzig, Magdeburg, Oldenburg, Schwarzheide and Stuttgart.

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

Place	Project	Plot size / usable area in m^2	Acquired	Type
Magdeburg (former Börde brewery premises)	Urban district	38,200/ 40,000-45,000	05/2018	Development
Bad Zwischenahn (Oldenburg metropolitan area)	Recreational area	201,443/ 33,950	07/2018	Development
Frankfurt (Gutleut district)*	Extended-stay apartment block	5,675/ 9,117	09/2016	Development
Neu Isenburg (Zeppelinheim)	Hotel	8,400/ 10,062	10/2017	Development
Magdeburg (Halberstd. Str.1)	Micro-apartment facility	2,709/ 5,075	02/2018	Development
Magdeburg (Halberstd. Str. 154)	Micro-apartment facility	2,090/ 3,580	10/2018	Development
Leipzig**	Micro-apartment facility	1,317/ 3,013	03/2018	Development
Oldenburg	"Ammergau" residential complex	1,617/ 1,082	08/2017	Development
Hangelsberg	Logistics park	350,851/ 40,944	12/2017	Existing
Frankfurt	Blue Towers	14,502/ 17,790	04/2016	Joint venture development
Heubach (Stuttgart metropolitan area)	Urban district	10,652/ 6,860	10/2018	Joint venture development

* The project was sold by notarial deed on 21 December 2018. The economic transfer had taken place by balance sheet date.
** The project was successfully sold in October 2018 for EUR 13.35 million, by means of a forward deal. The buyer is a German institutional investor, who has acquired the project for one of his funds. The economic transfer had not yet taken place by balance sheet date.

1.4 Organs and staff

During the year under review, there have been mutations in designated members of the Management Board and Supervisory Board of The Grounds.

Following the change of major shareholder – Red Rock Wealth Management Limited of Birmingham acquired 70.2 % of the shares in The Grounds from the three previous major shareholders – changes have been made in the composition of the Management Board. On 23 July 2018, the directors Hans Wittmann and Eric Mozanowski have relinquished their positions with effect from 30 July 2018. In their place, the Supervisory Board has designated Mr Thomas Prax, CFO of Red Rock Group, as new managing director of the Company, with immediate effect.

The deputy chairman of the Supervisory Board, Manuel Köppel, relinquished his position on 11 October 2018, with effect from 8 November 2018. After he left the Supervisory Board, the Supervisory Board was reconstituted as follows: Dr Peter Maser was confirmed as chairman of the Supervisory Board, whilst Mr CarstenHaug was elected to be his deputy.
By balance sheet date, a fourth member of the Supervisory Board had not again been designated.

On balance sheet date 31 December 2018, the Grounds Group employed nine staff (previous year four).

2. Report on the Economy

2.1 Overall Economic Development[1]

After growth rates of 0.4 % and 0.5 % in the first two quarters of 2018, the economy in Germany clearly weakened in the second half of the year with negative growth of 0.2 % in the third quarter and stagnation in the fourth. According to calculations of the Federal Statistical Office (Destatis), GDP rose by 1.4 %. The greatest impetus for growth came once again domestically.
Private sector and public sector consumption both rose by 1.0 %. Investments developed clearly more dynamically: Investments in equipment and construction rose by 4.2 % and 2.4 %, respectively.

At the end of 2018, 45.2 million people were in employment. Compared to the previous year, it is an increase of 1.1 % or 507,000 people.

2.2 Conditions per sector

German building sector[2]

2018 was once again a good year for the German construction industry. Sales revenues in the German construction industry rose by around 6 % to EUR 120.8 thousand million (previous year EUR 113.7 thousand million). Adjusted for the rise in construction costs, the Hauptverband der Deutschen Bauindustrie (HDB [Central Association of the German Building Industry]) and the Zentralverband des Deutschen Baugewerbes (ZDB [Central Association of the German Building Trade]) have reported sales increases of 1.5 %.

When comparing individual building segments, the growth rate in residential construction of 6.5 % to EUR 44.5 thousand million (previous year EUR 41.8 thousand million) again lagged behind the stronger growth rate of commercial construction, which rose by 7.0 % to EUR 43.0 thousand million (previous year EUR 40.2 thousand million). In addition to the high demand for

[1] Cf. https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2019/02/PD19_064_811.html
[2] Cf. https://www.bauindustrie.de/media/documents/Argumentationslinie_gemPK_HDB-ZDB_2018-12-17.pdf p.2

commercial and warehouse buildings as well as other commercial buildings, the latter benefitted in 2018 from investment subsidies from the federal government for the federal railways. Public sector construction achieved a 5.0 % increase in sales revenues to EUR 33.3 thousand million (previous year EUR 31.7 thousand million) on account of the good budgetary situation of the federal states and the increased investments and investment subsidies in federal trunk roads, federal railways, federal waterways and combined transport.

Residential properties / housing

On the German investment market for residential properties, transactions amounting to around EUR 15.1 thousand million were carried out in 2018 – the third highest figure of the past ten years. The volume of traded homes was about 122,000 units, representing a decrease of around 7 % from the previous year. A little more than a quarter of the transactions were related to project development. Almost half of the portfolios involved trading in housing units in volumes of two or three digits, which reflects the increasing importance of smaller sizes as a consequence of a shortage of supply in the large portfolios. Accordingly, transactions involved 458 units on average, against an average of 402 units the previous year. The number of investors participating in the market did also noticeably increase. Of the buyers of whom the name is known, in 2018 almost 40 % had been active in the German residential properties market for the first time in the past ten years. At the same time, a number of German insurance companies and pension funds also actively entered the market.[3]

Both rents and purchase prices for homes continued to increase during the year under review. According to the Verband deutscher Pfandbriefbanken (vdp) e. V. [Association of German Mortgage Bond Banks], purchase prices for residential properties rose by around 8.3 % (previous year +6.9 %), whilst rents rose by 4.6 % (previous year +3.2 %).[4] According to the bulwiengesa real estate index, the strongest prices increases could be recorded in the major seven cities of Berlin, Düsseldorf, Frankfurt on Main, Hamburg, Cologne, Munich and Stuttgart. In these metropolitan areas, prices for new owner-occupied apartments rose by 8.9 % (national average: +7.6 %) and for terraced houses by 11.4 % (national average: +9.2 %). On the rental market, rents for new properties rose nationwide by an average of 4.9 % and for existing properties by 3.5 %.[5] The price development was driven by dearth in housing, especially in the urban regions. In order to meet demand, it would be necessary to complete at least 350,000 units annually.[6] The HDB and ZDB estimated that around 300,000 units have been completed in 2018.[7]

German nursing homes and senior citizens‘ centres were traded in 2018 for EUR 2.1 thousand million and 75 % as portfolio transactions. It is a clear increase of 149 % from the previous year and is the second highest value since records began. The top yield fell to 4.75 %.[8]

Commercial properties[9]

EUR 61.1 thousand million was invested in German commercial properties in 2018. This represents an increase of 5.2 % from the previous year. In its “Frühjahrsgutachten Immobilienwirtschaft 2019” (Spring

[3] Cf. https://www.konii.de/news/wohninvestmentmarkt-deutschland-2018-201901086927
[4] Cf. https://www.pfandbrief.de/site/de/vdp/presse/pressemitteilungen/vdp_nr_01_2019.html
[5] Cf. https://www.bulwiengesa.de/sites/default/files/immobilienindex_2019.pdf
[6] Cf. https://www.zia-deutschland.de/fileadmin/Redaktion/Pressemitteilungen/Downloads/Fruehjahrsgutachten_2019_-_Kurzfassung.pdf p.12
[7] Cf. https://www.bauindustrie.de/media/documents/Argumentationslinie_gemPK_HDB-ZDB_2018-12-17.pdf p.5
[8] Cf. https://www.immobilienmanager.de/pflegeimmobilien-investmentmarkt-mit-starkem-jahresergebnis/150/65910/
[9] Cf. https://www.zia-deutschland.de/fileadmin/Redaktion/Pressemitteilungen/Downloads/Fruehjahrsgutachten_2019_-_Kurzfassung.pdf p.5 ff.

Report on the Real Estate Industry 2019), the Rat der Immobilienweisen (Council of Property Experts) assumes that the investment peak was reached with this value.

One again, at 47.1 %, the major part could be attributed to office properties. Investments in office properties in Germany rose by around 18.0% to EUR 28.8 thousand million (previous year EUR 24.4 thousand million). Although at 6.1 million m², the turned over space volume was slightly below the record volume of the previous year, it still was the third year in a row that sales of clearly above 6.0 m² were achieved. More than 60 % or 3.65 million m² of the overall office space was sold in the seven metropolitan areas. Rents have also increased, for the eighth year in a row. On (weighted) average, by the end of the year under review, top rents in the A cities had risen by around 5.9 % to EUR 30.70/m² and in the B cities by 2.5 % to EUR 14.00/m². Purchase prices even surpassed the record levels of the previous year. In the A locations, the level of EUR 10 thousand/m² was breached for the first time; purchase prices increased here by 11.6 % to EUR 11.1 thousand/m². As before, the most expensive was office space in Munich (+6.9 % to EUR 13.8 thousand/m²), followed by Frankfurt (+9.2 % to EUR 13.7 thousand/m2) and Hamburg (+10.9 % to EUR 10.2 thousand/m²). This was in conjunction with an additional fall in net initial yields, which were lower for nine years in a row. In the case of core real estate, the initial net yield fell to 3.0 % (by weighted averages). In Frankfurt it was 3.0 %, in Munich and Hamburg 2.9 % and in Berlin 2.8 %. In the 127 largest office markets, vacancy rates have fallen to 4.2 % on average. In the A locations, available office space fell by 570,000 m² to a ratio of 3.4 % and in the B locations by 220,000 m² to 4.0 %. After deduction of the assumed fluctuation reserve, the vacancy rate that has fallen to below 3.0 % in 35 office markets is meanwhile considered to mean that all space it fully let.

In the case of logistics properties, investment volume fell again for the first time since 2013. Compared to the record year 2017, investments of over EUR 7.0 thousand million represent a fall of around 23 %. High demand is met by only scant supply. Because of weaker dynamics in the second half of 2018, only 3.9 million m² came to completion.

