Annual Report 2019

THE GROUNDS
REAL ESTATE DEVELOPMENT AG

Key figures

Key figures for the Group

		2019	2018
Sales revenues	€000	13,940	31,104
... of which rental revenues	€000	1,003	944
Earnings before interest and taxes (EBIT)	€000	1,971	11,367
Consolidated Group earnings	€000	54	4,188
Earnings per share	EUR	0.00	0.23
Balance sheet total	€000	32,411	56,368
Fixed assets	€000	11,167	11,299
Equity capital	€000	11,994	12,558
Equity ratio	%	37.0	22.3
Financial liabilities	€000	10,286	18,839
Cash flow from ongoing operating activities	€000	13,281	-11,025
Cash flow from investment activities	€000	8,854	-7,065
Cash flow from financing activities	€000	-23,213	18,028
Employees		9	9

Key portfolio figures (existing portfolio real estate properties and project developments, including purchased plots of land)

		2019	2018
Market value and sales value of ongoing projects	€000	26,824	40,109
Area of land	m^2	3,597	14,077
Usable area	m^2	6,529	22,213
Market value and sales value of purchased plots of land	€000	257,593	247,593
Area of land	m^2	199,105	199,105
Usable area	m^2	83,346	83,346
Market value and sales value of existing portfolio properties	€000	9,600	9,600
Area of land	m^2	350,851	350,851
Usable area	m^2	40,944	40,944

The Grounds on the capital market

(XETRA prices)

		2019	2018
Market capitalisation (as of 31 December in each case)	€000	14,954	31,419
Share capital	€000	15,105	15,105
Closing price	EUR	0.99	2.08
Lowest price	EUR	0.98	1.68
Highest price	EUR	2.08	2.50
ISIN		DE000A2GSVV5	
Segment		Düsseldorf primary market	

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Letter to shareholders

Dear Shareholders,
Dear Friends of The Grounds,

The Grounds returned to a dynamic growth course in the 2020 financial year. Changes in the major shareholders group and in the Management Board and Supervisory Board were followed in May 2020 by the acquisition of a real estate portfolio with 21 almost fully tenanted apartment blocks for our property portfolio, and other transactions are being negotiated. On the other hand, clearly reduced activities in operating business in 2019 compared to the previous year, and the envisaged portfolio enlargement that did not take place, reflected the fact that the refinancing side did not develop as we would have wished. In this respect, the major shareholder change in July 2018 also failed to allow The Grounds Group to grow as planned. For this reason, the architects of the company's realignment that took place in 2017 returned to The Grounds. Therefore they find familiar names and faces, not only in the Supervisory Board but also in the team working in the background.

As expected, sales and results in 2019 were below the previous year's strong figures

The focus of The Grounds in 2019 was on further development of the real estate property portfolio, albeit financial support from the interim major shareholder failed to materialise at that time. We were therefore unable to follow on from the previous year's strong figures on the sales and results side. With consolidated sales revenues of EUR 13.9 million (previous year: EUR 31.1 million), we achieved earnings before interest and taxes (EBIT) of EUR 2.0 million (previous year: EUR 11.4 million) and a slightly positive consolidated profit after taxes of EUR 54 thousand (previous year: EUR 4.2 million).

Sales revenues amounting to EUR 12.9 million were earned, especially from the sale of a major project in the Frankfurt/Main area. A further EUR 1.0 million represents rental incomes from our Hangelsberg Logistics Park property portfolio. To improve the state of maintenance, we carried out remediation work in 2019, focusing on fire protection, to enable quick growth in rent incomes through additional occupancies. Further positive effects on utilisation of the rental volume of the Hangelsberg Logistics Park should result from the Tesla Gigafactory planned in the immediate vicinity.

Arndt Krienen
Executive Board

Mr. Arndt Krienen, Attorney and CEO of Capstone Opportunities AG (Berlin), has been an additional member of the Company's Executive Board since 03 March 2020.

Before his current position, he was CEO of Westgrund AG (Berlin) as well as of S-DAX listed Adler Real Estate AG. Arndt Krienen is Chairman of the Supervisory Board of DIOK Real Estate AG (Köln), Grillador AG (Remscheid) and member of the stock exchange council of Düsseldorf stock exchange.

Tesla plans to commence production in Grünheide from the summer of 2021 onwards, which will lead to considerable investments in logistics, and in the establishment of automotive suppliers in the surroundings. Furthermore, in the Oder-Spree district, it is expected that there will be a need to create living space for 10,000 residents. Naturally, we want to profit from the resulting opportunities!

Thomas Prax
Executive Board

CEO in the The Grounds Group since July 2018. 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.

2020: Planned sales and results comparable to 2019

We refer to the information in the Group Management Report for detailed explanations of the 2019 figures. At this point, however, we would also like to stress the significant improvement in our equity ratio to a solid 37% (previous year: 22%).

We are focusing very clearly on growth in the current 2020 financial year. However, the considerable expansion of our real estate property portfolio that took place in 2020 will not yet be reflected in the consolidated sales revenues and consolidated profits figures. The real estate portfolio acquired for our existing stock in May almost doubled our annual rental incomes. As a result of the transfer of rights and obligations scheduled for 30 September, the real estate portfolio will already sustainably contribute to increasing the earning power of The Grounds in the fourth quarter of 2020. Examinations of opportunities for densification and further energy remediation measures currently ongoing could lead to rent increases in the longer term.

We expect sales proceeds in 2020 from the handover of the Leipzig micro-apartment project scheduled for the end of the year. We sold this for EUR 13.35 million in 2018 as part of a forward deal. Otherwise, no major sales are currently planned. We are as yet unable to assess whether contemplated sales of individual building sites of the urban district planned in Magdeburg will still be recognised as revenue in 2020. The current coronavirus pandemic is impeding and delaying planning, approval, financing and sales processes vis-à-vis municipalities, banks and investors.

For 2020, therefore, we expect a level of sales and results comparable to that of 2019. Our consolidated balance sheet will expand considerably due to portfolio growth and progress in project developments. We also plan further purchased acquisitions in 2020, by which we aim to expand our existing portfolio to strengthen earning power.

A focus in 2020 will be on obtaining planning permission for the existing project developments in Magdeburg (for both the planned urban district and the micro-apartment facility planned at No. 153 Halberstädter Strasse) and in Bad Zwischenahn. Here, at the start of 2020, we gained the nationally active hotel operator SEETELHOTELS / IHR as the future operator of the hotel and leisure complex on the former federal armed forces hospital site, thus completing one of the last important preparations to obtain planning permission.

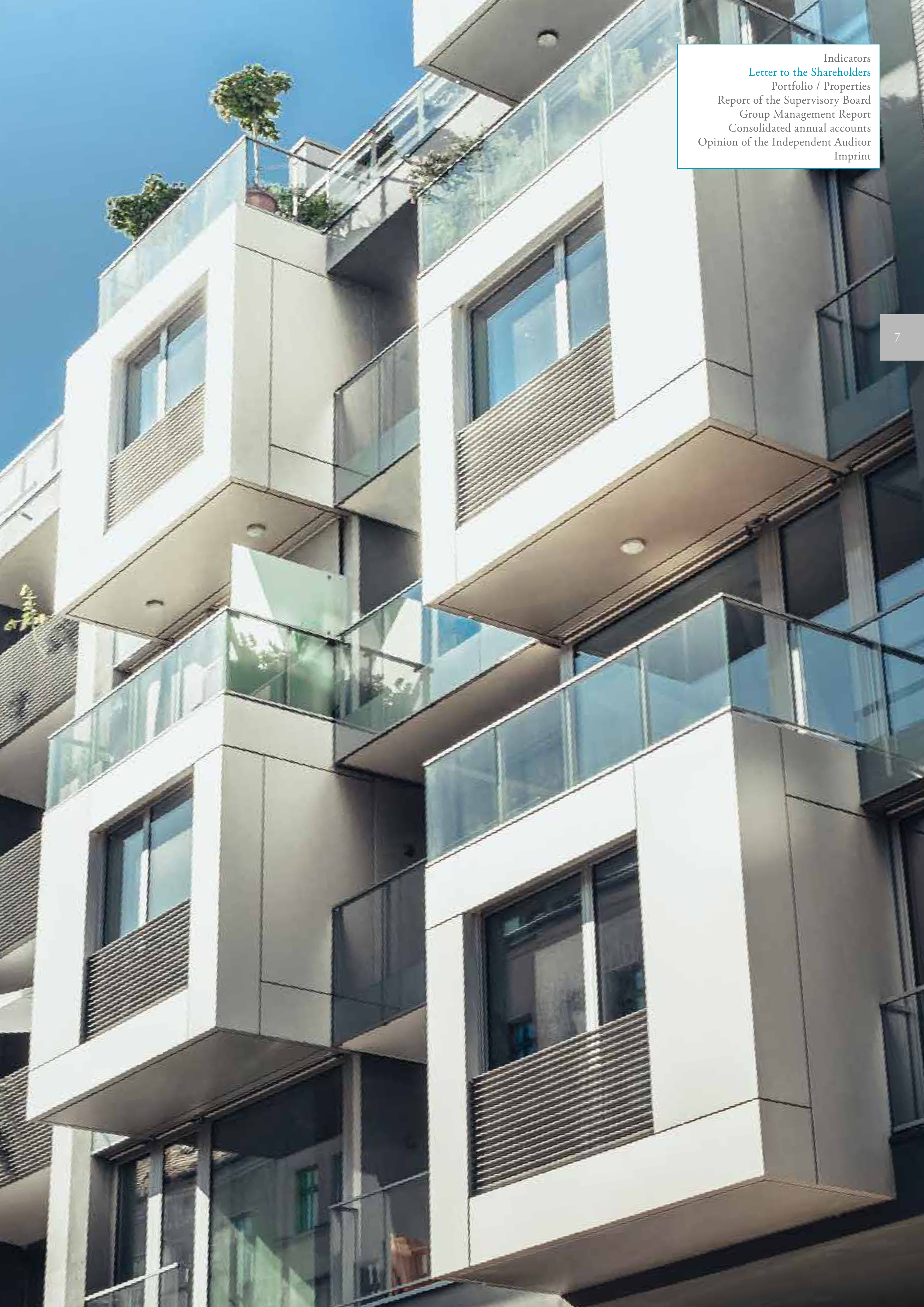
Many thanks for your loyalty and forbearance!
Dear Shareholders, many of you have accompanied us since 2017. We would like to take this opportunity to thank you for your loyalty to our company and for your patience!
The past two financial years have been characterised by changes in the shareholder structure, consolidated sales revenues and consolidated results, and our shares have also not developed as previously expected.
However, course has now been set with a powerful team, again clearly focused on growth, and we will ensure a regular flow of news that should also have a noticeably positive effect on our shares.

Unfortunately, we will be unable to welcome you in person to our 2020 Ordinary General Meeting in Berlin this year as we usually would. Therefore, due to uncertainties regarding the course and duration of the coronavirus pandemic, we have decided to hold a virtual General Meeting in late August 2020. Your health and that of our staff have topmost priority.

We would like to expressly thank all our staff for their energetic efforts.