On the investment market for hotel properties, just under EUR 4 thousand million was invested, which was a little less than in 2017 (EUR 4.2 thousand million). Also here supply is wanting, whilst demand remains high, notwithstanding further price increases. The dearth in supply is increasingly reflected in the proportion of forward deals, which was good for 20 % of total transactions. The focus of investors was on properties in the B and C cities (such as Kiel, Lübeck, Essen, Freiburg and Hanover). Top yields in the A cities fell to below the threshold of 5 %. In Munich, it became just 3.75 %, in Hamburg 4.0 % and in Frankfurt 4.1 %.

3. Business Development

After the new strategic orientation adopted in the financial year 2017, in the year under review the focus was on targeted expansion of the portfolio and concomitantly on expanding the operational business. The Grounds acquired altogether six plots (more information on that below) in Magdeburg, Leipzig, Bad Zwischenahn (Oldenburg metropolitan area) and Heubach (Stuttgart metropolitan area.
There was also a change in major shareholder. In July 2018, Red Rock Wealth Management Limited of Birmingham acquired 70.2 % of the shares in The Grounds from the three previous major shareholders, although on balance sheet date the shares had not yet been trans-

ferred. In conjunction with that, there have also been mutations in designated members of the Management Board. On 23 July 2018, the serving directors Hans Wittmann and Eric Mozanowski have relinquished their positions with effect from 30 July 2018. In their place, the Supervisory Board has designated Mr Thomas Prax, CFO of Red Rock Group, as new managing director of the Company, with immediate effect. There was a change in the Supervisory Board as well. Manuel Köppel, the deputy chairman of the Supervisory Board, relinquished his position on 11 October 2018, with effect from 8 November 2018. By balance sheet date, a fourth member of the Supervisory Board had not again been designated.

The portfolio of the Grounds Group was expanded in 2018 through the following acquisitions:

- At the end of February 2018, The Grounds acquired a plot in central location in Magdeburg (Halberstädterstrasse 153) for the purpose of developing a micro-apartment facility. Here, apartments are to be built with a total living space of approximately 3,580 m² in age-appropriate construction and 25 underground parking spaces. The investment volume for the plot and the construction work amounts to around EUR 10.50 million. Construction work is scheduled to start in September 2019. Completion is planned for the spring of 2021.
- In Bornaische Strasse 10-16 in Leipzig, which is in the immediate vicinity of the College for Technology, Economy and Culture as well as of the College for Telecommunication, The Grounds has acquired a plot of 1,317 m² at the beginning of March 2018, for the purpose of building a micro-apartment facility. Here, about 136 micro-apartments will be built with a total living space / usable area of 3,135 m², against an investment consideration of about EUR 11 million. ** The Grounds was able to successfully sell the project in October 2018 for EUR 13.35 million, by means of a forward deal. The buyer is a German institutional investor, who has acquired the project for one of his funds. The economic transfer will take place after completion in the third quarter of 2020. Currently, skeleton construction of the project is under way.
- In mid-April 2018, The Grounds was awarded the new development of the of the urban district on the old Triumph premises in the Stuttgart metropolitan area (Heubach). This project is carried out within the framework of a joint venture with ZuHause GmbH (Stuttgart). On a plot size of 10,652 m², apartments, a nursing home and possibilities for assisted living, supplemented by shopping and play facilities, will be built under the motto “Living in harmony with nature – for all generations”. Therefore, houses that are in accordance with the latest standard for efficient housing of the KfW (Kreditanstalt für Wiederaufbau [Reconstruction Bank]) are planned, whilst a combined heat and power unit and solar energy will be integrated. The total investment volume for this development project, with construction scheduled to start during the current financial year, amounts to around EUR 21 million. The relevant agreement with the municipality governing the purchase of the plot was concluded in October 2018.
- The Grounds is also planning to develop an urban district in the central city area “Alte Neustadt” of Magdeburg. In mid-May 2018, The Grounds signed a purchase agreement for the premises of the former Börde brewery close to the city centre, measuring 38,200 m². In coordination with Magdeburg‘s city council, an extended-stay apartment block, several apartment blocks with rented and owner-occupied flats as well as assisted living and a children’s day-care centre with 600 parking spaces will be built here.

Altogether, the plan is to establish 750 housing units with a usable area of 40,000 to 45,000 m², of which about 120 units will be in the extended-stay apartment block and 180 units in the assisted-living part. The gross floor area is 63,344 m². According to current status, the construction work will be completed not later than the first quarter of 2020. Until it is all finished, The Grounds expects investment costs of approximately EUR 10 million, including the purchase price. Concurrently, The Grounds is already working at full speed to prepare the building applications for the individual construction sites. Lodging of some initial building applications is planned for the first quarter of 2020. Simultaneously, we have successfully sold our Emden residential portfolio to a major institutional holder of residential property portfolios.

- "Living at the lakeside": On a plot of 201,000 m² directly adjoining Lake Zwischenahn, The Grounds is planning to develop a holiday / recreational area. At the end of July 2018, The Grounds signed a purchase agreement for six building plots in the spa town of Bad Zwischenahn (around 17 km west of Oldenburg). In agreement with the city administration, multi-storey residential buildings (approximately 20,000 m² living space) including parking spaces and underground garages, a 4-star to 5-star hotel with around 120 suites and rooms as well as 35 holiday homes (living space approximately 2,500 m²) together with sports and leisure areas will be erected here. In addition, The Grounds also acquired the listed former officers' casino located directly on Lake Zwischenahn, including the associated seminar areas. These buildings will be preserved and residential development will be realised in it. Depending on the final approval of the development plan, which is expected by mid-2019 at the latest, The Grounds expects a total investment volume of around EUR 92 million.
- In mid-October 2018, The Grounds signed the purchase agreement for a further plot of 2,700 m² in Halberstädter Strasse (No. 1) in Magdeburg (which, however, is not related to the previous land purchases there). An exclusive, furnished micro-apartment facility, as preferred for use by students, will be developed on this site. 174 residential units on a planned rental area of around 5,075 m² are planned for completion by late summer 2021. The investment volume for this project amounts to approximately EUR 16 million. The building application is expected to be lodged in June 2019. Marketing the residential units is expected to commence in the first quarter of 2020.

In addition to the Leipzig micro-apartment facility project, the plot located in Frankfurt's Gutleutstrasse for the planned four-storey micro-apartment facility (extended-stay apartment block, commercial use) was successfully sold at the end of the year under review for around EUR 21.5 million, within the framework of an asset deal.

As a result, The Grounds generated sales revenues of EUR 31.1 million (previous year EUR 18.9 million) at Group level in the financial year 2018. Following an increase in total costs compared to the previous year, in line with the significant expansion in operating activities, the Group recorded consolidated profits before taxation of EUR 8.6 million (previous year EUR 1.4 million) and increased net consolidated profits of EUR 4.2 million (previous year EUR 1.2 million).

3.1 Earnings position

In the financial year 2018, the Grounds Group generated a significant increase in consolidated sales revenues

to EUR 31.1 million (previous year EUR 18.9 million). Of this amount, EUR 30.2 million (previous year EUR 18.9 million) were attributable to the sale of real estate projects. A major part of 21.5 million of this is mainly attributable to the sale of the plot in Frankfurt's Gutleutstrasse for the planned four-storey micro-apartment facility. The sale of the Micro-apartment facility project will not affect sales until the current financial year 2019. A further EUR 1.0 million of sales revenues related to rental income from the existing Hangelsberg portfolio and the Emden residential portfolio sold in the year under review.
In addition, other operating income increased to EUR 2.3 million (previous year EUR 14 thousand). This was due in particular to the reversal of a negative difference (EUR 2.2 million). A revaluation of the existing Hangelsberg portfolio resulted in a change of EUR 2.0 million in the value of the real estate held as financial investment. Consequently, the Group's total operating revenue increased substantially from EUR 19.1 million to EUR 35.3 million.

As in the previous year, cost of materials represented the largest expenditure item. It increased from EUR 15.2 million to EUR 20.8 million, almost exclusively on account of increased construction costs and acquisition costs of the real estate that was sold. Staffing costs increased to EUR 0.5 million (previous year EUR 72 thousand).

Other operating expenses of EUR 2.5 million (previous year EUR 2.1 million) primarily comprised third-party services and work (EUR 0.8 million; previous year EUR 0.3 million), advertising and travel expenses (EUR 0.7 million; previous year EUR 0.1 million) and legal and consultancy fees (EUR 0.3 million; previous year EUR 0.2 million).

It led to a clearly improved operating result of EUR 11.4 million (previous year EUR 1.7 million).

The deterioration of the financial result to EUR -2.7 million (previous year EUR -0.4 million) reflects the increased interest burden resulting from loans taken out to finance real estate projects and acquisitions. Accordingly, consolidated profits before taxation of EUR 6.6 million (previous year EUR 1.4 million) could be achieved.
Taking tax on profits into account, The Grounds increased consolidated profits from EUR 1.2 million in the previous year to EUR 4.2 million, corresponding to earnings per share of EUR 0.23 (previous year EUR 0.08).

3.2 Financial and assets position

The acquisitions of real estate during the year under review led to a corresponding growth of consolidated total footings of EUR 28.0 million to EUR 56.4 million.

Assets comprise non-current assets of EUR 11.3 million (previous year EUR 2.5 million), primarily real estate held as financial investment (EUR 7.5 million) and unchanged goodwill of EUR 0.8 million.
The growth in current assets was clearly more pronounced. The rose from EUR 25.4 million to EUR 45.1 million. Stocks of EUR 15.6 million (previous year EUR 11.3 million) mainly comprise real estate under construction (EUR 10.9 million) and down payments (EUR 4.7 million). Receivables from goods and services, which also increased markedly to EUR 19.4 million (previous year EUR 6.3 million), mainly result from payments received for services rendered. And on balance sheet date, The Grounds had liquid funds of EUR 2.4 million, which was almost equal to the previous year.

On the liabilities side, equity increased by the consolidated net profit for the year to EUR 12.6 million (previous year EUR 7.4 million). There was no change in the subscribed capital of EUR 15,105,517.00. An amount of EUR 0.8 million was withdrawn from the capital reserve and transferred to retained earnings. The background is the compensation of the balance sheet loss at the AG level in order to maintain the ability to distribute dividends. Because total footings grew much more than equity, the equity ratio could not be improved. It stood at 22.3 % (previous year 26.6 %).

The increase in non-current liabilities to EUR 16.8 million (previous year EUR 10.0 million) and the increase in current liabilities to EUR 27.1 million (previous year EUR 10.5 million) have been used for financing real estate projects and acquisitions.

At EUR 2.4 million, cash and cash equivalents in 2018 were almost at the previous year‘s level (EUR 2.5 million). It was reduced both by the cash flow from operating activities of EUR -11.0 million (previous year EUR -15.8 million) and by the cash flow from investment activities of EUR -7.1 million (previous year EUR -0.7 million). Additions of EUR 18.0 million (previous year EUR 18.7 million) emanated from the cash flow from financing activities.

The negative cash flow from operating activities was mainly influenced by the increases in stocks, trade receivables and other receivables of EUR 19.7 million in total. The cash flow from investment activities, which was also negative, mainly stemmed from payments of EUR 15.5 million for real estate held as investment, whilst, on the other hand, it increased by EUR 8.7 million as a result of inflows from disposals of real estate held as investment. Mainly proceeds from drawdowns under financing credit facilities led to the positive cash flow from financing activities.

3.3 Financial and non-financial performance indicators

The Grounds uses several performance indicators when managing the Group. The key performance indicators are operating cash flow (FFO or funds from operations) and net asset value (NAV). The objective of the corporate strategy is 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 existing properties, but are supplemented by regular and sustainable income from property development (development sector) and particularly from trading. This income from real estate development and trading can therefore be planned and forms a significant portion of the Company‘s operating cash flow.

Furthermore, the letting rate and the vacancy rate are important indicators for generating rental income. The Grounds Group focuses on properties with tenants with good and very good creditworthiness. In the case of investments with fixed-term rental agreements (which usually are commercial properties), the analysis focuses primarily on properties with long-term leases, tenants with high creditworthiness and low vacancy rates. In the case of properties with a short residual rental term and/or a high vacancy rate, consideration is only given if, on the basis of the Grounds Group‘s asset management approach, vacancy reduction or rental extensions can already be contractually secured during the prepurchase due diligence investigation or immediately upon conclusion of the transaction.
This is also associated with the yield from letting. Purchases of existing properties are generally valued at several times the gross annual rent. In order to obtain an attractive yield from letting, the target figure defined by the Company is around 13-fold. Depending on the location, building quality, tenant structure and vacancy

rates, this factor might vary upwards or downwards. Following the sale of the residential portfolio in Emden, The Grounds had only one property in its portfolio on balance sheet date – the logistics park with project development in the greater Berlin area. Therefore, rental income only accounted for 3 % of total consolidated sales revenues of EUR 31.1 million.

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

Because the Grounds Group was only created in 2017, non-financial performance indicators have not yet been used directly for corporate management and in 2018 the focus was on expansion of the real estate portfolio / expansion of operating activities. Nevertheless, staff satisfaction, their professional qualifications and the reputation of the Company are important building blocks for the success of the Grounds Group in the real estate and capital markets.

On balance sheet date, the Grounds Group employed four staff. It remains the plan to continue to expand the workforce, so that all strategic and management-related functions within the Company can be mapped, including in particular investment decisions, key financial functions like liquidity management, investor relations, compliance, risk management and asset management. A so-called Executive Board (the Supervisory Board) is responsible for corporate governance, which will be supplemented with two other members, in addition to the Management Board. For example, it is planned to recruit qualified staff for the accounting/finance department and to internalise the legal department and supplement it with an in-house lawyer.
Other administrative functions, mainly property management, are outsourced to subsidiaries that can be established in line with the growth of the portfolio and the requirements. In this respect, the number of staff in the subsidiaries will be increased to the extent that is necessary for managing the business, depending on the corresponding expansion of portfolios. This avoids build-up of overcapacities and ensures a lean corporate organisation. This ensures that only the capacity is available in the Group that is directly required for performing its functions.
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 2018, the Management Board had expected Group sales revenues of EUR 16,011 thousand, earnings before taxation of EUR 880 thousand and consolidated net profits of EUR 630 thousand. The resulting cash flows and further external financing measures should have led to further strengthening of the Company's equity base and liquidity position.

On 21 December 2018, The Grounds successfully sold the plot for the planned four-storey micro-apartment facility (extended-stay apartment block, commercial use) located in Frankfurt's Gutleutstrasse for around EUR 21.5 million, within the framework of an asset deal. Against this background, the Management Board

has increased the prognosis for achieving consolidated sales revenues to around EUR 30.0 million, for consolidated profits before taxation to around EUR 10.0 million and for consolidated net profits to around EUR 4.0 million.
The prognosis was slightly exceeded by actual consolidated sales revenues of EUR 31.1 million. At EUR 4.2 million, net consolidated profits also slightly exceeded the prognosis. However, at EUR 8.6 million, consolidated profits before taxation did not meet expectations, for which mainly increased cost of materials resulting from higher construction costs are to blame.

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) and calculation of the key figures FFO, FFO per share and NAV serve to assess risks in the medium term. On-the-spot tools are used for ongoing internal auditing of the real estate portfolio and capital management.

4.2 Risks in detail

4.2.1. Overall economic risks

For years, the German real estate market has been characterised by high demand. Notwithstanding weaker economic performance expected for Germany in 2019, the general conditions for the German real estate market remain favourable. In addition to the positive development of the labour market and wages (see also 5.1 Overall economic development), the positive development of the population in the German conurbations also ensures a sustained high demand for housing. An increase in the low interest rates, even if only slightly, is expected at the end of 2019 at the earliest. The expansive monetary policy continues to support the real estate market.[10]

The Company has no influence on such constantly changing factors and must therefore continuously monitor and reassess them and make business decisions accordingly. For the financial year 2019, the Grounds Group considers the macroeconomic risks with possible negative effects on its net assets, financial and earnings positions to be low.

4.2.2. Market risk

4.2.2.1 Dependence on the development of the German real estate market

Currently, the Grounds Group focuses exclusively on residential and commercial real estate in Germany – primarily in the German metropolitan areas and aspiring outskirts – and is therefore dependent on national and also regional market developments. The favourable economic conditions and also the high demand for housing, especially in the German metropolitan areas, continue to make Germany an attractive location for investing in real estate. In the study “Trendbarometer Immobilien-Investmentmarkt 2019” (Trend barometer real estate investment market) by Ernst & Young Real Estate GmbH, 97 % of respondents were of the opinion that the German real estate market is an attractive respectively very attractive location.[11] On the German residential real estate market, transaction volumes are expected to remain at a high level in 2019, whilst purchase prices and rents will continue to rise. In the commercial real estate market, too, the limited supply, especially in the top seven cities, ensures extremely low vacancy rates and further increases in rental prices (see Residential property and Commercial property under 5.2 Segment situation, below).

The Grounds Group continuously monitors the development in the German real estate market, but foresees no negative effects on its net assets, financial and earnings positions and on operating results for the financial year 2019.

4.2.2.2 Competition

Within the scope of its business activities, the Grounds Group is confronted with different competitors in terms of property development, portfolio build-up and development of residential and commercial property portfolios and is exposed to intense competition. The Grounds Group‘s competitors in the acquisition of residential property and the sale of developed plots and real estate portfolios are primarily German and foreign real estate companies and other institutional investors. Some of those competitors, who can be seen to be currently in a consolidation phase, are more well-known, have broader market access or significantly larger financial, technical and market-specific resources, have larger and more diversified property portfolios or have more target group-specific property portfolios or other competitive advantages over the Grounds Group. Those competitors could further intensify their presence in the market and go for more aggressive pricing. In such cases, the competition could be awarded the agreement for the purchase or sale of real estate assets.
Especially in terms of acquiring real estate, the Grounds Group is aware that there is currently a high level of competition for attractive properties and it cannot rule out that prices will continue to increase. Higher

[10] Cf. https://www.bulwiengesa.de/sites/default/files/immobilienindex_2019.pdf p.4
[11] Cf. https://www.ey.com/Publication/vwLUAssets/ey-trendbarometer-immobilien-investmentmarkt-2019/$FILE/ey-trendbarometer-immobilien-investmentmarkt-2019.pdf p.16

acquisition prices in conjunction with stagnating or slowly rising rents can lead to a decline in imputed yields on commercial portfolios.
The Grounds Group, like its competitors, endeavours to distinguish itself clearly from comparable real estate companies through corresponding unique selling points and individual usage concepts in order to undo as much as possible the negative effects of a competitive situation caused by impaired direct comparability.
Additionally, the Grounds Group competes for tenants, real estate vendors and investors. Particularly, competition or oversupply of accessible properties on the market may lead to unexpectedly low selling prices when sold by the Grounds Group or even prevent the Grounds Group from selling properties at all. There is a risk that the Grounds Group will not succeed in maintaining its competitive position or will not stand out sufficiently well from its competitors.
The management of the Grounds Group has, with its managing director Thomas Prax and a second management level a team that has many years of experience in the real estate market, a team that has worked well together over the past several years. In view of its extensive experience in acquisition and a tried and tested network in the industry, TGRE AG and its subsidiary companies have been able to successfully expand the portfolio of the Company in 2018 with attractive project developments. Moreover, the Company believes that there is no competitor amongst listed companies in the real estate sector that has a comparable business model consisting of portfolio management, development and trading with a comparable strategy and local focus. Amongst the unlisted companies on the real estate market there are some individual competitors, each of which is only regionally positioned, so that the Company is primarily faced with regional competitors.

4.2.2.3 Regulatory risks

The business activities Grounds Group depend to a large extent on the applicable legal framework conditions for residential and commercial real estate. This includes in particular the statutory provisions governing tenancy law. In addition, there have been significant changes in the legal framework in recent years, for example in legislation governing the environment. This concerns, for example, the new regulations on energy performance certificates, the energy concept of the Federal Government with regard to the energetic renovation of all apartments in Germany in accordance with the so-called zero-emission standard or the other requirements of the Energieeinsparverordnung [Energy Saving Ordinance] of 2009 and other environmental regulations. In addition, the legal and tax conditions for real estate investments in Germany have often deteriorated in the past.
The legal framework may also change in the future. Tightening the framework conditions, for example with regard to tenant protection (for example shortening tenant notice periods or limiting the possibility of rent increases), fire protection, environmental protection (for example for saving energy), pollution legislation (for example with regard to asbestos) and the resulting renovation obligations as well as the framework conditions for real estate investment, can have a considerable negative impact on the profitability of investments and the earnings situation of the Grounds Group.
Changes in the legal framework could also trigger a considerable need for action on the part of the Grounds Group, causing significant additional costs which, for legal or factual reasons, can only be passed on to the tenants to a limited extent or not at all.