Berlin, June 2020

Arndt Krienen Thomas Prax
Executive Board Members

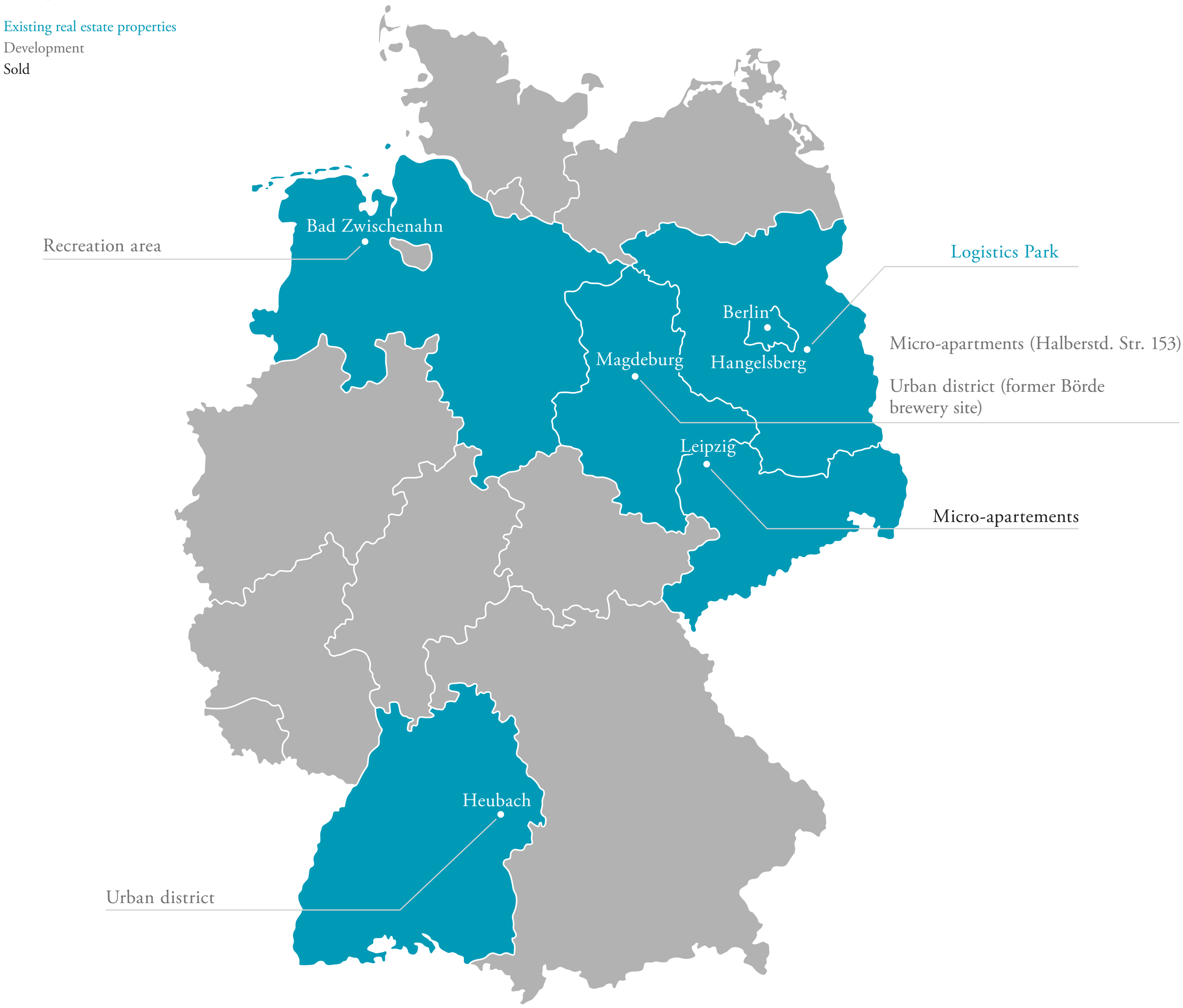


Portfolio / Properties

A clear focus: acquisition, project development and sustainable management

The Grounds Group focuses on project development and the sustainable management of property portfolios. The emphasis in this respect is on project developments in the residential real estate property area, implementing all the related areas including temporary accommodation, age-appropriate housing, nursing care facilities, hotels and holiday properties, and extending as far as turnkey construction. The geographic focus of the activities of The Grounds is on German metropolitan regions and aspiring locations with attractive economic and/or demographic framework data. The purpose of the project developments for its own existing portfolio and the systematic management and optimisation of the portfolio is to stabilise earnings performance within the group of companies, while the project developments for sale open up additional earnings potential.

Regional overview



Portfolio overview – Portfolio and development

(Status: June 2020)

Logistics park in Greater Berlin (Hangelsberg)

Existing stock

German Federal State		Brandenburg
Land area	m^2	350,851
Usable area	m^2	40,944
Rentable area	m^2	56,000
Size of investment	€000	4,500
Net rental incomes p.a.	€000	1,000

Real estate property portfolio in Stendal/Prignitz*

Existing stock

German Federal State	Saxony-Anhalt/ Brandenburg	
Land area	m^2	29,195
Usable area	m^2	16,209
Rentable area	m^2	16,913
Size of investment	€000	12,700
Net rental incomes p.a.	€000	916

*Transfer of rights and obligations is planned for 30 September 2020.

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

Development

German Federal State		Saxony-Anhalt
Land area	m^2	2,280
Usable area	m^2	3,394
Size of investment	€000	10,500

Urban district in Magdeburg (former Börde brewery site)

Development

German Federal State		Saxony-Anhalt
Land area	m^2	38,205
Usable area	m^2	49,346
Size of investment	€000	88,000

Urban district in the Stuttgart metropolitan region (Heubach)

Development (Joint Venture)

German Federal State		Baden-Württemberg
Land area	m^2	7,256*
Usable area	m^2	7,718
Size of investment	€000	25,000

* A 3,441 m^2 part of the land has already been sold. The Grounds holds a 10% share in this project.

Recreation area in in the Oldenburg metropolitan region (Bad Zwischenahn)

Development

German Federal State		Lower Saxony
Land area	m^2	160,900
Usable area	m^2	34,000
Size of investment	€000	92,000

Projects already sold – but transfer of rights and obligations has not yet taken place

Micro-apartment complex in Leipzig

Development

German Federal State		Saxony
Land area	m^2	1,317
Usable area	m^2	3,135
Size of investment	€000	10,700
Sale price (October 2018, forward deal)	€000	13,350

Report of the Supervisory Board

Dear Ladies and Gentlemen,

In the 2019 financial year, the Supervisory Board again monitored the Management Board in its management of The Grounds Real Estate Development AG on the basis of legality, compliance with regulations, expediency and economic efficiency, and also performed its second duty as adviser to the Management Board. The Supervisory Board correctly and conscientiously performed all the duties for which it is responsible pursuant to the law, the Articles of Incorporation and the Rules of Procedure.

Both during and also outside of the Supervisory Board meetings, which were mainly collective, the Management Board informed the Supervisory Board verbally as well as in writing about the current business performance of The Grounds Group and the status of individual projects, together with the project pipeline. In the year under review, the main focus in this respect was on streamlining and further developing existing projects, subsequent to the previous year having still been characterised by a considerable enlargement of the portfolio.

The Management Board involved the Supervisory Board in decisions of fundamental importance. In particular, the Supervisory Board Chairman arranged to receive regular verbal reports from the Management Board even outside of collective meetings. Thus the Supervisory Board was at all times kept informed of the current performance of the business and significant business transactions. When required pursuant to the law, the Articles of Incorporation and/or the Rules of Procedure, and after prior examination, the Supervisory Board adopted the necessary resolutions in relation to business transactions requiring its approval.

Incumbents of the Management Board and the Supervisory Board

The Supervisory Board changed completely in the year under review, and the Supervisory Board was also reduced from four to three members by resolution of the Ordinary General Meeting on 22 August 2019. Supervisory Board members Dr. Peter Maser, Carsten Haug and Steffen Buckwitz relinquished their mandates at the end of the Ordinary General Meeting on 22 August 2019. In their place, the company's shareholders elected to the Supervisory Board Prof. Dr. Winfried Schwatlo FRICS, Managing Director of Schwatlo Management GmbH, Munich, and Professor of Real Estate Business at Nuertingen-Geislingen University; Mr. Sönke Schwartz, independent auditor, Frankfurt; and Mr. Andreas Ingendoh, LL.M., attorney and Partner in the VON TROTT ZU SOLZ LAMMEK Chambers, Berlin. Following the Ordinary General Meeting, the Supervisory Board reconstituted itself as follows: Prof. Dr. Schwatlo was elected to be Chairman of the Supervisory Board, and Mr. Schwartz was elected as his Deputy.

Other changes in the composition of the Supervisory Board followed during the 2020 financial year. Mr. Schwartz and Mr. Ingendoh relinquished their mandates with effect on 27 April 2020 and 28 April 2020 respectively. At the Management Board's request, Berlin-Charlottenburg District Court, by its decision of 29 April 2020, appointed Mr. Eric Mozanowski, businessman, Stuttgart; and Mr. Hansjörg Plaggemars, management consultant, Stuttgart; to be new Supervisory Board members. In the constituting meeting, Prof. Dr. Schwatlo FRICS was confirmed as Supervisory Board Chairman and Mr. Mozanowski was elected as his Deputy.

Changes in the membership of the Management Board occurred after the balance sheet date of 31 December 2019. By decision of 3 March 2020 and with immediate effect, the Supervisory Board enlarged the Management Board by the inclusion of Mr. Arndt Krienen, attorney and member of the Management Board of Capstone Opportunities AG, Berlin.

Work of the Supervisory Board during the year under review

A total of six ordinary meetings took place in the 2019 financial year, their dates being: 20 February, 27 June (Supervisory Board's financial statements meeting for the 2018 financial year), 22 August, 10 September, 24 October and 17 December 2019, chiefly in the presence of the Management Board. In addition, the Supervisory Board gave advice in teleconferences and adopted necessary resolutions by circulation procedure. In the year under review, these concerned three project sales (the Oldenburg development project “Ammergaustrasse Apartment Building”, the Terminal 3 Hotel asset deal/major project in Neu Isenburg, and the share deal and micro-apartment building project in Halberstädter Strasse 1, Magdeburg).

During the collective meetings, the Management Board reported on current business performance in The Grounds Group and on the status of real estate property developments, together with financing and liquidity. Questions of liquidity and risk planning, strategy and corporate planning were also regularly discussed. To support the sole board member Thomas Prax, the Supervisory Board also constantly concerned itself with possible candidates for a Management Board enlargement. The Supervisory Board also examined the need for adjustments to the D&O (directors’ & officers’) insurance for Supervisory Board members, and the Management Board’s Rules of Procedure.

Group Annual Accounts on 31 December 2019

At the Ordinary General Meeting on 22 August 2019, Buschmann & Bretzel GmbH Auditing Company (hereinafter Buschmann & Bretzel), tax consultancy, Berlin, was elected as the financial statements and consolidated financial statements auditor for the 2019 financial year. Buschmann & Bretzel audited the Annual Financial Statements and the Consolidated Financial Statements and Group Management Report prepared by the Management Board in accordance with the HGB (German Code of Commercial Law) and IFRS (International Financial Reporting Standards) respectively, and issued an unqualified audit certificate for each of them.

All the Supervisory Board members received the aforesaid financial statements documents together with the auditor’s audit reports, allowing a sufficient period of time for their own examination before the Supervisory Board's financial statements meeting on 15 June 2020. The above-mentioned documents were discussed in depth and in detail in the presence of the Management Board and a representative of the auditor. The auditor explained the essential outcomes of his audit, and dealt specifically with key audit points previously established. The auditor gave comprehensive answers to supplementary questions from the Management Board. After its own detailed examination of the Annual Financial Statements and Consolidated Financial Statements together with the Group Management Report, the Supervisory Board did not raise any objections. The Supervisory

Board noted and agreed with the auditor's result, and approved the Annual and Consolidated Financial Statements together with the Group Management Report for the 2019 financial year. The Annual Financial Statements of The Grounds Real Estate Development AG are thereby adopted.

The other agenda items of the Supervisory Board's financial statements meeting on 15 June 2020 were the Supervisory Board's Report tabled and adopted there, together with the Agenda for the Ordinary General Meeting 2020.

The Supervisory Board sincerely thanked the staff of The Grounds Group for their personal commitment and work carried out in the year under review.

Berlin, June 2020

Prof. Dr. Winfried Schwatlo FRICS
Chairman of the Supervisory Board

Group Management Report 2019

Contents

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 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 the development and construction of residential properties / housing, and thus particularly on special properties such as student and retirement living in the German metropolitan areas, on attractive locations and in aspiring outskirts in Germany. In the medium term, the intention is to build a significant high-quality real estate portfolio that should permit stable income to be generated and thereby the distribution of attractive dividends to the shareholders of The Grounds in the future. The Grounds Group aims to position itself as one of Germany's major real estate companies through housing development and the concomitant increase of market capitalisation.

1.2 Company structure

On balance sheet date 31 December 2019, The Grounds Group comprised at the top level the parent company The Grounds Real Estate Development AG. In the second level, in addition to the 94.9% owned subsidiary company The Grounds Real Estate GmbH (hereinafter TGRE GmbH), the Group comprised several other subsidiaries. These are shelf companies or property companies that hold plots of land and real estate. At the third level, TGRE GmbH also controls other 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 and 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 7 GmbH (hereinafter „TGA 7“), shelf company
- TGA Immobilien Erwerb 11 GmbH (hereinafter „TGA 11), fully liable partner
- MDSG Lagerwirtschaft und Distributionsgesellschaft mbH (hereinafter „MDSG“)
- 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). These shares were sold with effect on 31 March 2020.

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"), a company that bought the existing Stendal asset portfolio in 2020

- 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, general partner of TGA 11, Bad Zwischenahn recreational area project
- the wholly-owned subsidiary company The Grounds App 2 GmbH & Co. KG, general partner of TGA 11, Sieverstorstrasse project in Magdeburg
- the 10.1%-owned subsidiary company ZuHause in Heubach GmbH & Co. KG, (formerly: The Grounds App 4 GmbH & Co. KG), personally liable partner of the At Home Projektentwicklungs GmbH, Heubach urban district project

1.3 Business Model

The Grounds Group is a project developer of residential real estate properties in all utilisation classes on the German market. In this respect, the particular focus is on special properties such as student accommodation and retirement homes in the German metropolitan areas and at attractive locations and aspiring outskirts regions in Germany.