The Mietrechtsanpassungsgesetz (MietAnpG [Rental Law Adjustment Act]) has come into force on 1 January 2019. It comprises new regulations for the modernisation levy, the rent brake, tenant protection in the case of modernisation and for subletting for social purposes. It affected, for example, the reduction in modernisation levy on rents from hitherto 11 % to now 78 % p.a.[12]

Another risk forms the planned change in land acquisition tax. The attractiveness of share deals would decrease considerably if the reform proposal mentioned in the political debate were to be implemented in all cases in which at least 90 % of the shares in land-owning corporations are transferred within ten years. Because the Grounds Group also settles its real estate transactions via share deals, it will closely follow the further political debate in order to be able to adapt quickly to regulatory changes.[13]

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. Currently, the German construction industry is facing rising costs and capacity scarcity. By November 2018, construction costs had risen significantly by 4.8 % from the previous year, making them higher than they have been for more than ten years.[14]
The Grounds Group counters this risk by means of a detailed examination of the properties prior to acquiring them, for which external surveyors or building experts are also engaged. The result of the expert valuation of a property depends on the factors included in the valuation and the valuation method used. In addition to the expected rental income related to a particular property, the condition of the property and its historical vacancy rates, a property surveyor may also take into account other factors such as the taxation to which the property is subjected, the operating costs, potential environmental liability claims and the risks associated with certain building materials. The value creation potential of the properties is also comprehensively assessed. The existing real estate portfolio is regularly assessed anew by recognised experts.

4.2.3.2 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

[12] Cf. https://www.lifepr.de/inaktiv/bethgeundpartner-immobilienanwaelte-gbr/Mietrechtsanpassungsgesetz-ist-zu-kurz-gedacht/boxid/739307
[13] Cf. Börsen Zeitung (a financial daily), article of 9 February 2019 “Reform der Grunderwerbsteuer treibt Investoren um” (Reform of land acquisition tax shakes investors)
[14] Cf. https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2019/01/PD19_010_61261.html

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 economically unprofitable and involve considerable additional costs.
Moreover, numerous factors, such as the age of the structure, pollutants in building materials, the condition of the soil or failure to comply with legislation governing construction and heritage protection, can lead to high costs for renovation, maintenance and modernisation of the properties held by the Grounds Group. Should appropriate construction measures not be implemented, there could be an adverse effect on the sales proceeds and rental income in terms of the 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 the other managers of the Grounds Group have extensive knowledge of and contacts in both the real estate sector and the capital market. If board members or other key staff 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. The Grounds Group is particularly dependent on this know-how, especially in view of the medium-term goal of expanding its own real estate portfolio on a significant scale. Currently, the Company considers the risk of losing those key persons to be low, since the members of the core management team have also 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.

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 portfolio can also be expanded through a non-cash capital increase. With the increasing size of the portfolio and the Group and the intended change in the future to a more highly regulated segment of the stock exchange, such as the regulated market of the Frankfurt Stock Exchange, the Grounds Group will increasingly move into the focus of investors. It will facilitate the raising of debt and equity in the future.

4.2.3.5 Liquidity

The Grounds Group needs sufficient liquidity for its ongoing operations. Within the framework of portfolio management, for example, the properties must be maintained in a suitable condition in order to maintain the furnishings and fittings in a usable condition, to comply with the stipulations of the underlying rental agreements and to be able to generate attractive income

on an ongoing basis. However, not all costs associated with maintenance can be passed on to the respective tenant, because such costs must normally be borne principally by the owner of the property. In order to maintain demand for rented properties and to generate adequate rental income, the condition of the property must meet the standard demanded by the market. The modernisation measures required for marketing real estate can include renovation of façades and stairwells as well as construction of outdoor facilities or even complete renovation of the property as a whole. If restoration, repairs or modernisation are required, the property owner will be faced with considerable costs. Then it cannot be ruled out that the costs may exceed the costs that were planned as part of the Company's value creation strategy and in determining the acquisition price. It may require restoration, repair or modernisation work, especially if there is an unrecognised investment backlog in the property.
There is currently no risk of a liquidity bottleneck. On balance sheet date, the Group had liquid funds amounting to EUR 2.4 million.

4.2.3.6 Taxation

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

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

Existing properties must be constantly modernised and maintained in order to comply with legal requirements and to present properties of interest to tenants. The Company is thereby exposed to the risk that the contractual parties involved in such conversion and modernisation measures will not or not fully comply with their legal and contractual obligations. A possible failure of the contractual party can also lead to increased costs or unforeseen delays in the conversion and modernisation work.
Furthermore, there is a risk that major contractual parties may terminate contracts prematurely for cause. In such a case, new partners may have to be found, which can also lead to delays and higher costs. There is also the risk that any claims for damages against such parties will not be enforceable for reasons of creditworthiness.
To counter this risk, the Grounds Group selects such external partners for its projects with whom it has already confidently worked in the past. Additionally, the solvency and operational development of the contractual parties are regularly reviewed within the framework of risk management. Even if the Company cannot rule that an individual partner may default, notwithstanding an excellent credit rating, it classifies this risk as improbable.

4.2.3.8 Rental income

The economic success of the Grounds Group does in future also depend to a large extent on maintaining the income from letting the commercial and residential properties in the portfolio at a 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 reputation and creditworthiness. The risk of losing rental income is kept low through targeted monitoring and proactive measures. The focus is on properties with tenants with good and very good creditworthiness. In the case of investments with fixed-term rental agreements (which usually are commercial properties), the analysis focuses primarily on properties with long-term leases, tenants with high creditworthiness and low vacancy rates. In the case of properties with a short residual rental term and/or a high vacancy rate, consideration is only given if, on the basis of the Grounds Group's asset management approach, vacancy reduction or rental extensions can already be contractually secured during the pre-purchase due diligence investigation or immediately upon conclusion of the transaction.

4.2.4. Other risks

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

4.2.5. Overall assessment of risks

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

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

4.3 Opportunities

The overall economic and real estate conditions are favourable. Demand for housing and commercial premises remains high in Germany. Moreover, The Grounds focuses on special properties such as student living and nursing homes for the elderly, which are developing into increasingly sought-after niche products in view of the scarce supply in the market. At the same time, nursing homes for the elderly offer use that is independent of general economic developments. Micro-apartments are becoming increasingly popular. In 2018, student living and micro-apartments worth EUR 1.7 billion have been traded throughout Germany, representing a new record and an increase of almost 70 % over the previous year.[15] The focus of regional projects is particularly on the fast-growing metropolitan areas of Frankfurt on Main and Berlin.

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

In the financial year 2018, the Grounds Group successfully expanded its portfolio to include attractive project developments, as presented in 3 Business Development. Among the most important are the urban districts planned in Heubach (Stuttgart metropolitan area) and Magdeburg as well as the planned holiday and recreational area in Bad Zwischenahn. The logistics park in Hangelsberg in the Greater Berlin area also has considerable potential for development. On the plot measuring 350,000 m² in total, The Grounds is planning to develop several residential and commercial projects. By the end of the financial year, the plot for the planned four-storey micro-apartment facility (extended-stay apartment block, commercial use) located in Frankfurt‘s Gutleutstrasse could be sold for around EUR 21.5 million, within the framework of an asset deal. This led to a significant increase in consolidated sales revenues to EUR 31.1 million in the year under review, thereby illustrating the high return potential of project developments.

[15] Cf. https://www.konii.de/news/investmentmarkt-fur-studentisches-wohnen-und-mikroapartments-mit-rekordjahr-201902135502

The Grounds Group is continuously reviewing the acquisition of additional (existing) properties and has access to an extensive project pipeline, for some of which contract negotiations have already begun. The projects involve both properties from the development area and in-house developed properties for building up the portfolio. For financing, the Grounds Group as access to a variety of instruments. Because of the equity ratio of 25 % on average in project financing, the Grounds Group is able to handle high investment volumes. In addition to bank financing at the project level of the property companies, debt and equity instruments at the holding level can also be used; options include non-cash and cash capital increases and mezzanine financing. And there are continuously discussions with potential buyers of project development of the the Grounds Group. Against the background of the great success of the Company in 2018, these opportunities will result in growth potential in the financial year 2019, particularly in acquisitions, the realisation of which is expected from 2020.

5 Prognosis

5.1 Overall economic development[16]

According to the EU Commission's Spring 2019 Economic Forecast, Germany is one of the worst performers in Europe with a forecast economic growth of only +0.5 % for 2019. According to the assessment of EU Commission is Germany particularly affected by the negative economic environment in view of its openness and the strong role of industry, which, apart from Brexit, includes the US trade conflict with China.

5.2 Conditions per sector

German building sector[17]

German construction companies started 2019 with a strong order book of EUR 46.3 thousand million, up 14 % from the same period in the previous year. For 2019, the ZDB forecasts growth is sales for the sector of around 6 % to EUR 134 thousand million.

In residential construction, revenues are expected to increase by between 5.5 % and 6 %. The number of completed residential units could rise to up to 320,000, of which the majority (approximately 170,000 units) consists if apartment blocks (including hostels). Residential construction is supported by the persisting favourable interest conditions. Growth contributions are also expected from the construction child allowance and – if implemented – the special depreciation allowance decided by the federal government. But the scarcity of building land is an obstacle to this.

Commercial construction and public-sector construction are both expected to achieve sales growth of 6 % in 2019.

Residential properties / housing[18]

The real estate service provider Savillis suggests that the transaction volume on the German residential property market will reach the previous year's level of around EUR 15 thousand million in 2019. The combination of an expanded investor base and a large number of newly launched residential real estate funds, which are only just starting to build up their portfolios, forms once again the basis for the above-average value.[19]

[16] Cf. https://www.euractiv.de/section/finanzen-und-wirtschaft/news/deutschland-und-italien-wachstums-in-eu-prognose/
[17] Cf. https://www.zdb.de/zdb-cms.nsf/res/ZDB%20Direkt%202-2019.pdf/$file/ZDB%20Direkt%202-2019.pdf p.6
[18] Cf. https://www.fundresearch.de/sites/default/files/Deutscher_H%C3%A4user-_und_Wohnungsmarkt_2018.PDF p.3, 5-6
[19] Cf. https://www.konii.de/news/wohninvestmentmarkt-deutschland-2018-201901086927

It must be assumed that purchase prices and rents for German residential properties will rise further in 2019. The scarcity of plots and the lack of planning and approval capacities in many places are hampering residential construction. The tightening of the rent brake with effect from 1 January 2019 will do nothing to change this trend. Market participants demand more sustainable and effective incentives than the construction child benefit introduced in 2018 or the planned special depreciation for the construction of rental apartments. More building land in combination with compaction measures and improved building regulations and approval procedures are necessary for easing the tension in the market.[20] For 2019, the ZDB and the HDB expect 315,000 to 320,000 housing units to be completed – it means that they will continue to fall short of the 375,000 units p.a. desired by the politicians. For this reason, the associations are increasingly focusing on modular / serial construction with large-format construction elements with relocation of production to weather-independent workshops and subsequent assembly on the building site. Standard type houses, for which there is a lack of Germany-wide uniform legislation, could be implemented in series throughout Germany and save costs through planning just once and obtaining blanket approval.[21]

Commercial properties

In view of the persistently low interest rates, market experts expect unbroken high demand for German commercial real estate, a well-performing economy and further increases in rents in 2019. The forecast investment volume ranges from EUR 55 to 60 thousand million.[22]

On the market for office real estate, demand is likely to continue to develop positively in 2019, in view of the good labour market situation. Falling vacancy rates and the limited volume of completions will lead to further rent increases in view of the dearth in supply. Market experts therefore expect a transaction volume on the German office investment market exceeding EUR 30 thousand million in 2019.[23] For cities with already low vacancy rates, the Council of Property Experts expects the situation to deteriorate even further and, as a result, also companies to relocate.[24]

Demand for logistics properties will remain brisk in 2019, in view of the dynamic growth in e-commerce. Ongoing rationalisation and outsourcing processes in the industry also have a beneficial effect. BNP Paribas Real Estate also expects an above-average investment volume for 2019, the amount of which will depend on the volume of larger portfolio transactions.[25]

Jones Jones Lang LaSalle SE expects a transaction volume of between EUR 3.0 and 4.5 thousand million in the hotel investment market. Owing to the lack of high-quality and large-volume products, competitive pressure is likely to intensify and smaller cities are likely to become the focus of attention, since investor interest continues to be high.[26]

5.3 Company

After 2018 was an exceedingly successful year in terms of sales and revenue generation, including the sale of the Gutleutstrasse/Frankfurt project – which was ac-

[20] Cf. https://www.zia-deutschland.de/fileadmin/Redaktion/Pressemitteilungen/Downloads/190219_PM_ZIA_Fruehjahrsgutachten_2019_fuer_HP.pdf, p.5
[21] Cf. https://www.bauindustrie.de/media/documents/Argumentationslinie_gemPK_HDB-ZDB_2018-12-17.pdf p.4-5
[22] Cf. https://www.wiwo.de/finanzen/immobilien/immobilienberater-gewerbeimmobilien-gefragt-wie-nie-zuvor/23828716.html
[23] Cf. https://www.haufe.de/immobilien/entwicklung-vermarktung/marktanalysen/immobilienmarkt-bueroinvestments-in-frankfurt-toppen-alles_84324_483606.html
[24] Cf. https://www.zia-deutschland.de/fileadmin/Redaktion/Pressemitteilungen/Downloads/Fruehjahrsgutachten_2019_-_Kurzfassung.pdf p.6
[25] Cf. https://logistik-heute.de/news/logistikimmobilien-zweitbestes-resultat-aller-zeiten-erzielt-16601.html
[26] Cf. https://www.presseportal.de/pm/62984/4163204

tually planned for 2019 – the management expects markedly lower revenue in 2019. To counteract this, the Group's earning power must be strengthened in 2019 by means of buying at least one further portfolio property and thereby increase rental income. Additionally, smaller projects and particularly the major T3 Zeppelinheim project are still up for sale, although the transfer of benefits and burdens and therefore the revenue from these hoped for sales may be shifted to 2020 or, in the case of forward deals, to later years. Earnings before taxes and consolidated profits will accordingly be lower in correlation with the expected lower revenue in 2019.

Strengthening of the balance sheet figures for 2019 will result from the implementation of purchase agreements for 2018, namely for Sieverstorstrasse/Magdeburg and the major Bad Zwischenahn project, under the assumption that the sellers will have met the contractual conditions and accordingly the conditions for the transfer of benefits and burdens. The financing of these projects has been secured. Moreover, in 2019 the management hopes to make acquisitions to the tune of double-digit millions in the area of project development and to round off one or two additional portfolio property purchases.

Management therefore expects 2019 to be marked by the conclusion of purchase agreements and new acquisitions, which will have a positive impact on the balance sheet and significantly strengthen the Group's business model. From 2020 onwards, the effects of these transactions will then become visible in the profit-and-loss account, especially in the area of sales and the corresponding earnings figures before and after taxation.

Berlin, 21 June 2019

The Management Board
Thomas Prax

Consolidated Balance Sheet

of The Grounds Real Estate Development AG, Berlin, as per 31 December 2018

in EUR	Appendix	12/31/2018	12/31/2017
Capital assets			
Long-term assets			
Intangible assets	**8.1**	16,654.65	21,086.65
Goodwill	**8.1**	777,753.85	777,753.85
Tangible assets	**8.1**	228,413.87	52,387.00
Properties held as financial investment	**8.4**	9,500,000.00	1,083,250.63
Participations	**8.2**	9,537.00	8,527.00
Corporate shareholdings accounted for in accordance with the equity method	**8.3**	24,202.92	22,359.59
Other financial assets	**8.5**	5,000.00	0.00
Deferred tax on earnings	**8.14**	737,434.59	550,131.87
Total long-term assets		**11,298,996.88**	**2,515,496.59**
Short-term assets			
Goods in stock	**8.6**	15,609,504.53	11,272,921.29
Receivables from goods and services	**8.7**	19,392,723.98	6,302,380.00
Other receivables	**8.7**	7,658,463.08	5,391,418.89
Cash and Cash Items	**8.8**	2,408,595.49	2,471,035.80
Total short-term assets		**45,069,287.08**	**25,437,755.98**
Balance sheet total		**56,368,283.96**	**27,953,252.57**

in EUR	Appendix	12/31/2018	12/31/2017
Equity			
Subscribed capital	**8.9**	15,105,517.00	15,105,517.00
Adjustment item for corporate acquisition	**8.9**	-12,452,550.00	-12,452,550.00
Capital reserves	**8.9**	1,668,318.52	2,505,156.05
Retained profit	**8.9**	155,465.51	155,465.51
Unappropriated surplus	**8.9**	6,393,225.09	2,039,695.93
Attributable to shareholders of the parent company		10,869,976.12	7,353,284.49
Attributable to non-controlling shareholders		1,688,132.89	84,918.96
Total equity		**12,558,109.01**	**7,438,203.45**
Debts			
Long-term debts			
Financial liabilities	**8.10**	15,070,783.89	10,034,872.59
Deferred tax liabilities	**8.14**	1,648,737.35	0.00
Total long-term debts		**16,719,521.24**	**10,034,872.59**
Short-term debts			
Provisions	**8.11**	2,346,222.26	1,026,279.73
Financial liabilities	**8.10**	18,839,159.97	4,000,622.25
Received down payments	**8.12**	21,196.80	0.00
Current tax on earnings	**8.13**	4,549,651.93	634,980.80
Payables for goods and services	**8.12**	886,616.42	1,089,785.05
Other commitments	**8.12**	447,806.33	3,728,508.70
Total short-term debts		27,090,653.71	10,480,176.53
Balance sheet total		**56,368,283.96**	**27,953,252.57**

Group profit-and-loss account

of The Grounds Real Estate Development AG, Berlin, 1 Januaray 2018 to 31 December 2018

in EUR	Appendix	01/01/18 - 31/12/18	01/01/18 - 31/12/18
Sales revenues	**8.15**	31,104,058.50	18,944,514.32
Value change of the real estate held as financial investment	**8.4**	2,045,444.00	0.00
Other Operating Income	**8.19**	2,304,329.81	14,395.89
Stock changes	**8.16**	-154,436.28	100,140.00
Overall performance		**35,299,396.03**	**19,059,050.21**
Cost of materials	**8.17**	-20,806,396.25	-15,154,237.95
Staffing costs	**8.18**	-543,146.62	-72,338.54
Depreciation of intangible and tangible assets	**8.1**	-35,946.74	-9,463.27
Other Operating Expenditure	**8.19**	-2,546,809.64	-2,106,955.80
Operating result		**11,367,096.78**	**1,716,054.65**
Earnings from associated companies	**8.3**	1,843.33	16,873.75
Interest income	**8.24**	56,240.95	489,159.15
Interest expenditure	**8.24**	-2,779,105.05	-866,915.68
Financial Result		**-2,721,020.77**	**-360,882.78**
Results before taxation		**8,646,076.01**	**1,355,171.87**
Tax on profits	**8.20**	-4,458,334.84	-158,452.78
Consolidated profits		**4,187,741.17**	**1,196,719.09**
of which attributable to non-controlling shareholders		671,049.54	9,239.02
of which attributable to shareholders of the parent company		3,516,691.63	1,187,480.07
Earnings per share	**8.21**	**0.23**	**0.08**

Consolidated Statement of Changes in Equity

of The Grounds Real Estate Development AG, Berlin, 1 January 2018 to 31 December 2018

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

in EUR	Subscribed capital	Adjustment item for corporate acquisition	Capital reserves	Retained profit	Net surplus / shortfall	Attributable to non-controlling shareholders	Total
Status 01/01/2018	**15,105,517.00**	**-12,452,550.00**	**2,505,156.05**	**155,465.51**	**2,039,695.93**	**84,918.96**	**7,438,203.45**
Withdrawal from capital reserves			-836,837.53		836,837.53		**0.00**
Acquisition of interests of non-controlling shareholders						932,164.39	**932,164.39**
Total earnings of the group					3,516,691.63	671,049.54	**4,187,741.17**
Status 31/12/2018	**15,105,517.00**	**-12,452,550.00**	**1,668,318.52**	**155,465.51**	**6,393,225.09**	**1,688,132.89**	**12,558,109.01**

Group Cash Flow

of The Grounds Real Estate Development AG, Berlin, 1 January 2018 to 31 December 2018