As a full-service provider, it offers the business areas of investment (including property and asset management), development and trading.

In the investments business area, investments are made in real estate properties for our own portfolio, with the aim of sustainable management to strengthen a positive cash flow. In the asset management context, real estate properties are strategically managed and value enhancement potentials are identified. Administration and the implementation of further development to achieve a sustainable increase in value takes place via the property management function.
The development segment comprises the development – extending all the way to turnkey construction – of residential and special real estate properties (student accommodation and retirement homes) with the aim of selling these both to capital investors as a single operation, and also to institutional investors in general.
Moreover, real estate properties or portfolios are also purchased within the scope of the trading business area 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.

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 resulting from managing its own portfolios.

In the medium term, The Grounds endeavours to position itself as one of the major companies in the field of stock-exchange listed developers with the objective of building its own real estate portfolio of a significant size. The intention is to facilitate this growth through broad coverage of value creation in the real estate property 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.

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/ 49,000	05/2018	Development
Bad Zwischenahn (Oldenburg metropolitan region)	Recreational area	201,443/ 33,950	07/2018	Development
Magdeburg (Halberstd. Str.153)	Micro-apartment block	2,090/ 3,580	10/2018	Development
Leipzig*	Micro-apartment block	1,317/ 3,013	03/2018	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 region)	Urban district	10,652/ 7,283	10/2018	Joint Venture development

* 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 will not take place until after completion. This is currently scheduled for the end of 2020.

** The main shareholder's original intention was a conversion from office premises to residential real estate properties. The Grounds Group held a minority shareholding, which it has since sold in 2020.

1.4 Organs and staff

During the year under review, the sole director Thomas Prax remained the company's sole managing director without change. By resolution of the Supervisory Board on 3 March 2020, the Management Board was enlarged with immediate effect by the inclusion of Mr. Arndt Krienen, Attorney and Member of the Board of Capstone Opportunities AG, Berlin. This did not take place until after the balance sheet date.

The following changes occurred in the Supervisory Board: Supervisory Board members Dr. Peter Maser, Carsten Haug and Steffen Buckwitz relinquished their mandates at the end of the Ordinary General Meeting on 22 August 2019. The Ordinary General Meeting elected Prof. Dr. Winfried Schwatlo FRICS, Mr. Sönke Schwartz and Mr. Andreas Ingendoh, LL.M., as new members of the company's Supervisory Board. In its constituting meeting, the Supervisory Board elected Prof. Dr. Schwatlo as Chairman of the Supervisory Board and Mr. Schwartz as his Deputy.

Further personnel changes occurred in the Supervisory Board after the balance sheet date. Mr. Sönke Schwartz and Mr. Andreas Ingendoh relinquished their Supervisory Board mandates with effect on 27 April 2020 and 28 April 2020 respectively. At the Board's request, Berlin-Charlottenburg District Court appointed Mr. Eric Mozanowski, Businessman, Stuttgart, and Mr. Hansjörg Plaggemars, Management Consultant, Stuttgart, as new members of the Supervisory Board by its Decision of 29 April 2020. In the constituting meeting, Prof. Dr. Schwatlo was confirmed as Chairman of the Supervisory Board, and Mr. Mozanowski was elected as his Deputy.

On the balance sheet date, 31 December 2019, The Grounds Group employed a total of 9 staff (previous year: 9).

2. Report on the Economy

2.1 Overall Economic Development[1]

In 2019, the German economy grew for the tenth consecutive year, Germany not being affected by the coronavirus topic until 2020 onwards – for more detail on this subject, see “5. Prognosis”. However, the economic dynamics slowed perceptibly. In particular, this is attributable to the industry's weakness. Overall economic performance grew by 0.6% in the year 2019. Although this was slightly more than previously expected, it was significantly less than in the five previous years in which the GDP rose by an annual average of approx. 2.0%. Nevertheless, the level of employment continued to increase quite strongly by 400,000 persons to a record working population of 45.3 million.

2.2 Conditions per sector

German building sector

In 2019, construction companies successfully surpassed even the previous year's outstandingly good result. They achieved a further increase, both in their sales revenues and in their number of employees. Construction industry businesses earned building industry sales revenues of EUR 135 billion in 2019, equivalent to 6.7% growth over the year. The remaining growth in real terms was 1.7%, despite the rather large price increases in 2019, to which considerably higher wage costs made a not insignificant contribution. To cope with the additional production, companies increased their personnel numbers by 33,000 to an annual average of 870,000 employees in 2019. The sector has thereby created more than 160,000 new jobs since its low point in 2009. Thus construction companies have responded to the growth in demand for construction services, and have markedly increased their capacities.[2] The building of 360,600 new homes was approved in 2019. Since the turn of the millennium, the only year in which a larger figure occurred in a single year was 2016 (more than 375,000).[3]

Residential properties / housing[4]

Transaction volume on the residential properties investment market (transactions for 50 or more homes) amounted to about EUR 17.2 billion, corresponding to 2.6% growth compared to the previous year. A total of nearly 118,000 homes changed owners (-11% compared to 2018). There were fewer transactions, although on average these were for larger amounts. Thus the number of sales on an annual comparison decreased by approx. 18%, whereas the average volume rose by 22% to about EUR 71 million.

The feature that characterised the residential investment market during the past year was a considerably greater involvement of the public sector. In total, municipalities, federal states or their housing associations acquired about 22,700 housing units for around EUR 3.2 billion. Thus their purchasing volume was more than two and a half times larger than in 2018. About 84% of the volume was accounted for by the purchase of existing housing. The public sector's purchasing

[1] Cf. https://www.bmwi.de/Editorial/DE/Pressreleases/Economic-situation/2020/20200115-economic-situation-in-Germany-in-January-2020.html
[2] Cf. https://www.building industry.de/press/press releases/building industry-reports-positive-annual balance sheet-2019/
[3] Cf. https://www.destatis.de/DE/Press/Press%20releases/2020/03/PD20_100_31111.html
[4] Cf. https://www.savills.de/research_articles/260049/294343-0

offensive is also expected to continue in 2020.

Commercial properties[5]

Almost half the volume on the commercial properties investment market, to whose dynamism the record sales revenues are mainly attributable, was accounted for by office premises. These were followed by retail premises (20%), logistics real estate properties and properties with mixed use (10% in each case).
Regardless of the type of use, investor focus was clearly on the Top 7 towns – 56% of the total transaction volume in 2019 was attributable to them, whereas the average of the previous five years was only 51%. The focus on the Top 7 is not least a result of the pronounced investor's preference for large volumes. Statistical proof of this: the average volume per transaction reached EUR 33 million, a new record figure. In addition to a few portfolio transactions in the EUR billions region, the large number of high-volume individual property transactions also contributed to this. For the first time, there were more than a hundred single transactions of EUR 100 million or more in one year. The large increase in capital values for office and logistics real estate properties during the year also contributed to this.
The volume of transactions on the German hotel investment market grew by 25% to just over EUR 5.0 billion in 2019.[6] A quiet first half-year was followed by a strong year-end rally. 27% of the transaction volume was accounted for by portfolio transactions. Due to price pressure in the Top 7 towns, investors focused increasingly on B- and C-locations, into which more than EUR 2 billion flowed.

3. Business Development

In the 2019 financial year, further work in The Grounds Group concentrated actively on the real estate properties portfolio, and pushed forward existing projects:

- The local development (land use) plan for the planned urban district in Heubach (Stuttgart metropolitan region) acquired legal force in the third quarter of 2019, and the building permit applications were submitted.
- For the recreation area planned in Bad Zwischenahn, The Grounds was able to obtain the nationwide hotel operator SEETELHOTELS / IHR as the future operator of the hotel and tourist complex on the former German Federal Armed Forces hospital site. The local development (land use) plan is scheduled for coordination and finalisation with the local authority by the end of the first half-year of 2020.
- The local development (land use) plan for the planned urban district on the former Börde brewery site in Magdeburg is close to finalisation; acquisition of legal force is expected by the end of Q III / 2020. Essentially, provision is made for the turnkey construction of a district ensemble consisting of residential and commercial properties together with commercial residential properties such as an assisted living residential home and a students' hall of residence. The Sieverstorstrasse district in Magdeburg consists of eight construction sites. The management is already contemplating selling individual sites when project development is complete, in order to allow construction activities in the urban district to start in parallel and to be finished as simultaneously as possible. The sale can take place in the context of a forward deal, or the potential purchaser, insofar as

[5] Cf. https://www.savills.de/research_articles/260049/294343-0
[6] Cf. https://www.colliers.de/wp-content/uploads/2020/01/Colliers_Research_Market%20Reportt_2019_2020_Hotel-Investment.pdf

a sale occurs, will do the building himself. The management is already in initial discussions with interested parties.

- As in previous years, further refurbishment work took place in the existing Hangelsberg portfolio property in the year under review, to improve the state of maintenance and to increase rental incomes through additional occupancies. This modernisation work focused mainly on fire protection.
- The planning permit for the Halberstädter Strasse 153 project was granted at the end of 2019. Marketing of the 58 units of the apartment block that is to be constructed will start at the end of the second quarter of 2020.

There were no new acquisitions in the year under review. On the sales side, the following completions occurred: in June 2019, The Grounds sold the “Ammergaustrasse apartment block” development project in Oldenburg to a local investor as part of an asset deal. The buyer and vendor agreed to remain silent about the sale price amount, so no figures are given here. The transfer of rights and duties took place as of mid-August 2019. In September 2019, The Grounds successfully sold both its shares in a major project in the Frankfurt am Main metropolitan region and its shares in the micro-apartment block project at Halberstädter Strasse 1 in Magdeburg in the context of a share deal in both cases. Transfer of rights and duties for both projects, and thus their effect on sales revenues, already took place in the year under review. Silence regarding the sale price was agreed in both cases, so no figures are given here either.

Thus on the sales revenues and earnings side, as forecast, The Grounds was unable to follow on from the strong previous year, which had been characterised by successful sales and the generation of sales revenues. Despite reduced consolidated sales revenues of EUR 13.9 million (previous year: EUR 31.1 million) and with reduced total costs, a basically balanced consolidated pre-tax profit of EUR -18 thousand (previous year: EUR 6.6 million) and after taxes a consolidated profit of EUR 54 thousand (previous year: EUR 4.2 million) were earned.

3.1 Earnings position

The Grounds earned consolidated sales revenues of EUR 13.9 million in the 2019 financial year, which is significantly below the previous year’s figure (previous year: EUR 31.1 million). Of this, EUR 12.9 million (previous year: EUR 30.2 million) originated from sales of real estate property projects, among which the majority was attributable to the sale of the major project in the Frankfurt am Main metropolitan region. A further EUR 1.0 million (previous year: EUR 1.0 million, including from the Emden housing portfolio) represented rental incomes from the existing property in Hangelsberg.

In addition to this, there were other operating incomes amounting to EUR 1.3 million (previous year: EUR 2.3 million). These comprised mainly incomes from the release of provisions (EUR 0.8 million). Taking into account the portfolio change of EUR -1.1 million (previous year: EUR -154 thousand), consolidated group performance declined to EUR 14.1 million (previous year: EUR 35.3 million).

The biggest cost item, cost of materials, decreased to EUR 9.5 million (previous year: EUR 20.8 million), corresponding to the reduced operating business dynamic compared to the previous year. Personnel expenses also decreased slightly to EUR 0.4 million (previous year: EUR 0.5 million).

The other operating expenses of EUR 2.2 million (previous year: EUR 2.5 million) included mainly third-party services and third-party work (EUR 0.9 million), legal and consultancy costs (EUR 0.4 million) and closing and audit costs (EUR 0.2 million).

There was a corresponding reduction in the operating result to EUR 2.0 million (previous year: EUR 11.4 million).

The financial result improved to EUR -2.0 million (previous year: EUR -2.7 million). Before taxes, The Grounds Group achieved only a slightly negative result of EUR -18 thousand (previous year: EUR 6.6 million). Taking taxes into account, it was even possible to achieve a positive Group result of EUR 54 thousand (previous year: EUR 4.2 million). The result per share is break-even (EUR 0.00 EUR; previous year: EUR 0.23).

3.2 Financial and assets position

In the presentation of the financial and assets position for 2019, it must be noted that it was possible to record the sale of the Gutleutstrasse project with an effect on the result in 2018, but its settlement did not take place until 2019. Thus various balance sheet items in 2019 have been reduced due to the transaction of the Gutleutstrasse project in 2019. This real estate property sale and other successful stand-alone sales in the year under review, e.g. the major project in the Frankfurt am Main metropolitan region and others, lead to a decline in the consolidated group balance sheet total from EUR 56.4 million to EUR 32.4 million on the balance sheet date of 31 December 2019.

On the assets side of the consolidated group balance sheet, compared to the previous year, current asset values more than halved to EUR 21.2 million (previous year: EUR 45.1 million), whereas non-current assets of EUR 11.2 million lay only slightly under the previous year's level. Within the current assets, accounts receivable from trading, whose higher value in the previous year originated mainly from the invoicing of services connected with the Gutleutstrasse project, declined significantly to EUR 154 thousand (previous year: EUR 19.4 million). Other receivables also diminished to EUR 5.6 million (previous year: EUR 7.7 million). On the other hand, the value of the inventories decreased only slightly to EUR 14.2 million (previous year: EUR 15.6 million). Collectively, these consist of real estate properties, most of them ready for sale (EUR 6.9 million), together with advance payments (EUR 5.8 million). On the balance sheet date, liquid assets decreased to EUR 1.3 million (previous year: EUR 2.4 million), resulting from the fact that the Group did not take on any considerable new liabilities in the year under review.

On the liabilities side, equity capital decreased to EUR 12.0 million (previous year: EUR 12.6 million) due to technical company group book entries in the context of the consolidation. There were no changes in the subscribed capital of EUR 15,105,517.00. To compensate for the balance sheet loss at an AG level, and to maintain distribution capability, an amount of EUR 0.9 million was withdrawn from the capital reserve and transferred into the net profit. The key indicator of equity ratio improved to a solid 37% (previous year: 22.3%), also due to the considerable reduction in the balance sheet total resulting from successful sales activities and their settlement in the 2019 financial year.

Collectively, liabilities consist of EUR 4.3 million (previous year: EUR 16.8 million) of long-term debts and EUR 16.1 million (previous year: EUR 27.1 million) of short-term debts to finance real estate property projects/acquisitions. In particular, the distinct reduction in the two balance sheet items is also due to the settlement of the Gutleutstrasse project business in the year under review. The provisions accrued on the balance sheet date were EUR 1.7 million less, since considerably fewer outstanding invoices (-1,726) needed to be taken into account compared to the previous year's balance sheet date.

The cash reserve of EUR 1.3 million on the balance sheet date was significantly below the previous year's level (previous year: EUR 2.4 million). Whereas write-ups resulted both from cash flow from ongoing business activities (EUR 13.3 million; previous year: EUR -11.0 million) and from the cash flow from investment activity (EUR 8.9 million; previous year: EUR -7.1 million), cash reserves were greatly reduced by EUR 23.2 million as a result of the cash flow from the repayment of current and non-current liabilities (previous year: EUR +18.0 million).

In detail, the EUR 15.3 million reduction in inventories and in accounts receivable from trading were the essential cause of the positive cash flow from ongoing operating activity. The positive cash flow from investment activity was characterised chiefly by in-payments of EUR 8.9 million resulting from disposals of real estate properties held as a financial investment. On the other hand, as described above, outpayments of EUR 21.2 million arising from the repayment of loans resulted in the negative cash flow from financing activity.

3.3 Financial and non-financial performance indicators

The Grounds uses several performance indicators when managing the Group. The key performance indicators are operating cash flow (FFO or funds from operations) and net asset value (NAV). The objective of the corporate strategy is to build up a significant portfolio with a balanced risk/return profile that generates a sustainable cash flow and enables distribution of dividends to shareholders in the future. Cash flows are generated not only from existing properties, but are also supplemented by regular, 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 are usually commercial properties), the analysis focuses primarily on properties with long-term leases, tenants with high creditworthiness and low vacancy rates. Properties with a short residual rental term and/or a high vacancy rate are considered only if, on the basis of The Grounds Group's asset management approach, vacancy reduction or rental extensions can already be contractually secured during the pre-purchase due diligence investigation or immediately upon conclusion of the transaction.

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

The Grounds had one property in its portfolio on balance sheet date – the Hangelsberg logistics park in the greater Berlin area. However, rental incomes in 2019 already accounted for 7% (previous year: 3%) of the total consolidated sales revenues von EUR 13.9 million. Extensive refurbishment and modernisation work, begun in the previous year and also being continued in 2020, is designed to improve the state of maintenance and to increase rental incomes through additional occupancies. 95% of the commercial space is rented out at the time of preparation of the financial statements. The property is located in the Hangelsberg district, incorporated into Grünheide, in the immediate vicinity of the planned Tesla Gigafactory in Brandenburg. According to press reports and statements by the municipality and authorities, Tesla plans to start an annual production of around 500,000 electric vehicles in Grünheide from the summer of 2021[7] onwards, and to locate other automotive suppliers around the Gigafactory. This should also have a positive impact on the future capacity utilisation of the Hangelsberg logistics park's rental volume.

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

Non-financial performance indicators have not yet been used directly for corporate management due to the current size of the Group. Nevertheless, staff satisfaction, their professional qualifications and the Company's reputation 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 nine 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. Moreover, the plan is to recruit qualified staff for the accounting/finance department, and to internalise the legal department by adding an in-house lawyer. The Management Board was enlarged at the start of the 2020 financial year by the entry of Mr. Arndt Krienen. This allowed departmental responsibilities to be distributed, and both Board members can concentrate to a greater extent on individual areas of importance. Mr. Krienen will focus on financing and the capital market, while Mr. Prax will deal with the areas of accountancy/taxes together with personnel and law. They will share responsibility for the operational management of the business.

Other administrative functions, mainly property management, are outsourced to subsidiaries that are expanded 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 to manage the business, depending on the corresponding expansion of portfolios. This avoids the build-up of overcapacities and ensures an efficient corporate organisation. It ensures that only the capacity that is directly required for performing its functions is available in the Group.

[7] Cf. https://www.zeit.de/mobility/2020-05/gigafactory-tesla-berlin-construction-factory-brandenburg-gruenheide

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 2019 financial year, the Management Board expected significantly reduced group consolidated proceeds, with a related declining group result before taxes and group result. Since the Board considered the emphasis in 2019 to be on purchase scenarios and their financing, it assumed that the 2019 earnings and yield would not be comparable to 2018. As expected, even taking into account the sales of the projects in the Frankfurt am Main metropolitan area and of the micro-apartment block at Halberstädter Strasse 1 in Magdeburg completed at the end of September 2019, with an effect on turnover already taking place in 2019, the level of sales revenue was below that for 2018, which was characterised on the sales revenue and income side by the sale of the major Gutleutstrasse project in Frankfurt.

In the year under review, with sales revenues of EUR 13.9 million (previous year: EUR 31.1 million) and reduced total costs, The Grounds Group achieved a basically balanced result before taxes of EUR -18 thousand (previous year: EUR 6.6 million), and a result after taxes of EUR 54 thousand (previous year: EUR 4.2 million). Thus, as expected, the consolidated group sales revenues and result remained significantly below the strong previous year. The purchase of at least one more existing property notified for 2019 was delayed in negotiations until the second quarter of 2020. It was possible to successfully notarise this target in a purchase contract by the purchase of a portfolio of residential real estate properties comprising 256 units in the Stendal area on 12 May 2020.

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 to avoid, mitigate and limit 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 Company's liquidity and equity base 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 enters into business connections on the sales side only with 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

In 2020, according to the International Monetary Fund (IMF), the coronavirus crisis that arose in the first quarter of the current year will cause the most serious global recession in almost a century. As a result, global economic output could decline by almost 3% in 2020.[8] The German real estate properties market was characterised by very high demand in the past few years. While there has been no perceptible demand reticence in relation to residential and logistics properties as yet, the coronavirus pandemic will have its greatest impact on the commercial real estate properties market, in particular on office, retail and hotel properties. The favourable framework conditions with regard to continuing low interest rates and the currently even more volatile stock markets remain unchanged, but uncertain economic times could reduce willingness to undertake long-term credit borrowing to finance real estate properties. 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 2020 financial year, in view of the coronavirus pandemic, the macroeconomic risks with possible negative effects on its net assets, financial and earnings positions are not yet quantifiable.

4.2.2. Market risk

4.2.2.1 Dependence on the development of the German real estate market

Currently, The Grounds Group focuses essentially 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. For 2020, In view of the coronavirus pandemic, there are signs of a global economic collapse, for whose magnitude the research institutes give various different figures. So far, prices for houses and apartments in Germany's ten biggest cities have remained stable up to the present time.[9] However, an increased supply of real estate properties due to a lack of liquidity in the wake of the crisis (especially among private investors who were forced to sell) could depress real estate property prices. For 2020, however, market experts expect, at most, slightly declining prices. Reluctance among private investors could lead to slow-downs in the building industry, and more stringent lockdowns could even bring the new buildings industry to a complete standstill.[10]

The Grounds Group continuously monitors the devel-

[8] Cf. https://www.tagesschau.de/economy/corona-crisis-imf-101.html
[9] Cf. https://www.capital.de/real%20estate/what-the-corona-crisis-means-for-the-real%20estate%20market
[10] Cf. ibid.

opment in the German real estate market. As a result of the coronavirus pandemic, delays in project development (especially in reaching agreement with local municipalities and in finalising building development plans) and in the award of financing are becoming noticeable at the time of preparation of the financial statements. Planned sales activities, as well as even notified purchase completions, could be delayed and could possibly lead to delayed cash flows. Beyond that, however, The Grounds Group foresees in this risk no negative effects on its net assets, financial and earnings positions for the 2020 financial year.

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 real estate companies and other institutional investors in this country (Germany) and abroad. 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 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.
With its two managing directors, Thomas Prax and Arndt Krienen, and the team at the second management level, the management of The Grounds Group has team with many years of experience in the real estate market; a team that has worked well together over the past several years.
In May 2020, based on its extensive experience in acquisition and a tried and tested network in the industry, The Grounds successfully and substantially enlarged its real estate properties inventory through the acquisition of a residential properties portfolio with 21 multiple-family houses in Sachsen-Anhalt and Brandenburg. 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 of The Grounds Group depend to a large extent on the applicable legal framework conditions for residential and commercial real estate. This includes in particular the statutory provisions governing tenancy law. In addition, there have been significant changes in the legal framework in recent years, for example in legislation governing the environment. This concerns, for example, the new regulations on energy performance certificates, the energy concept of the Federal Government with regard to the energetic renovation of all apartments in Germany in accordance with the so-called zero-emission standard or the other requirements of the Energieeinsparverordnung [Energy Saving Ordinance] of 2009 and other environmental regulations. In addition, the legal and tax conditions for real estate investments in Germany have often deteriorated in the past.

The legal framework may also change in the future. Tightening the framework conditions, for example with regard to tenant protection (for example shortening tenant notice periods or limiting the possibility of rent increases). The Mietrechtsanpassungsgesetz (MietAnpG [Rental Law Adjustment Act]) recently came 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 the modernisation levy on rents from the previous 11% to the current 8% p.a.[11]
The Rent Cap Act, limited to five years, came into force in Berlin on 22 February 2020. Pursuant to this Act, rents in Berlin are frozen at the 2019 level for five years. From 2022 onwards, rents are permitted to rise by an annual maximum of 1.3%.[12] The Grounds does not have any homes at its disposal within the scope of application of this law, and is therefore unaffected by it.

Moreover, fire protection, environmental protection (for example to save 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.
Thus, in the context of the Climate protection programme, at the end of 2019 the German Federal Cabinet adopted a new Building Energy Law. The aim is to minimise the primary energy demand of buildings. What is envisaged, therefore, is a new, standardised set of rules for energy use requirements applying to new buildings, existing buildings and the use of renewable energies to supply their heating and cooling.[13]

Another risk lies the planned change in land acquisition tax, whose reform the coalition parties have postponed until the first half of 2020.[14] 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

[11] Cf. https://www.lifepr.de/inactive/bethge-and-partner-real%20estat%20lawyers-gbr/tenancy%20law%20amendment%20act-is-too-short-sighted/boxid/739307
[12] Cf. https://www.neues-deutschland.de/article/1134671.rent-cap-law-in-force-what-does-that-mean.html
[13] Cf. https://ivd-plus.de/legislative-changes-relating-to-real-estate-properties-2020/
[14] Cf. https://www.handelsblatt.com/politics/germany/fiscal%20policy-coalition-postpones-reform-against-land%20transfer%20tax-loophole%20/25152228.html?ticket=ST-105160-SPfwki0kmUcmGM9dNllM-ap1

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.[15]

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 totally 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. Until recently, the German construction industry faced rising costs and capacity scarcity. As of November 2019, construction costs had risen significantly by 3.8% compared to the previous year.[16] The effects of the coronavirus pandemic on the construction industry's capacity utilisation and on building price trends remain to be seen.