		01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018
		in EUR	in EUR
	Consolidated profits	4,187,741.17	1,196,719.09
+	Depreciation of fixed assets	35,946.74	9,463.27
-/+	Earnings from associated companies/participations accounted for in accordance with the equity method	-1,843.33	-16,873.75
+/-	Increase / reductions in provisions	1,319,942.53	1,025,279.73
+	Other non-cash changes	-2,045,444.00	-622,288.34
-/+	Profit / loss resulting from divestment of fixed assets	480,035.12	0.00
-/+	Increase / decrease of stocks, receivables from goods sold and services provided as well as other assets that do not come under investment of financing activities	-19,665,770.46	-23,057,372.56
+/-	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	-2,502,075.02	5,111,789.10
+/-	Interest expenditure/interest income	2,722,864.10	377,756.53
+/-	Income tax expenditure/revenues	4,458,334.84	158,452.78
-/+	Payments of tax on earnings	-15,014.02	-5,159.31
=	**Cash flow from current business activities**	**-11,025,282.33**	**-15,822,233.46**
-	Proceeds from disposals of real estate held as financial investment	8,687,902.51	0.00
-	Payments for investments in intangible assets	0.00	-15,090.90
-	Payments for investments in tangible assets	-207,541.61	-58,613.00
-	Payments for properties held as financial investment	-15,539,243.00	-1,083,250.63
-	Payments for investments in financial assets	-6,010.00	0.00
+	Received interest	225.76	489,159.15
=	**Cash flow from financing activities**	**-7,064,666.34**	**-667,795.38**
+	Incoming payments from equity increases	932,164.39	5,867,341.25
-	Costs of procuring equity	0.00	-289,063.90
+	Incoming payments from issuing bonds and drawing down (financing) loans	32,934,944.99	14,035,494.84
-	Outflows because of loan redemptions and (financial) overdrafts	-13,857,929.92	0.00
-	Paid interest	-1,981,671.10	-866,915.68
=	**Cash flow from financing activities**	**18,027,508.36**	**18,746,856.51**
	Changes in cash and cash equivalents	**-62,440.31**	2,256,827.67
+	Cash and cash equivalents at the beginning of the period	**2,471,035.80**	214,208.13
=	**Cash and cash equivalents at the end of the period**	**2,408,595.49**	**2,471,035.80**

Explanatory notes in Section 8.22 of the explanations to the consolidated annual accounts

Notes to the Consolidated Accounts

Explanations for the financial year 2018

1. Fundamental Information

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

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

The Grounds AG, which had previously not been operating, became the parent company during the financial year 2017 as part of a non-cash capital increase. The corporate purpose of the non-cash capital increase was the contribution of 94.9% of its shares by the partners (shareholders) of The Grounds Real Estate GmbH (previously AG), Berlin, against the issuance of new shares in the Grounds AG. The contribution was made with economic (retroactive) effect from 1 January 2017.

The Company's operating activities essentially consist of trading and the long-term ownership of commercial and residential properties in Germany, which will be developed in different ways for these purposes. The Grounds AG functions primarily as the operating holding company for the real estate companies.

2. Reporting Principles

According to the stipulations of Article 293, Handelsgesetzbuch (HGB [Commercial Code]), the Grounds AG is not obliged to prepare consolidated annual accounts for the financial year 2018. These consolidated accounts at hand – like the management report of the Group – have therefore been prepared on a voluntary basis.

The Grounds AG has applied the provisions of Article 315e, Paragraph 3, Commercial Code, mutatis mutandis to its consolidated annual accounts for the financial year 2018. 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 requirements of IFRS, as applicable in the EU, have been fully complied with and result in a true and fair view of the net assets, financial and earnings positions of the Grounds Group. Individual items of the profit-and-loss account and the balance sheet have been combined in order to improve the clarity of presentation. Those items have been further broken down clarified in the explanations.

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

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

The accounting principles applied in these Group annual accounts are the same as those applied to the Group annual accounts of 31 December 2017, except for the changes explained below.

For the financial year 2018, it was mandatory for the first time to apply the following or new principles and interpretations to the IFRS Group annual accounts:

Standard/Interpretation		new/changed	Effects
IFRS 15	Revenue from agreements with customers	new/changed	insignificant
IFRS 9	Financial instruments	new/changed	insignificant
IFRS 2	Share-based payment (Clarification of the classification and evaluation of transactions with share-based payment)	changed	n.a.
IAS 40	Real estate held as financial investment (Classification of as yet unfinished real estate)	changed	insignificant
IFRS 4	Insurance policies	changed	n.a.
IASB 2014-2016	Improvement process IFRS 1, IFRS 12 and IAS 28	changed	insignificant
IFRIC 22	Transactions in foreign currency and consideration of down payments	new	n.a.

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

Standard/Interpretation		Applicable from financial year
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainties regarding income tax treatment	1 January 2019
IAS 28	Shares in associated companies and joint ventures (Long-term participations in associated companies and joint ventures)	1 January 2019
IFRS 9	Financial instruments (Early maturity arrangement with negative equalisation payment)	1 January 2019

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

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

The consolidated annual accounts of the Grounds AG at hand have been prepared voluntarily and are not intended 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 the 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 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 the 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 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 the Grounds AG of 31 December 2018 include the parent company and all subsidiary companies listed below.

List of subsidiary companies

Company name	Domicile	Capital share
The Grounds Real Estate GmbH (vormals AG)	Berlin	94.9 %
TGA Immobilien Erwerb 4 GmbH	Berlin	100 %
TGA Immobilien Erwerb 5 GmbH	Berlin	100 %
TGA Immobilien Erwerb 6 GmbH	Berlin	100 %
TGA Immobilien Erwerb 7 GmbH	Berlin	100 %
TGA Immobilien Erwerb 8 GmbH	Berlin	100 %
TGA Immobilien Erwerb 11 GmbH	Berlin	100 %
Gutleut GmbH	Berlin	94.9 %
MDSG Lagerwirtschaft und Distributionsgesellschaft mbH (vormals TGA Immobilien Erwerb 9 GmbH)	Berlin	100 %
Zeppelin One GmbH*	Berlin	94.9 %
TGA Immobilien Erwerb 12 GmbH*	Berlin	100 %
TGA Immobilien Erwerb 13 GmbH*	Berlin	100 %
Borbico GmbH*	Zossen	51 %
GE 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 %
TGA Immobilien Erwerb 14 GmbH	Berlin	100 %
TGA Immobilien Erwerb 15 GmbH	Berlin	100 %
The Grounds App 3 GmbH & Co. KG*	Berlin	100 %

* Additions during the financial year.

Additionally, the Group annual accounts contain one associated company:

List of associated companies

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

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

List of participations

Company name	Domicile	Capital share	Result for the year (€000)	Equity (€000)
SQUADRA Erste Immobiliengesellschaft mbH	Frankfurt on Main	7.5 %	-1,241	-2,977
The Grounds App 4 GmbH & Co. KG	Berlin	10.1 %	-4	203

The information on the result for the year and on equity relates to the financial year 2018 of the companies in which we participate. The participation in SQUADRA Erste Immobiliengesellschaft mbH is held indirectly and the one in The Grounds App 4 GmbH & Co. KG directly.

4.4.2. Changes in the reporting period

Compared to 31 December 2017, the consolidation scope has changed as follows during the period under review:

- As shown in Section 4.4.1, altogether ten subsidiary companies have been added.
- TGA Immobilien Erwerb 2 GmbH was amalgamated with The Grounds Real Estate GmbH (previously AG).
- The shares in TGA Immobilien Erwerb 10 GmbH, Berlin (100 %), have been sold and deconsolidated.

The addition of the following (pure) real estate property companies are shown in the first consolidation as a comparable direct acquisition of real estate. TGA Immobilien Erwerb 12 GmbH, TGA Immobilien Erwerb 13 GmbH, TGA Immobilien Erwerb 14 GmbH, TGA Immobilien Erwerb 15 GmbH, The Grounds App 1 GmbH & Co. KG, The Grounds App 2 GmbH & Co. KG, The Grounds App 3 GmbH & Co. KG, Zeppelin One GmbH, Borbico GmbH and GE Halberstädter Strasse 153 GmbH.

In December 2017, MDSG Lagerwirtschaft und Distributionsgesellschaft mbH (previously TGA Immobilien Erwerb 9 GmbH) concluded a purchase agreement with MDSG Logistik GmbH for the full acquisition of the operating parts of the “location Hangelsberg”, by way of an asset deal. From the date of acquisition (1 January 2018), this transaction was treated as an acquisition in accordance with IFRS 3 and included for the first time in the Group annual accounts on 31 December 2018, because the acquired company also provides logistics services in conjunction with its letting activities.

The purchase price for acquiring this part of the operations was EUR 4,100 thousand in total. At the time of first consolidation, the acquired assets and liabilities had the following fair values:

	€000
Properties held as financial investment	7,455
Tangible assets	145
Acquired assets	**7,600**
Procurement costs	**4,417**
Difference	**3,183**
Balance	2,223
Passive deferred taxes	960
Total	**3,183**

The negative balance of EUR 2,223 thousand emanating from the purchase price allocation was released to income and reported under other operating income.

Since acquisition, the acquired operating parts have yielded a result of EUR 34 thousand.

The sale of the shares in TGA Immobilien Erwerb 10 GmbH, Berlin, has led to a deconsolidation loss of EUR 480 thousand in total during the period under review. The amount is made up as follows:

	€000
Received purchase price components	20
Assets disposed of	500
Loss from deconsolidation	**-480**

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.

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 2018, no impairment of the reported goodwill resulting from the contribution of the shares in The Grounds Real Estate GmbH (previously AG) in 2017 (see Section 1), which was presented as a reverse acquisition, had to be assumed.

5.1.2. Other intangible assets

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

5.2. Tangible assets

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

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

5.3. Impairment of assets

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

5.4. 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 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 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. Financial instruments

5.5.1. Financial assets

During the period under review, the Grounds Group has applied for the first time the new IFRS 9 regulations. The comparison data from the previous period have been adapted to the requirements of this standard. The effects from the transition from the previously authoritative IAS 39 to IFRS 9 were insignificant.

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 “FVTOCI”.

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.

5.5.2. Financial liabilities

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

5.6. Fair value

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

Under IFRS 13, fair value is the price at which an asset could be exchanged between knowledgeable, willing parties in an arm‘s length transaction under current market conditions on the 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 measuring 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).

5.7. 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.

5.8. Cash and cash equivalents

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

5.9. Costs of procuring equity

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

5.10. Provisions

Provisions are made when the Company has a present legal or actual obligation emanating from past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. If the Company 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 provided if the expected benefit from the contractual claim is lower than the unavoidable costs of meeting the contractual obligation.