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 existing contamination and soil pollution, 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, other harmful soil contamination 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 there is no recourse against third parties, even if they 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

[15] Cf. Börsen Zeitung (newspaper), article on 09.02.2019 "Land transfer tax reform causes a stir among investors."
[16] Cf. https://www.destatis.de/DE/Press/Press releases/2020/01/PD20_011_61261.html

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 Company's 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 to finance the acquisition of real estate or participations. Therefore, the business development of The Grounds Group depends on obtaining additional financing on reasonable terms in good time and, when necessary, refinancing existing financing upon maturity. Should The Grounds Group not succeed in finding financing for the acquisition of real estate at suitable conditions, it would not be in a position to build up and expand its business to the desired extent.
In addition to strengthening its equity base, The Grounds Group constantly reviews favourable bank financing and other forms, such as mezzanine financing. And the portfolio can also be expanded at short notice through a non-cash capital increase. With the increasing size of the portfolio and the Group and the intended change in the future to a more highly regulated segment of the stock exchange, such as the regulated market of the Frankfurt Stock Exchange, The Grounds Group will increasingly move into the focus of investors. This 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 1.3 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.

Consequently, there is a risk of facts of relevance to taxation being determined to the disadvantage of the Group companies. During currently ongoing and future audits, fiscal regulations and circumstances might be assessed differently by the fiscal authorities than by The Grounds Group. Should the fiscal authorities be of a different opinion, it may lead to supplemental assessments and consequently to negative effects on the asset, financial and earnings positions of the companies.

The tax losses carried forward reported by The Grounds Group may possibly not or not fully be recognised by the fiscal authorities, because of the fact that the shares in TGRE AG were contributed. In this case, the losses carried forward may not be usable.

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

Existing properties must be constantly modernised and maintained in order to comply with legal requirements and to present properties of interest to tenants. The Company is thereby exposed to the risk that the contractual parties involved in such conversion and modernisation measures will not or not fully comply with their legal and contractual obligations. A possible failure of the contractual party can also lead to increased costs or unforeseen delays in the conversion and modernisation work.

Furthermore, there is a risk that major contractual parties may terminate contracts prematurely for important 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 out the risk 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 increasing it. The level of contractual rental income achievable by The Grounds Group and the ability to increase it

depend on a number of factors, including the solvency of current and future tenants and the ability to finding or retain suitable tenants who are willing to enter into long-term rental agreements at conditions that are attractive 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 the net assets, financial and earnings positions of The Grounds Group. Loss of rental income, reduction in rental fees or increased vacancies are also possible, e.g. 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. Properties with a short residual rental term and/or a high vacancy rate are given consideration only if, on the basis of The Grounds Group‘s asset management approach, vacancy reduction or rental extensions can already be contractually secured during the pre-purchase due diligence investigation or immediately upon conclusion of the transaction.

4.2.4. Other risks

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

4.2.5. Overall assessment of risks

In the medium term, the focus of The Grounds Group is on building a significant high-quality real estate portfolio that should permit stable income to be generated and thereby distribution of attractive dividends to the shareholders of The Grounds Group. The Grounds Group aims to position itself as one of Germany’s leading real estate companies through its own value creation via 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 achieve this goal. Therefore, they are currently the most important risk areas and they are subject to constant monitoring. However, on the balance sheet date, there were no risks that could jeopardise

the continued existence of the Group, neither individually nor in their entirety.

4.3 Opportunities

Compared to other sectors, the German real estate sector has shown itself to be relatively robust in the face of the coronavirus pandemic. Whereas the office, retail and hotel real estate market seems greatly impacted as a result of the multi-week closures/lockdowns to contain the spread of the coronavirus, the residential real estate property market, on which The Grounds focuses, seems to show only a short-duration dip in growth. Moreover, potentials for growth are emerging due to the relocation of work to a home office. This is all the more so if the right to a home office being discussed is to be legally enshrined. Altogether, the assessment of the overall and real estate economic framework conditions must remain favourable. Demand for housing space and commercial premises remains high in Germany, as shown by the large volume of transactions in the year under review. The Grounds Group also focuses on attractive special real estate, known as "commercial residential properties", e.g. student halls of residence and care homes for the elderly, which are developing into niche products for which there is an ever-increasing demand due to their supply scarcity on the market. At the same time, care homes for the elderly offer a use that is independent of the general economic trend. Micro-apartments are experiencing growing popularity. The demand for student accommodation and micro-apartments remained high in the year under review, but was retarded due to a lack of attractive portfolios. For the whole of 2019, the global real estate service provider CBRE estimates the long-term average transaction volume to amount to around EUR 10 billion.[17] In this respect The Grounds Group's particular regional project focus is on strongly growing metropolitan regions, federal state capitals and university towns.

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, resulting in stable yields and high potential returns. In the medium term, The Grounds Group aims to position itself as one of the major companies in the field of stock-exchange listed developers with the objective of building its own real estate portfolio of a significant size. After successfully completing the investment cycle, The Grounds endeavours to establish a sustainable dividend policy with distribution of attractive dividends.

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 new construction sector 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 being 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 enlargement, with that aim of achieving value growth in addition to rental income. Extensive refurbishment

[17] Cf. https://news.cbre.de/shortage-of-high-quality-portfolios-leads-to-downturn-on-investment-markt-for-student-accommodation-and-microapartments/

work took place on the existing Hangelsberg portfolio property in the year under review, to improve the state of maintenance and to increase rental incomes through additional, long-term occupancies. This work will also be continued in 2020. Further opportunities for growth arise here as a result of the immediate proximity to the planned Tesla Gigafactory in the same municipality in Brandenburg, as already described above.

In the current financial year 2020, The Grounds boosted its earning power further by acquiring a real estate portfolio with 21 almost fully tenanted multi-family housing blocks (250 residential and 15 commercial units) for its existing property portfolio. This approximately doubles rental revenues to around EUR 2.0 million. The real estate portfolio offers medium- and long-term development potential via densification opportunities and further energy-related renovation work, which in the long run could lead to rent increases.

The focus in 2020 is on further possible purchase scenarios and their financing. The Grounds Group continuously examines the acquisition of (existing) properties, and has access to an extensive project pipeline. The projects involve both properties from the development area and also fully-developed properties to enlarge the portfolio. With regard to financing, The Grounds Group can rely on a large number of financing instruments. Through covering an average 25% equity ratio when financing projects, The Grounds Group is in a position to tackle large investment volumes. In addition to bank financing at the property companies' project level, The Grounds Group can also generate debt- and equity-capital instruments at the holding level, and can make use of options such as cash and non-cash capital increases, or can consider mezzanine financing.

Furthermore, changes in the shareholder group and in the membership of the Management and Supervisory Boards occurred in 2020. The new Management Board member Arndt Krienen, the former Management Board member Eric Mozanowski, who has since returned to the company as Deputy Chairman of the Supervisory Board, and the new major shareholder Deutsche Balaton AG and its environment contribute both decades of experience in the real estate sector and an extensive network that enables additional growth opportunities for The Grounds.

5 Prognosis

5.1 Overall economic development

The IMF expects that the consequences of the coronavirus for the global economy will be more serious than those of the global financial crisis in 2008/2009. Thus the IMF forecasts a global economic recession of around 3% in 2020. At the start of the current year, the IMF was still anticipating world economic growth of 3.3% for 2020. A 7.5% GDP downturn is expected for the Eurozone, and the German GDP is forecast to shrink by 7%. Overall, the global economic loss due to the pandemic in 2020 and 2021 is estimated at around USD 9 trillion. Depending on the duration of the coronavirus pandemic, the global economy could recover strongly again in the coming year. However, this scenario presupposes that the pandemic is brought under control in the second quarter of 2020. With progressively ramped-up economic performance, global economic growth of 5.8% would be achievable in 2021, also encouraged by economic programs that entail increasing indebtedness.[18]

[18] Cf. https://www.tagesschau.de/economy/corona-crisis-iwf-101.html

5.2 Conditions per sector

German building sector[19]

For 2020, the German building industry had originally forecast a 5.5% increase in sales to EUR 145 billion in the key construction industry which, after deduction of the increases in prices for building services, would represent real turnover growth of 1.0%. However, the coronavirus pandemic is clearly also leaving its mark on the building sector, which is why the construction federations corrected their forecast in mid-May 2020: in the best-case scenario, it is now said that only the 2019 level of turnover will be reached, which would correspond to a 3% downturn in real terms. In more conservative scenarios, the construction sector might even record a nominal 2% sales revenue reduction in 2020, i.e. a 5% decrease in real terms.

A massive fall in demand is emerging in the current first half of 2020. In a federation's internal survey questionnaire in April 2020, for example, 40% of construction companies said they were already being affected by cancelled orders, and almost a third of businesses already recorded sales revenue reductions. In addition, 43% of those questioned reported supply bottlenecks. The construction industry federations assume there will be a further decline in ordering activity in the second half of 2020.

Commercial construction is particularly affected, specifically the areas of retail, tourism and service providers, which had still held up turnover in the building sector in 2019. Commercial construction turnover in 2020 will therefore probably shrink by a nominal 3.5%, or 7% in real terms.

The public sector is suffering from declining tax revenues, and the shortfall according to current tax estimates amounts to EUR 100 billion. Those particularly affected are municipalities, who need to bear higher social security payments at the same time, but are the most important clients for public construction investments, with a share of around 60%. However, the rescue package being demanded for municipalities will come into effect only after a time delay, with the result that a nominal zero growth in public construction is expected in 2020.

A nominal 3% turnover growth is forecast in housebuilding. The negative impacts of the coronavirus pandemic will be of a rather temporary nature. Nonetheless, against a background of increasing short-time working and unemployment, private residential construction is coming to a standstill.

Residential properties / housing

CBRE (Coldwell-Banker-Richard-Ellis) expects a transaction volume on the residential real estate market above the EUR 15 billion mark for 2020.[20] However, this forecast still dates from the period before the outbreak of the coronavirus pandemic. Market experts have divergent opinions on the effects of the coronavirus on the German residential real estate market. On the one hand, residential real estate properties remain one of the most crisis-proof asset classes, but on the other hand increasing numbers of rent defaults could worsen yield prospects for German residential properties, and thus depress the price trend.[21] Prices for houses

[19] Cf. https://www.zdb.de/zdb-cms.nsf/id/construction-industry-looks-back-on-solid-year-2020-turnover growth-by-55-expected-de?open&ccm=
https://www.zdb.de/zdb-cms.nsf/id/creating-economic-prospects-de?open&ccm=040010
https://www.zdb.de/reports/building-industry-corrects-turnover-forecast-downwards-corona-pandemic-leads-to-significant-turnover-decline-during-year

[20] Cf. https://news.cbre.de/housing-investment-market-germany-investors-buy-slightly-more-expensively-in-2019/

[21] Cf. https://boerse.ard.de/investment-strategy/sectors/real-estate-sector-a-rock-in-the-storm100.html

and apartments in the ten biggest German towns have remained stable at the start of 2020, and no extreme market fluctuations are said to have been observable.[22] The Empirica research institute expects a temporary purchase price decline of 10 to 25%. It is said that new contract rents will decrease to a considerably lesser extent than purchase prices, and the decrease will also have a shorter duration. Overall, short-term rental defaults due to inability to pay are to be expected. However, the anticipated wave of immigration to Germany (because the Federal Republic is coming through the coronavirus crisis better than many other European countries) will probably give an additional boost to the demand for residential property, and will lead to a slight increase in rents.[23] In the short term, The Grounds assumes there will be no sharp correction in the residential real estate property market, but minor market dips.

Commercial properties

The risks due to the coronavirus are more serious on the commercial real estate market. Closures in the non-food retail trade ordered by the authorities to stem the spread of the coronavirus will probably lead to a massive number of insolvencies in the spring of 2020 and in the following months.[24] Although market experts do not expect any change in the rate of return, large-volume transactions could be delayed as a result of organisational difficulties in a market environment in a coronavirus era. Moreover, hesitant demand behaviour with regard to concluding multi-year contracts in economically uncertain times is becoming apparent as of the end of March 2020, especially on the office real estate market.[25] Thus the leasing of new office space is not only being postponed, but even cancelled altogether. Market experts also assume increasing vacancy rates.[26] At the start of the current year and before the coronavirus pandemic, Lang LaSalle was still assuming a transaction volume in the order of EUR 70 to 75 billion for 2020.[27] Due to coronavirus uncertainties, no more up-to-date forecast of the transaction volume was available at the date of preparation of the financial statements.

Hotel investment is probably the market most severely affected by the coronavirus crisis. A survey questionnaire by Colliers International in late March 2020 showed that hotel properties had halved in the lists of purchase wants.[28] Colliers International previously considered a transaction volume equal in size to the five-year average of EUR 4.2 billion to be realistic for 2020.[29]

5.3 Company

The Grounds set a course for portfolio growth in 2020. An important milestone in this regard was the acquisition of a portfolio of real estate properties in May 2020 with 21 almost fully tenanted multi-family housing blocks (250 residential and 15 commercial units) to enlarge the real estate holdings. This approximately doubles The Grounds Group's annual rental incomes

[22] Cf. https://www.capital.de/real-estate/what-the-corona-crisis-means-for-the-real-estate-market
[23] Cf. https://www.haufe.de/real-estate/trend-marketing/market-analyses/empirica-index-current-real-estate-prices-trend_84324_514048.html
[24] Cf. https://boerse.ard.de/investment-strategy/sectors/%20real-estate-sector-a-rock-in-the-storm100.html
[25] Cf. https://www.immobilienmanager.de/corona-makes-office-tenants-delay/150/75025/
[26] Cf. https://www.boerse-online.de/news/stocks/corona-crisis-threatens-commercial-real-estate-market-1029071701
[27] Cf. https://www.haufe.de/real-estate/investment/investment-good-prognoses-for-commercial-real-estate_256_506146.html
[28] Cf. https://www.tophotel.de/survey-how-the-corona-pandemic-affects-the-hotel-real-estate-market-55183/
[29] Cf. https://www.colliers.de/wp-content/uploads/2020/01/Colliers_Research_Markt%20Report_2019_2020_Hotel-Investment.pdf Page 4

to around EUR 2.0 million. In the current year, due to the transfer of rights and duties scheduled for 30 September 2020, the real estate portfolio that has been acquired will, for the first time, flow into the rental revenues of the fourth quarter of 2020 on a pro rata temporis basis.
During the further course of 2020, the intention is to further expand the portfolio of real estate properties through possible purchases from the project pipeline of development projects and trading projects, if the negotiations offer an opportunity to do this, and financing is possible in the coronavirus market environment.

The transfer of rights and duties for the micro-apartment project in Leipzig sold in the context of a forward deal in 2018 is scheduled after completion at the end of the current financial year. Therefore, the sale proceeds of EUR 13.35 million is expected to be reflected in sales in 2020. Further cash inflows are possible as a result of the sale of individual building sites from the Sieverstorstrasse/Magdeburg project in 2020, although they might then also be relocated to 2021 on the sales side. Individual smaller sales currently being prepared will probably not be reflected in turnover until 2021, also because the coronavirus crisis is obstructing and/or delaying the planning, approval, financing and sale processes.

For these reasons, The Grounds Group will show a level of sales and earnings in 2020 comparable to the previous year. The level of portfolio enlargement being aimed at will strengthen The Grounds Group's earning power, and the conclusion of acquisition purchase contracts will have a positive effect on the balance sheet picture.

Berlin, 11 June 2020

The Management Board
Arndt Krienen Thomas Prax

Consolidated Balance Sheet

of The Grounds Real Estate Development AG, Berlin, as per 31 December 2019

in EUR	Notes	31/12/2019	31/12/2018
Capital assets			
Long-term assets			
Intangible assets	**8.1**	12,479.65	16,654.65
Goodwill	**8.1**	777,753.85	777,753.85
Tangible assets	**8.1**	144,400.00	228,413.87
Properties held as financial investment	**8.4**	9,600,000.00	9,500,000.00
Participations	**8.2**	25,129.79	9,537.00
Corporate shareholdings accounted for in accordance with the equity method	**8.3**	0.00	24,202.92
Other financial assets	**8.5**	10,000.00	5,000.00
Deferred tax on earnings	**8.14**	597,690.68	737,434.59
Total long-term assets		**11,167,453.97**	**11,298,996.88**
Short-term assets			
Goods in stock	**8.6**	14,174,059.71	15,609,504.53
Receivables from goods and services	**8.7**	153,797.24	19,392,723.98
Other receivables	**8.7**	5,585,343.06	7,658,463.08
Cash and cash items	**8.8**	1,330,371.69	2,408,595.49
Total short-term assets		**21,243,571.70**	**45,069,287.08**
Balance sheet total		**32,411,025.67**	**56,368,283.96**

in EUR	Notes	31/12/2019	31/12/2018
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**	777,753.85	1,668,318.52
Retained profit	**8.9**	155,465.51	155,465.51
Unappropriated surplus	**8.9**	7,378,377.84	6,393,225.09
Attributable to shareholders of the parent company		10,964,564.20	10,869,976.12
Attributable to non-controlling shareholders		1,029,397.42	1,688,132.89
Total equity		**11,993,961.62**	**12,558,109.01**
Debts			
Long-term debts			
Financial liabilities	**8.10**	2,467,447.92	15,070,783.89
Other liabilities	**8.12**	97,794.54	0.00
Deferred income tax liabilities	**8.14**	1,735,596.63	1,648,737.35
Total long-term debts		**4,300,839.09**	**16,719,521.24**
Short-term debts			
Provisions	**8.11**	655,611.57	2,346,222.26
Financial liabilities	**8.10**	10,286,022.96	18,839,159.97
Received down payments	**8.12**	0.00	21,196.80
Current tax on earnings	**8.13**	4,120,177.16	4,549,651.93
Payables for goods and services	**8.12**	770,879.86	886,616.42
Other liabilities	**8.12**	283,533.41	447,806.33
Total short-term debts		**16,116,224.96**	**27,090,653.71**
Balance sheet total		**32,411,025.67**	**56,368,283.96**

Group profit-and-loss account

of The Grounds Real Estate Development AG, Berlin, 1 January 2019 to 31 December 2019

in EUR	Notes	01/01/19 - 31/12/19	01/01/18 - 31/12/18
Sales revenues	**8.15**	13,939,957.67	31,104,058.50
Value change of real estate held as financial investment	**8.4**	35,589.67	2,045,444.00
Other operating income	**8.19**	1,303,391.64	2,304,329.81
Stock changes	**8.16**	-1,147,113.32	-154,436.28
Overall performance		**14,131,825.66**	**35,299,396.03**
Cost of materials	**8.17**	-9,515,087.56	-20,806,396.25
Staffing costs	**8.18**	-443,875.31	-543,146.62
Depreciation of intangible and tangible assets	**8.1**	-32,414.54	-35,946.74
Other Operating Expenditure	**8.19**	-2,169,518.03	-2,546,809.64
Operating result		**1,970,930.22**	**11,367,096.78**
Earnings from associated companies	**8.3**	-7,393.09	1,843.33
Interest income	**8.24**	75,299.56	56,240.95
Interest expenditure	**8.24**	-2,056,567.24	-2,779,105.05
Financial result		**-1,988,660.77**	**-2,721,020.77**
Result before taxation		**-17,730.55**	**8,646,076.01**
Taxes on profits	**8.20**	71,968.39	-4,458,334.84
Consolidated profits		**54,237.84**	**4,187,741.17**
of which attributable to non-controlling shareholders		51,974.06	671,049.54
of which attributable to shareholders of the parent company		2,263.78	3,516,691.63
Earnings per share	**8.21**	**0.00**	**0.23**

Consolidated Statement of Changes in Equity

of The Grounds Real Estate Development AG, Berlin, 1 January 2019 to 31 December 2019

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**
Disposal of interests of noncontrolling 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**

in EUR	Subscribed capital	Adjustment item for corporate acquisition	Capital reserves	Retained profit	Net surplus/ shortfall	Attributable to non-controlling shareholders	Total
Status 01/01/2019	**15,105,517.00**	**-12,452,550.00**	**1,668,318.52**	**155,465.51**	**6,393,225.09**	**1,688,132.89**	**12,558,109.01**
Withdrawal from capital reserves			-890,564.67		890,564.67		**0.00**
Disposal of interests of noncontrolling shareholders					92,324.30	-710,709.53	**-618,385.23**
Total earnings of the Group					2,263.78	51,974.06	**54,237.84**
Status 31/12/2019	**15,105,517.00**	**-12,452,550.00**	**777,753.85**	**155,465.51**	**7,378,377.84**	**1,029,397.42**	**11,993,961.62**

Group Cash Flow

of The Grounds Real Estate Development AG, Berlin, 1 January 2019 to 31 December 2019

in EUR		01/01/19 - 31/12/19	01/01/18 - 31/12/18
	Consolidated profits	54,237.84	4,187,741.17
+	Depreciation of fixed assets	32,414.54	35,946.74
-/+	Earnings from associated companies/participations accounted for in accordance with the equity method	7,393.09	-1,843.33
+/-	Increase / reductions in provisions	-1,690,610.69	1,319,942.53
+	Other non-cash changes	-396,116.15	-2,045,444.00
-/+	Profit / loss resulting from divestment of real estate properties held as financial investment	-1,554,752.99	480,035.12
-/+	Increase / decrease of stocks, receivables from goods sold and services provided as well as other assets that do not come under investment or financing activities	15,252,976.89	-19,665,770.46
+/-	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	-203,411.74	-2,502,075.02
+/-	Interest expenditure/interest income	1,981,267.68	2,722,864.10
+/-	Income tax expenditure/revenues	-71,968.39	4,458,334.84
-/+	Payments of tax on earnings	-130,903.19	-15,014.02
=	**Cash flow from current business activities**	**13,280,526.89**	**-11,025,282.33**
-	Proceeds from disposals of real estate held as financial investment	8,886,556.72	8,687,902.51
-	Payments for the acquisition of subsidiary companies	-33,615.62	0.00
-	Payments for investments in fixed assets	-2,245.54	-207,541.61
-	Payments for real estate properties held as financial investment	0.00	-15,539,243.00
-	Payments for investments in financial assets	-26,983.25	-6,010.00
+	Received interest	30,577.22	225.76
=	**Cash flow from investment activities**	**8,854,289.53**	**-7,064,666.34**
+	Incoming payments from equity increases	0.00	932,164.39
+	Incoming payments from issuing bonds and drawing down (financial) loans	0.00	32,934,944.99
-	Outflows because of loan redemptions and (financial) loans	-21,156,472.98	-13,857,929.92
-	Paid interest	-2,056,567.24	-1,981,671.10
=	**Cash flow from financing activities**	**-23,213,040.22**	**18,027,508.36**
	Changes in cash and cash equivalents	-1,078,223.80	-62,440.31
+	Cash and cash equivalents at the beginning of the period	2,408,595.49	2,471,035.80
=	**Cash and cash equivalents at the end of the period**	**1,330,371.69**	**2,408,595.49**

Explanatory notes in Section 8.22 of the Notes to the Consolidated Annual Accounts

Notes to the Consolidated Accounts

Explanations for the financial year 2019

1. Fundamental Information
2. Reporting Principles
3. Reporting Currency and Translation of Foreign Currencies
4. Consolidation Methods
5. Significant Accounting and Evaluation Policies
6. Capital Management and Financial Risk Management
7. Critical Accounting Estimates and Assumptions
8. Complementary Explanations to the Individual Items of the Annual Accounts
9. Events after Balance Sheet Date
10. Other Information

1. Fundamental Information

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

The shares are traded under ISIN DE000A2GS-VV5 in the open market of the Düsseldorf Stock Exchange.

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 Section 293 of the Handelsgesetzbuch (HGB [German Code of Commercial Code Law]), The Grounds AG is not obliged to prepare consolidated annual accounts for the financial year 2019. These present consolidated accounts – like the management report of the Group – have therefore been prepared on a voluntary basis.

The Grounds AG has applied the provisions of Section 315e, Paragraph 3 of the Commercial Code mutatis mutandis to its consolidated annual accounts for the financial year 2019. 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 mandatorily applicable in the European Union (EU) for capital market-oriented companies, and in compliance with the complementary commercial law provisions to be applied in accordance with Section 315e, Paragraph 1 of the Commercial Code.

The requirements of the 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 and 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 profit-neutral 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 2018, except for the changes explained below.

For the financial year 2019, it was mandatory for the first time to apply the following new or modified accounting principles and interpretations to the IFRS Group annual accounts:

Standard/Interpretation		new/changed	Effects
IFRS 16	Leasing	new	insignificant
IAS 28	Shares in associates and joint ventures (long-term shareholdings in associated companies and joint ventures)	changed	n.a.
IFRS 9	Financial instruments (early repayment rule with negative compensation payment)	changed	n.a.
IFRS 3	Business combinations (previously held shares in a jointly-controlled operation)	changed	n.a.
IFRS 11	Joint arrangements (previously held shares in a jointly-controlled operation)	changed	n.a.
IAS 12	Income taxes (payments from financial instruments that had been classified as equity capital)	changed	n.a.
IAS 23	Borrowing costs (capitalisable borrowing costs)	changed	insignificant
IAS 19	Employee benefits (plan modification, curtailment or settlement)	changed	n.a.
IFRIC 23	Uncertainty over income tax treatments	new	insignificant

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 mandatorily observed in future annual accounts – provided they have been adopted by the EU – and have not been applied prematurely by The Grounds AG:

Standard/Interpretation		Applicable from financial year
IFRS 9	Financial instruments (IBOR Reform, Phase 1)	1 January 2020
IAS 39	Financial instruments: recognition and measurement (IBOR Reform, Phase 1)	1 January 2020
IFRS 7	Financial instruments: disclosures (IBOR Reform, Phase 1)	1 January 2020
IAS 1	Presentation of financial statements (new definition of materiality)	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (new definition of materiality)	1 January 2020
IFRS 3	Business combinations (Definition of a business operation)	1 January 2020
IAS 1	Presentation of financial statements (classification of liabilities)	1 January 2022

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 (EUR thousands). 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 EUR.