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

5.11. Deferred 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.

5.12. Realisation of revenue

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

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

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

6. Capital Management and Financial Risk Management

With the help of capital management, the 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.

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	2018	2017	2018	2017	2018	2017
Acquisition / manufacturing costs	778	0	25	0	59	0
Cumulative depreciation	0	0	4	0	7	0
Book value on 1 January 2018	**778**	**0**	**21**	**0**	**52**	**0**
Additions (+)	0	0	0	16	207	58
Additions from first consolidation (+)	0	778	0	9	0	1
Disposals (–)	0	0	0	0	0	0
Depreciations (–)	0	0	-4	-3	-31	-6
Additions depreciations from first consolidation (–)	0	0	0	-1	0	-1
Book value on 31 December 2018	778	778	17	21	228	52
Acquisition / manufacturing costs	778	778	25	25	266	59
Cumulative depreciation	0	0	8	4	38	7

8.2. Participations

The investments relate to an interest of 7.5 % in SQUADRA Erste Immobiliengesellschaft mbH, Frankfurt, and an interest of 10.1 % in The Grounds App 4 GmbH & Co. KG, Berlin, which are carried at acquisition cost.

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

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

	31/12/2018	31/12/2017
	€000	**€000**
Beginning of the financial year	**22**	**0**
Additions of shares	0	5
Shares in profits and losses	2	17
End of the financial year	**24**	**22**

8.4. Properties held as financial investment

	31/12/2018	31/12/2017
	€000	**€000**
Status at the beginning of the financial year	**1,083**	**0**
Additions (+)	15,540	1,083
Disposals (-)	-9,168	0
Appreciations (+)	2,045	0
Status at the end of the financial year	**9,500**	**1,083**

The addition in 2018 relates to a commercial property in Hangelsberg with a total of 83 units and a total rental area of 57,000 m².

The disposal in 2018 relates to the sale of TGA Immobilien Erwerb 10 GmbH, together with the residential properties included therein.

Book values of investment property amounting to EUR 3,000 thousand (previous year EUR 0 thousand) 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. The comparative values used for the valuation of cash flows in the form of the discount rate to be applied are also estimated by experts. On this basis, the fair value was determined to be a total amount of EUR 9,500 thousand on balance sheet date.

If the basic interest rate used for determining the fair value of this real estate were to have been increased by 0.5 percentage points, it would have resulted in a fair value of EUR 9,100 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 10,000 thousand in total.

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

	2018	2017
	€000	**€000**
Rental income (revenues)	761	0
Cost of materials	–19	0
Maintenance costs (cost of materials)	–266	0
Total	**476**	**0**

In view of the low vacancy rate of 1.8 %, the expenditure in relation to real estate held as financial investment is immaterial.

8.5. Other financial assets

The other financial assets consist entirely of cooperative shares.

8.6. Goods in stock

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

	31/12/2018	31/12/2017
	€000	**€000**
Work in progress	22	176
Properties under construction	10,882	7,095
Down payments made	4,706	4,002
Total	**15,610**	**11,273**

8.7. Receivables from goods and services and other receivables

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

	31/12/2018	31/12/2017
	€000	**€000**
Receivables from goods and services (gross)	19,393	6,302
Value adjustments	0	0
Receivables from goods and services (net)	**19,393**	**6,302**

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

	31/12/2018	31/12/2017
	€000	**€000**
Receivables from goods and services		
of which on reporting date not impaired and not overdue	19,355	6,300
of which on reporting date not impaired and overdue up to 30 days	36	0
of which on reporting date not impaired and overdue from 31 to 60 days	0	0
of which on reporting date not value-adjusted and overdue between 61 and 90 days	0	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	0	0
of which on reporting date not value-adjusted and overdue for more than 360 days	2	2
Net value of value-adjusted receivables from goods and services	0	0

There were no value adjustments of receivables from goods and services in the financial year 2018.

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

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

	31/12/2018	31/12/2017
	€000	**€000**
Claims against companies in which we participate	1,570	1,523
Receivables from associated companies	0	121
Receivables from loans to related companies/persons	1,291	0
Other receivables from related companies/persons	0	97
Receivables from loans to third parties	1,511	0
Claims to disbursement from notarial escrow account	2,150	0
Receivables in relation to turnover tax	641	790
Receivables emanating from capital increase	0	2,804
Miscellaneous other receivables	495	56
Total	**7,658**	**5,391**

The receivables from companies in which we participate relate to a credit line agreement. During the period under review, the credit line bore interest at 0.5 % p.a.

The recognised loans to related companies for a total amount of EUR 1,291 thousand bear interest at 1 % p.a.

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

There were no depreciations on other receivables

8.8. Cash and Cash Items

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

8.9. Equity

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

	31/12/2018	31/12/2017
	EUR	**EUR**
Beginning of the financial year	15,105,517	400,000
Non-cash capital increase against contribution of 94.9 % of the shares of The Grounds Real Estate GmbH (previously AG)	0	12,500,000
Cash capital increase	0	2,205,517
End of the financial year	15,105,517	15,105,517

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

On 2 August 2018, the Annual General Meeting resolved to authorise the Management Board, with the approval of the Supervisory Board until 1 August 2023, to increase the Company's share capital on one or more occasions by up to a total of EUR 7,552,758.00 against cash and/or non-cash contributions, whilst shareholders' subscription rights may be excluded (authorised capital 2018).

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

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 the IFRS accounting requirements for reverse company acquisition between the Grounds AG and The Grounds Real Estate GmbH (previously AG) in 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.

8.10. Financial liabilities

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

	31/12/2018	31/12/2017
	€000	€000
Long-term financial liabilities		
Liabilities to financial institutions and other lenders	15,071	10,035
Total long-term financial liabilities	**15,071**	**10,035**
Short-term financial liabilities		
Liabilities to financial institutions and other lenders	18,839	4,001
Total short-term financial liabilities	**18,839**	**4,001**
Total financial liabilities	**33,910**	**14,036**

Fixed interest rates have been agreed for the long-term loans, which range between 2.5 % and 3.25 % per annum. The liabilities are secured by mortgages, bank account pledges and the cession of sales and rent receivables, general contractor/construction agreements and guaranty and compensation claims. Additionally, two former members of the Management Board have each issued directly enforceable sureties in the amount of EUR 2,345 thousand for these liabilities. Moreover, The Grounds Real Estate Development AG has issued a surety in a maximum amount of EUR 1,800 thousand.

A fixed interest rate of 3.0 % p.a. has been agreed for a short-term loan that had a value of EUR 14,029 thousand on 31 December 2018. The loan is secured for the full amount by a mortgage of EUR 19,800 thousand in total on the particular real estate portfolio for the financing of which the loan has been taken out. On top, The Grounds Real Estate Development AG has issued a surety in a maximum amount of EUR 2,820 thousand.

Other short-term financial liabilities are in relation to various subordinated loans. Loans with a total amount of EUR 3,781 thousand on 31 December 2018 granted by related companies bear interest of 5.5 % p.a. plus a share in profits, and another loan granted by third parties, which had a value of EUR 750 thousand on 31 December 2018, bears interest at 12.0 % p.a. plus a share in profits.

All loans are denominated in euros.

8.11. Provisions

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

	Pending invoices	Annual accounts and audit	Miscellaneous	Total
	€000	€000	€000	€000
1 January 2018	**765**	**183**	**78**	**1,026**
Additions from changes in the consolidation scope	0	4	0	4
Utilisation	759	135	65	959
Release	5	15	31	51
Additions	2,138	98	97	2,333
Reductions from selling companies	1	1	5	7
31 December 2018	**2,138**	**134**	**74**	**2,346**

The other provisions essentially comprise provisions for outstanding invoices.

8.12. Payables from goods and services, received down payments and other liabilities

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

	31/12/2018	31/12/2017
	€000	€000
Payables for goods and services	**887**	**1,090**
Received down payments	**21**	**0**
Investor loan	0	1,134
Investor loan from related companies/persons	0	947
Other payables to related companies/persons	228	221
Payables to associated companies	13	0
Payables in relation to compensation for damages	0	889
Miscellaneous other payables	207	537
Other commitments	**448**	**3,728**
Total	**1,356**	**4,818**

The miscellaneous other liabilities mainly include liabilities from land acquisition and turnover tax obligations.

The agreements relating to the investor loans reported the previous year were largely project-related and carried subordination clauses. Loans in the amount of EUR 1,512 thousand have been granted in return for exclusively profit-related remuneration and are secured by cession of claims under own loan agreements and by participation in the Company taking the loan. Additional investor loans have been granted in the amount of EUR 571 thousand, bearing interest at 11.5 % p.a., plus an investor profit.

8.13. Current tax on earnings

Current income tax liabilities in the amount of EUR 4,500 thousand comprise corporation tax liabilities in the amount of EUR 2.363 thousand and trade tax liabilities in the amount of EUR 2,187 thousand.

8.14. Deferred taxes

Deferred tax assets and liabilities are expected to be realised as follows:

	31/12/2018	31/12/2017
	€000	€000
Deferred tax assets		
• that will be realised after more than 12 months	737	550
Total	**737**	**550**
Deferred tax liabilities		
• that will be realised after more than 12 months	1,649	0
Total	**1,649**	**550**

The changes in deferred tax items are as follows:

	2018	2017
	€000	€000
Deferred tax assets	550	0
Deferred tax liability	0	0
Balance of deferred tax items at the beginning of the financial year	550	0
Recognition in equity on account of first-time IFRS consolidated annual accounts	0	68
Recognition of equity procurement costs without effect on income	0	4
Deferred tax liabilities from company acquisition as per IFRS 3	-961	0
Expenditure (-) / Revenue (+) in the P&L	-501	478
Balance of deferred tax items at the end of the financial year	**-912**	**550**
Deferred tax assets	737	550
Deferred tax liability	-1,649	0

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 2018	0	4	546	550
Amounts recognised in the profit-and-loss account	3	0	184	187
Status 31 December 2018	**3**	**4**	**730**	**737**

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 397 thousand (previous year EUR 0 thousand) and certain carried forward corporation tax losses in the amount of EUR 463 thousand (previous year EUR 0 thousand), because there is insufficient certainty about their realisation.