4. Consolidation methods

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

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

4.2. Inclusion of subsidiaries

Subsidiaries are companies whose financial and business policies the Group can directly or indirectly control. A listing of subsidiaries included in the consolidated annual accounts of 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 on which control has been transferred to the Group onwards. They are deconsolidated on the date when that control ends.

Acquired subsidiaries are accounted for using the purchase method. The acquisition costs of the purchase 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 remaining 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 holds 20% or more of the voting rights, directly or indirectly 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 must be carried in the consolidated balance sheet at cost, adjusted for changes in the Group's share of the associated company's profit or loss and other comprehensive income after the date of acquisition. Losses of an associated company that exceed the Group's interest in the associated company are not recognised. They are only recognised if the Group has entered into a legal or constructive obligation to assume losses or makes payments on behalf of the associated company.

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

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4.4. Consolidation scope

4.4.1. Included companies

The consolidated annual accounts of The Grounds AG of 31 December 2019 include the parent company and all subsidiary companies listed below.

List of subsidiary companies

Company name	Domicile	Capital share
The Grounds Real Estate AG	Berlin	94.9 %
TGA Immobilien Erwerb 4 GmbH	Berlin	100 %
TGA Immobilien Erwerb 5 GmbH	Berlin	100 %
TGA Immobilien Erwerb 7 GmbH	Berlin	100 %
TGA Immobilien Erwerb 11 GmbH	Berlin	100 %
MDSG Lagerwirtschaft und Distributionsgesellschaft mbH (formerly TGA Immobilien Erwerb 9 GmbH)	Berlin	100 %
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 %
Silent Living Grundbesitz GmbH*	Berlin	100 %

* Additions during the financial year.

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

List of participations

Company name	Domicile	Capital share	Result for the year	Equity
			€000	€000
SQUADRA Erste Immobiliengesellschaft mbH	Frankfurt a.M.	7.5 %	-1,321	-4,299
ZuHause in Heubach GmbH & Co. KG, formerly The Grounds App 4 GmbH & Co. KG	Stuttgart, formerly Berlin	10.1 %	-192	384
Grundstücksgesellschaft LennéQuartier mbH & Co. KG, formerly The Grounds App 3 GmbH & Co. KG	Berlin	5.1 %	-107	-101

The information on the result for the year and on equity relates to the financial year 2019 of the companies in which we participate. The participation in SQUADRA Erste Immobiliengesellschaft mbH was held indirectly, and those in ZuHause in Heubach GmbH & Co. KG and in Grundstücksgesellschaft LennéQuartier mbH & Co. KG were held directly.

4.4.2. Changes in the reporting period

Compared to 31 December 2018, the consolidation scope changed as follows during the period under review:

- The Grounds Real Estate GmbH, Berlin, acquired the remaining 66.67% of Silent Living Grundbesitz GmbH, Berlin. Therefore, the latter was fully consolidated for the first time.
- TGA Immobilien Erwerb 6 GmbH, Berlin, acquired the remaining 5.1% of the shares in Gutleut GmbH, Berlin. Gutleut GmbH was then merged with TGA Immobilien Erwerb 6 GmbH. Subsequently, TGA Immobilien Erwerb 6 GmbH was merged with The Grounds Real Estate GmbH.
- The shares in TGA Immobilien Erwerb 8 GmbH, Berlin (100%), were sold and deconsolidated. The company that was sold held 94.9% of the shares in Zeppelin One GmbH, Berlin. Accordingly, this was also deconsolidated.

The sale of the shares in TGA Immobilien Erwerb 8 GmbH, Berlin, led to a deconsolidation gain of EUR 1,555 thousand in total during the period under review. This amount is made up as follows:

	€000
Received purchase price components	1,077
Assets disposed of (liabilities/debts)	-478
Profit from deconsolidation	**1,555**

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 2019 reporting period, no impairment of the reported goodwill resulting from the contribution of the shares in The Grounds Real Estate GmbH 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 scheduled 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 recoveries in value, however, write-backs are made, up to a maximum of the amortised acquisition or production costs.

5.4. Properties held as financial investment

Properties held as financial investment comprise properties that serve to generate rental income and/or to realise capital appreciation in the long term. This also includes properties that are (still) at the construction stage and are meant to serve the purposes mentioned above. In contrast to properties held as stock-in-trade, properties held as financial investment are generally not actively resold until after a longer holding period, and 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 accordingly 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 applied the new IFRS 9 regulations for the first time. 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 recognised at fair value minus transaction costs. In subsequent periods, they will be measured at amortised acquisition cost. Any difference between the amount paid out (after deduction of transaction costs) and the repayment amount is recognised in the profit-and-loss account over the 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 the 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 value 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 needed to be made especially for the following circumstances:

- Valuation 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	2019	2018	2019	2018	2019	2018
Acquisition / manufacturing costs	778	778	25	25	266	59
Cumulative depreciation	0	0	8	4	38	7
Book value on 1 January	**778**	**778**	**17**	**21**	**228**	**52**
Additions (+)	0	0	0	0	2	207
Additions from first consolidation (+)	0	0	0	0	0	0
Disposals (-)	0	0	0	0	-58	0
Depreciations (-)	0	0	-4	-4	-28	-31
Additions depreciations from first consolidation (-)	0	0	0	0	0	0
Book value on 31 December	778	778	13	17	228	228
Acquisition / manufacturing costs	778	778	25	25	210	266
Cumulative depreciation	0	0	12	8	66	38

8.2. Participations

The investments relate to an interest of 7.5% in SQUADRA Erste Immobiliengesellschaft mbH, Frankfurt, an interest of 10.1% in ZuHause in Heubach GmbH & Co. KG, Stuttgart, formerly The Grounds App 4 GmbH & Co. KG, Berlin, and 5.1% in the Grundstücksgesellschaft LennéQuartier mbH & Co. KG, Berlin, formerly The Grounds App 3 GmbH & Co. KG, Berlin, which are carried at acquisition costs.

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:

	31/12/2019	31/12/2018
	€000	**€000**
Beginning of the financial year	**24**	**22**
Share outflows due to transition to full consolidation	-17	0
Shares in profits and losses	-7	2
End of the financial year	**0**	**24**

8.4. Properties held as financial investment

	31/12/2019	31/12/2018
	€000	**€000**
Status at the beginning of the financial year	**9,500**	**1,083**
Additions (+)	64	15,540
Disposals (-)	0	-9,168
Appreciations (+)	36	2,045
Status at the end of the financial year	**9,600**	**9,500**

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 3,000 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 9,600 thousand on the 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 9,170 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 10,130 thousand in total.

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

	2019	2018
	€000	**€000**
Rental income (revenues)	1,008	761
Cost of materials	-80	-19
Maintenance costs (cost of materials)	-323	-266
Total	**605**	**476**

In view of the low vacancy rate of 0.8% (previous year: 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, real estate ready for sale and down payments made. They are composed as follows:

	31/12/2019	31/12/2018
	€000	**€000**
Work in progress	22	22
Properties under construction	1,387	10,882
Properties ready for sale	6,940	0
Advance payments made	5,825	4,706
Total	**14,174**	**15,610**

8.7. Receivables from goods and services and other receivables

The receivables from goods and services mainly result from the invoicing of services. In the previous year they also resulted from the sale of one property. The following overview shows the development of the receivables from goods and services:

	31/12/2019	31/12/2018
	€000	**€000**
Receivables from goods and services (gross)	154	19,393
Value adjustments	0	0
Receivables from goods and services (net)	**154**	**19,393**

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

	31/12/2019	31/12/2018
	€000	**€000**
Receivables from goods and services		
of which on reporting date not impaired and not overdue	0	19,355
of which on reporting date not impaired and overdue up to 30 days	32	36
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	119	0
of which on reporting date not value-adjusted and overdue for more than 360 days	3	2
Net value of value-adjusted receivables from goods and services	0	0

As in the previous year, there were no value adjustments of receivables from goods and services in the 2019 financial year.

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:

	31/12/2019	31/12/2018
	€000	**€000**
Claims against companies in which we participate	1,713	1,570
Receivables from associated companies	0	0
Receivables from loans to related companies/persons	1,303	1,291
Other receivables from related companies/persons	21	0
Receivables from loans to third parties	1,558	1,511
Claims to disbursement from notarial escrow account	0	2,150
Receivables in relation to turnover tax	850	641
Tax refund receivables	230	0
Miscellaneous other receivables	123	495
Summe	**5,591**	**7,658**

The receivables from companies in which we participate, amounting to EUR 1,533 thousand, result from 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 1,303 thousand (previous year: 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 balances at banks payable on demand.

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:

	31/12/2019	31/12/2018
	€000	**€000**
Beginning of the financial year	15,105,517	15,105,517
Cash capital increase	0	0
End of the financial year	15,105,517	15,105,517

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

The capital reserve results from the amounts that 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 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:

	31/12/2019	31/12/2018
	€000	**€000**
Long-term financial liabilities		
Liabilities to financial institutions and other lenders	2,467	15,071
Total long-term financial liabilities	**2,467**	**15,071**
Short-term financial liabilities		
Liabilities to financial institutions and other lenders	10,286	18,839
Total short-term financial liabilities	**10,286**	**18,839**
Total financial liabilities	**12,753**	**33,910**

A fixed interest rate of 2.5% per annum until 30 June 2029 has been agreed for the long-term loans. The liabilities are secured by mortgages, bank account pledges and the cession of sales and rent receivables.

A fixed interest rate of 2.5% p.a. has been agreed for several short-term loans. The loans are secured for the full amount by mortgages totalling EUR 8,500 thousand. In addition, two former Management Board members have issued directly enforceable guarantees amounting to a total of EUR 2,790 for these liabilities.

Other short-term financial liabilities are in relation to various subordinated loans. Loans with a total amount of EUR 3,073 on 31 December 2019 granted by related companies bear interest of 5.5% p.a. plus a share in profits.

All loans are denominated in euro.

8.11. Provisions

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

	Pending invoices	Annual accounts and audit	Miscellaneous	Total
	€000	€000	€000	€000
1 January 2019	**2,138**	**134**	**74**	**2,346**
Additions from changes in the consolidation scope	2	5	0	7
Utilisation	1,384	101	70	1,555
Release	753	5	0	758
Additions	432	157	57	646
Reductions from selling companies	23	7	0	30
31 December 2019	**412**	**183**	**61**	**656**

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

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

	31/12/2019	31/12/2018
	€000	**€000**
Payables for goods and services	**771**	**887**
Received down payments	**0**	**21**
Payables to related companies/persons	240	228
Payables to associated companies	0	13
Surety retentions	98	0
Miscellaneous other payables	44	207
Other liabilities	**382**	**448**
Total	**1,269**	**1,356**

Among other things, the miscellaneous other liabilities include payroll tax and VAT.

8.13. Current taxes on earnings

Current income tax liabilities amounting to EUR 4,120 thousand (previous year: EUR 4,550 thousand) comprise corporation tax liabilities totalling EUR 1,972 thousand (previous year: EUR 2,363 thousand) and trade tax liabilities amounting to EUR 2,148 thousand (previous year: EUR 2,187 thousand).

8.14. Deferred taxes

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

	31/12/2019	31/12/2018
	€000	€000
Deferred tax assets		
• that will be realised after more than 12 months	598	737
Total	**598**	**737**
Deferred tax liabilities		
• that will be realised after more than 12 months	1,736	1,649
Total	**1,736**	**1,649**

The change in deferred tax items is as follows:

	2019	2018
	€000	€000
Deferred tax assets	737	550
Deferred tax liability	-1,649	0
Balance of deferred tax items at the beginning of the financial year	-912	550
Recognition in equity on account of first-time IFRS consolidated annual accounts	0	0
Recognition of equity procurement costs without effect on income	0	0
Deferred tax liabilities from company acquisition as per IFRS 3	0	-961
Expenditure (-) / Revenue (+) in the P&L	-226	-501
Balance of deferred tax items at the end of the financial year	**-1,138**	**-912**
Deferred tax assets	598	737
Deferred tax liability	-1,736	-1,649

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 2019	**3**	**4**	**730**	**737**
Amounts recognised in the profit-and-loss account	-3	0	-136	-139
Status 31 December 2019	**0**	**4**	**594**	**598**

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 0 thousand (previous year: EUR 397 thousand) and certain carried forward corporation tax losses in the amount of EUR 368 thousand (previous year: EUR 463 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 2019	**1,649**	**1,649**
Deferred tax liabilities from company acquisition as per IFRS 3	0	0
Amounts recognised in the profit-and-loss account	87	87
Status 31 December 2019	**1,736**	**1,736**

8.15. Sales revenues

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

	2019	2018
	€000	€000
Sales revenues from the sale of properties	12,397	30,160
Rental proceeds	1,003	944
Total	**13,940**	**31,104**

8.16. Stock changes

The changes in stock during the financial year 2019 relate to the reduction of EUR 1,147 thousand (previous year: EUR 154 thousand) in work in progress.