The changes in deferred tax liabilities are explained as follows:

Cause	From differences in real estate held as financial investment	Total
	€000	€000
Status 1 January 2018	0	0
Deferred tax liabilities from company acquisition as per IFRS 3	961	961
Amounts recognised in the profit-and-loss account	688	688
Status 31 December 2018	**1,649**	**1,649**

8.15. Sales revenues

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

	2018	2017
	€000	€000
Turnovers profits on the sale of properties	30,160	18,945
Rental proceeds	944	0
Total	**31,104**	**18,945**

8.16. Stock changes

The changes in stock during the financial year 2018 relate to the reduction of EUR 154 thousand in work in progress.

8.17. Cost of materials

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

	2018	2017
	€000	€000
Acquisition costs of sold properties and building costs	20,640	15,096
Expenditure for raw materials and consumables	6	0
Procured services	160	58
Total	**20,806**	**15,154**

8.18. Staffing costs

Staffing costs are broken down as follows:

	2018	2017
	€000	€000
Salaries, other benefits	484	67
Social security contributions and expenditure on old-age care and support	59	5
Total	**543**	**72**

Social security contributions and expenditure for old-age care and support include expenses for old-age care of EUR 1 thousand (previous year EUR 0 thousand).

8.19. Other operating income and expenses

The other operational income contain the following amounts:

	2018	2017
	€000	€000
Reversal of negative difference	2,223	14
Miscellaneous other operating income	81	14
Total	**2,304**	**14**

The other operational expenditure contains the following amounts:

	2018	2017
	€000	€000
Housing costs	175	28
Insurance, contributions and charges	47	46
Repairs and maintenance	72	2
Vehicle costs	44	0
Advertising and travel expenses	656	84
Legal and consultancy fees	324	246
Annual accounts and audit fees	164	177
Losses from divestment of fixed assets	20	1
Non-deductible input tax	53	104
Compensation for damage	0	899
Third-party services and work	822	348
Miscellaneous other operating expenditure	170	172
Total	**2,547**	**2,107**

8.20. Income tax expenditure/revenues

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

	2018	2017
	€000	€000
Current income tax expenditure	-3,957	-636
Deferred income tax expenditure/revenues	-501	478
Total	**-4,458**	**-158**

The recognised tax expenditure/revenue differs 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	2018	2017
	€000	€000
Results before taxation	8.646	1,355
Income taxes calculated on the basis of the income tax rate of the parent company	-2,609	-409
Effect from		
• tax-exempt revenues / non-deductible expenditure	-164	+273
• non-recognition of deferred tax assets on losses carried forward	-130	0
• consolidation entries recognised directly in equity	-1,470	0
• other causes	-85	-22
Recognised income tax expenditure/revenues	**-4,458**	**-158**

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

8.21. Earnings per share

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

	2018	2017
Profit attributable to the shareholders of the parent company (€000)	3,517	1,187
Average number of shares issued (nominal)	15,105,517	15,105,517
Undiluted earnings per share (EUR)	**0.23**	**0.08**

In the financial year 2018, no dividend was paid for the preceding financial year. No dividend is expected to be distributed for the financial year 2018 either.

8.22. Statement of sources and application of funds

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

The cash flow from current (operating) activities is calculated according to the indirect method. The balance is EUR -11,025 thousand. It contains income tax payments in the amount of EUR -15 thousand.

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

	31/12/2018	31/12/2017
	€000	€000
Cash and Cash Items	2,409	2,471
Cash and cash equivalents at the end of the period	**2,409**	**2,471**

8.23. Contingent Liabilities

The Group's contingent liabilities are shown in Section 8.10 Financial liabilities.

8.24. 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. The first-time application of IFRS 9 did not have material effects.

	Book value				Fair value
31/12/2017	FVTOCI* Equity instruments	Financial assets at amortised acquisition cost	Other financial liabilities	Total	Total
	€000	€000	€000	€000	€000
Participations	9	0	0	9	9
Receivables from goods and services	0	6,302	0	6,302	6,302
Other receivables and assets	0	5,391	0	5,391	5,391
Total financial assets	**9**	**11,693**	**0**	**11,702**	**11,702**
Financial liabilities	0	0	14,035	14,035	14,035
Payables for goods and services	0	0	1,090	1,090	1,090
Other commitments	0	0	3,729	3,729	3,729
Total financial liabilities	**0**	**0**	**18,854**	**18,854**	**18,854**

* FVTOCI: Fair Value through Other Comprehensive Income

31/12/2018	Book value FVTOCI* Equity instruments	Financial assets at amortised acquisition cost	Other financial liabilities	Total	Fair value Total
	€000	€000	€000	€000	€000
Participations	9	0	0	9	9
Receivables from goods and services	0	19,393	0	19,393	19,393
Other receivables and assets	0	7,658	0	7,658	7,658
Total financial assets	**9**	**27,051**	**0**	**27,060**	**27,060**
Financial liabilities	0	0	33,910	33,910	33,910
Received down payments	0	0	21	21	21
Payables for goods and services	0	0	887	887	887
Other commitments	0	0	448	448	448
Total financial liabilities	**0**	**0**	**35,266**	**35,266**	**35,266**

* FVTOCI: Fair Value through Other Comprehensive Income

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 392 thousand.

Net earnings from financial instruments as per measurement categories in accordance with IFRS 9 for the period from 1 January to 31 December 2018 are as follows:

	Financial assets at amortised acquisition cost		Other financial liabilities	
	2018	2017	2018	2017
	€000	€000	€000	€000
Interest income	56	489	0	0
Interest expenditure	0	0	-2,779	-867
Net earnings	56	489	-2,779	-867

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

b) Financial risk

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:

31/12/2018	Book value	Outflows in the next reporting period	Outflows in the reporting period following the next period	Later outflows
	€000	€000	€000	€000
Outflows under financial liabilities	**33,910**	**18,839**	**3,320**	**11,751**
Payables for goods and services	887	887	0	0
Other commitments	448	448	0	0
Payables from goods and services and other liabilities	**1,334**	**1,334**	**3,320**	**11,751**
Outflows under liabilities within the scope of IFRS 7	**35,244**	**20,173**	**3,320**	**11,751**

31/12/2017	Book value	Outflows in the next reporting period	Outflows in the reporting period following the next period	Later outflows
	€000	€000	€000	€000
Outflows under financial liabilities	**14,035**	**4,000**	**10,035**	**0**
Payables for goods and services	1,090	1,090	0	0
Other commitments	3,729	3,729	0	0
Payables from goods and services and other liabilities	**4,819**	**4,819**	**0**	**0**
Outflows under liabilities within the scope of IFRS 7	**18,854**	**8,819**	**10,035**	**0**

In the case of interest-bearing loans with variable interest rates, interest payments in future reporting periods have been determined on the basis of the interest rates prevailing on the respective balance sheet date.

In the Grounds Group, liquid funds to the tune of EUR 2,409 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 2018, an interest rate that is higher or lower by 0.5 % p.a. would increase respectively reduce interest expenditure by around EUR 170 thousand.

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

9. Events after Balance Sheet Date

With the exception of the implementation of purchase agreements concluded up to the end of the financial year 2018 and the associated additions of more properties, no events of particular significance for the asset, financial and earnings positions of the Grounds Group have occurred after the end of the reporting period.

10. Other Information

10.1. Occupancy and remuneration of the Company‘s executive bodies

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

- Hans Wittmann, BA (until 30 July 2018)
- Eric Mozanowski, BA (until 30 July 2018)
- Thomas Prax, BA (from 23 July 2018)

Total emoluments for management activities amounted to EUR 219 thousand during the reporting period.

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

- Dr Peter Maser, Solicitor, Chairman
- Manuel Köppel, authorised signatory, (until 7 November 2018), Deputy Chairman
- Carsten Haug, property case worker (from 8 November 2018), Deputy Chairman
- Steffen Buckwitz, Management Consultant

Total emoluments for supervisory activities amounted to EUR 79 thousand during the reporting period.

10.2. Transactions with related companies and persons

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

During the period under review, members of the Management Board have stood surety in the amount of EUR 2,595 thousand each, for loans of the Grounds Group. For this purpose, a remuneration of 2 % p.a. was agreed in each case. Total expenditure for this was EUR 67 thousand.

The receivables from related companies and persons are shown in Section 8.7. They carry interest income in the amount of EUR 11 thousand.

The liabilities to related companies and persons are shown in Sections 8.10 and 8.12. They carry interest income in the amount of EUR 172 thousand.

Expenditure of EUR 51 thousand results from trading in goods and services with related companies.

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

10.3. Average number of staff

During the period under review, the companies consolidated into the Group annual accounts have employed nine staff on average.

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

The total fee (excluding turnover tax) charged by the external auditor of the Group for services rendered to the Grounds AG and the companies included in the consolidated annual accounts for the reporting period amounts to EUR 22 thousand. They are composed as follows:

	2018
Type of service	€000
Related to the annual accounts	21
Other auditing services	0
Fiscal consultancy	0
Other services	1
Total	**22**

Berlin, 21 June 2019
Management Board of The Grounds Real Estate Development AG

Thomas Prax

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 2018, 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 2018, and the explanations 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 2018. 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, HGB (Handelsgesetzbuch [Commercial Code]) and give a true and fair view of the net assets and financial position of the Group on 31 December 2018 and of its results of operations for the financial year from 1 January to 31 December 2018 in accordance with these requirements, and
- the 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 Article 322, Paragraph 3, Clause 1, 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 the audit of the consolidated annual accounts and management report of the Group in accordance with Article 317, Commercial Code, 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 records that we have obtained are sufficient and suitable for serving 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 the drawing up of the consolidated annual accounts in accordance with the IFRS as adopted by the EU and that they comply in all material respects with the additionally applicable requirements under German law as stipulated in Article 315e, Paragraph 1, Commercial Code, and for ensuring 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 these stipulations. The legal representatives are also responsible for the internal controls that they have determined to be necessary for enabling 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 at 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

It is 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, complies with German legal requirements and does fairly present 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 guaranty 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 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 management report of the Group.

During the audit, we exercise our best 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 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, 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, 21 June 2019

Buschmann & Bretzel GmbH Audit Firm	Volker Bretzel, BA Auditor

Financial calendar
Contact
Imprint

Financial calendar

22. August 2019	Annual General Meeting 2019 in Berlin
August 2019	Publication of provisional figures for H1 2019
September 2019	Publication of the semi-annual report for 2019
25.-27. November 2019	German Equity Forum, Frankfurt on Main

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