8.17. Cost of materials

The material costs of The Grounds Group are made up as follows:

	2019	2018
	€000	€000
Acquisition costs of sold properties and building costs	9,434	20,640
Expenditure for raw materials and consumables	2	6
Procured services	79	160
Total	**9,515**	**20,806**

8.18. Staffing costs

Staffing costs are broken down as follows:

	2019	2018
	€000	€000
Salaries, other benefits	382	484
Social security contributions and expenditure on old-age care and support	62	59
Total	**444**	**543**

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

8.19. Other operating incomes and expenses

The other operational incomes contain the following amounts:

	2019	2018
	€000	€000
Write-back of liabilities-side difference	360	2,223
Release of provisions	758	51
Miscellaneous other operating incomes	81	30
Total	**1,303**	**2,304**

The other operational expenditures contain the following amounts:

	2019	2018
	€000	€000
Premises costs	190	175
Insurance, contributions and charges	42	47
Repairs and maintenance	55	72
Vehicle costs	21	44
Advertising and travel expenses	57	656
Legal and consultancy fees	442	324
Annual accounts and audit fees	186	164
Losses from divestment of fixed assets	0	20
Non-deductible input tax	6	53
Compensation for damage	119	0
Third-party services and work	892	822
Miscellaneous other operating expenditure	160	170
Total	**2,170**	**2,547**

8.20. Income tax expenditure/revenues

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

	2019	2018
	€000	€000
Current income tax expenditure/revenues	295	-3,957
Deferred income tax expenditure/revenues	-223	-501
Total	**72**	**-4,458**

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	2019	2018
	€000	€000
Results before taxation	-18	8,646
Income taxes calculated on the basis of the income tax rate of the parent company	5	-2,609
Effect from		
• tax-exempt revenues / non-deductible expenditures	446	-164
• non-recognition of deferred tax assets on losses carried forward	-333	-130
• consolidation entries recognised directly in equity	0	-1,470
• other causes	-46	-85
Recognised income tax expenditure/revenues	**72**	**-4,458**

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.

	2019	2018
Profit attributable to the shareholders of the parent company (EUR thousand)	2	3,517
Average number of shares issued (nominal)	15,105,517	15,105,517
Undiluted earnings per share (EUR)	**0.00**	**0.23**

In the financial year 2019, no dividend was paid for the preceding financial year. No dividend is expected to be distributed for the financial year 2019 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. It amounts to EUR 13,281 thousand (previous year: EUR -11,025 thousand). It contains income tax payments amounting to EUR 131 thousand. (previous year: EUR 15 thousand).

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

	31/12/2019	31/12/2018
	€000	€000
Cash and cash items	1,330	2,409
Cash & cash equivalents at the end of the period	**1,330**	**2,409**

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.

	Book value				Fair value
31/12/2018	FVTOCI* Equity instruments	Financial assets at amortised acquisition costs	Other financial liabilities	Total	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
Advance payments received	0	0	21	21	21
Payables for goods and services	0	0	887	887	887
Other liabilities	0	0	448	448	448
Total financial liabilities	**0**	**0**	**35,266**	**35,266**	**35,266**

* FVTOCI: Fair Value through Other Comprehensive Income

31/12/2019	Book value: FVTOCI* Equity instruments	Book value: Financial assets at amortised acquisition costs	Book value: Other financial liabilities	Book value: Total	Fair value: Total
	€000	€000	€000	€000	€000
Participations	25	0	0	25	25
Receivables from goods and services	0	154	0	154	154
Other receivables and assets	0	5,585	0	5,585	5,585
Total financial assets	**25**	**5,739**	**0**	**5,764**	**5,764**
Financial liabilities	0	0	12,753	12,753	12,753
Advance payments received	0	0	0	0	0
Payables for goods and services	0	0	771	771	771
Other liabilities	0	0	381	381	381
Total financial liabilities	**0**	**0**	**13,905**	**13,905**	**13,905**

* 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 basically applies 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 to the amortised cost.

The accruals of transaction costs according to the effective interest method have led to a reduction of financial liabilities by EUR 25 thousand (previous year: 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 2019 and the previous year are as follows:

	Financial assets at amortised acquisition cost		Other financial liabilities	
	2019	2018	2019	2018
	€000	€000	€000	€000
Interest income	75	56	0	0
Interest expenditure	0	0	-2,057	-2,779
Net earnings	75	56	-2,057	-2,779

Interest income and expenditure are recognised in the corresponding items of the consolidated profit and loss account.

b) Financial risks

The activities of the Group expose it to various risks. They are particularly liquidity risk, default risk and interest rate risk. Targeted financial risk management is designed to minimise the negative effects of those risks on the Group's net assets, financial position, results of operations and cash flows. 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:

31/12/2019	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	**12,753**	**10,286**	**220**	**2,247**
Payables for goods and services	771	771	0	0
Other liabilities	381	283	0	98
Outflows from goods and services and other liabilities	**1,152**	**1,054**	**0**	**98**
Outflows under liabilities within the scope of IFRS 7	**13,905**	**11,340**	**220**	**2,345**

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 liabilities	448	448	0	0
Outflows 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**

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 1,330 thousand (previous year: EUR 2,409 thousand) are available to cover liquidity risk.

Default risk

The maximum default risk of The Grounds Group is determined by the book values of its financial assets. Risks arise from the granting of subordinated loans, which in turn offer the opportunity 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 2019, an interest rate that is higher or lower by 0.5% p.a. would increase respectively reduce interest expenditure by around EUR 64 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

Deutsche Balaton AG, Heidelberg, informed the company's management board that more than a quarter of the share capital is attributable, via shares held directly or indirectly, to Deutschen Balaton AG together with SPARTA AG, Hamburg and VV Beteiligungen Aktiengesellschaft, Heidelberg.

The Palais am Meer GmbH & Co. KG, together with the Company, gained the supra-regionally active hotel operator SEETELHOTELS/IHR as the future operator of the hotel and tourist complex on the site of the former German federal armed forces hospital in Rostrup/Bad Zwischenahn.

The Company reorganised its Management Board and Supervisory Board. Reference is made to Point 10.1.

The Company acquired a portfolio with 250 residential and 15 commercial units for its inventory of real estate properties. The portfolio's rental incomes thereby double to around EUR 2.0 million p.a. The portfolio offers medium and long-term development potential via densification opportunities and energy renovation measures.

In the time between the Company's balance sheet closure date and end of preparation of the annual financial statements, the spread of the SARS-COV-2 (coronavirus – Covid-19) pathogen became a pandemic that triggered a global economic crisis. However, the Company's Management Board takes the view that this will not have a significant impact on its business operations and financial position.

Otherwise, 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:

- Thomas Prax, Wiesbaden, businessman
- Arndt Krienen, Remscheid, attorney (since 3 March 2020; entered in the Commercial Register on 13 March 2020)

Total emoluments for management activities amounted to EUR 120 thousand (previous year: EUR 219 thousand) during the reporting period.

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 financial statements:

- Dr. Peter Maser, attorney, chairman (until 22 August 2019)
- Carsten Haug, real estate property administrator, Deputy Chairman (until 22 August 2019)
- Steffen Buckwitz, management consultant (until 22 August 2019)
- Prof. Dr. Winfried Schwatlo, businessman and Professor of Real Estate Property Management, Chairman (since 22 August 2019)
- Sönke Schwartz, auditor, Deputy Chairman (from 22 August 2019 to 28 April 2020)
- Andreas Ingendoh, attorney (from 22 August 2019 to 28 April 2020)
- Eric Mozanowski, businessman, Deputy Chairman (since 29 April 2020)
- Hansjörg Plaggemars, management consultant (since 29 April 2020)

Total emoluments for Supervisory Board activities amounted to EUR 80 thousand during the period under review.

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:

The receivables from related companies and persons are shown in Section 8.7. They carry interest income amounting to EUR 66 thousand (previous year: EUR 11 thousand).

The liabilities to related companies and persons are shown in Sections 8.10 and 8.12. They carry interest income amounting to 278 EUR thousand (previous year: TEUR 172).

Income of EUR 100 thousand (previous year: EUR 0 thousand) and expenditure of EUR 64 thousand (previous year: 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 employed ten (previous year: eight) 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 25 thousand. Its composition is as follows:

	2019	2018
Type of service	€000	€000
Annual accounts auditing services	25	21
Other confirmation services	0	0
Tax consultancy services	0	0
Other services	0	1
Total	**25**	**22**

Berlin, 15 May 2020
Management Board of The Grounds Real Estate Development AG

Arndt Krienen 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 2019, 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 2019, and the notes to the consolidated annual accounts, together with a description of their accounting policies. We have also audited the Group management report of The Grounds Real Estate Development AG, Berlin, for the financial year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not audited the contents of the components of the Group management report listed in the Appendix.

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

- comply in all material respects with the IFRS as adopted by the EU, the additional requirements of German law as stipulated in Article 315e, Paragraph 1 of the HGB (Handelsgesetzbuch [German Code of Commercial Law]) and give a true and fair view of the net assets and financial position of the Group on 31 December 2019 and of its results of operations for the financial year from 1 January to 31 December 2019 in accordance with the German principles of orderly accounting, and
- the attached Group management report as a whole provides a realistic view of the position of the Group. In all material respects, this Group management report is consistent with the Group annual accounts, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the contents of the components of the Group management report listed in the appendix.

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

Basis of our Audit Opinions

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

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

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

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

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

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

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

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

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

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

Additionally

- we identify and evaluate the risks of material misrepresentations, whether wilful or unintentional, in the consolidated annual accounts and management report of the Group, plan and perform audit procedures in response to those risks, and obtain supporting evidence that is sufficient and appropriate for providing a basis for our audit opinions. The risk that material misrepresentations will not be uncovered is greater for violations than for inaccuracies, because violations may involve fraudulent collusion, falsification, intentional incompleteness, misleading representations, or the overriding of internal controls.
- we gain an understanding of the internal control system of relevance to auditing the consolidated annual accounts and of the procedures and measures of relevance to auditing the management report of the Group, in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those corporate systems.
- we assess the appropriateness of the accounting principles and the reasonableness of estimates and their concomitant information as applied by the legal representatives.
- we draw conclusions about the appropriateness of the accounting principles applied by the legal representatives for continuation of the company's activities and, on the basis of the audit findings, whether there is any material uncertainty in conjunction with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. If we come to the conclusion that there is a material uncertainty, we are required to express an opinion on the appurtenant statements in the consolidated annual accounts and management report of the Group or, if the information is inappropriate, to modify our respective opinion. We draw our conclusions on the basis of the records submitted up to the date of our issuing our audit report. However, future events or circumstances may lead to the Group no longer being able to continue its business activities.
- we express an opinion on the overall presentation, structure and content of the consolidated annual accounts, including the explanations, as well as on whether the consolidated annual accounts present the underlying transactions and events in such a way that they convey a true and fair view of the net assets, financial and

earnings positions of the Group in accordance with the IFRS as applicable in the EU and the additionally applicable German principles of proper accounting as stipulated in Article 315e, Paragraph 1 of the Commercial Code.
- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to be able to express an opinion on the consolidated annual accounts and the management report of the Group. We are responsible for directing, monitoring and carrying out the audit of the consolidated annual accounts. We are solely responsible for our audit opinions.
- we assess the harmony of the management report of the Group with the consolidated annual accounts, its compliance with the law and the picture conveyed by it of the situation of the Group.
- we perform audit procedures on the forward-looking statements in the management report of the Group, as presented by the legal representatives. On the basis of sufficient and suitable records, we particularly verify the significant assumptions on which the forward-looking statements of the legal representatives are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not ourselves express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant though unavoidable risk that future events may differ materially from the forward-looking statements.

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

Berlin, 11 June 2020

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

Financial calendar
Imprint
Contact

Financial calendar

August 2020	Publication of provisional figures for the first half-year of 2020
28 August 2020	Ordinary General Meeting 2020, virtual
September 2020	Publication of half-yearly report for 2020
November 2020	German Equity Forum, Frankfurt am Main

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Concept & implementation: rau-kommunikation.de
Photos: The Grounds Real Estate Development AG, istockphoto.com

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

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