Warth & Klein Grant Thornton

publity AG, Leipzig

Annual financial statements for the financial year from 1 January 2017 to 31 December 2017

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Balance sheet

A S S E T S	31.12.2017		31.12.2016	
	EUR	EUR	EUR	EUR
A. FIXED ASSETS				
I. Intangible assets				
Paid concessions, industrial property rights and similar rights and assets and licenses over such rights and assets		863.00		8,970.00
II. Tangible assets				
Other facilities, plant and business equipment		403,550.00		348,482.00
III. Financial assets				
1. Shares in affiliated companies	939,750.00		939,750.00	
2. Participating interests	2,083,440.00		2,103,840.00	
3. Loans to companies in which participations are held	52,676,305.76		54,107,000.27	
		55,699,495.76		57,150,590.27
		56,103,908.76		57,508,042.27
B. CURRENT ASSETS				
I. Receivables and other assets				
1. Trade receivables	26,054,133.73		31,235,539.41	
2. Receivables from credit portfolios	12,950,000.00		2,173,000.00	
3. Receivables from affiliated companies	2,627,099.39		2,892,215.48	
4. Receivables from affiliated companies in which participations are held	870,000.00		0.00	
5. Other assets	3,021,008.99		348,199.94	
		45,522,242.11		36,648,954.83
II. Cash-in-hand, bank balances		7,961,663.99		7,105,608.15
		53,483,906.10		43,754,562.98
C. PREPAID EXPENSES		421,298.09		542,603.23
		110,009,112.95		101,805,208.48

E Q U I T Y A N D L I A B I L I T I E S	31.12.2017		31.12.2016	
	EUR	EUR	EUR	EUR
A. EQUITY				
I. Subscribed capital	6,050,000.00		6,050,000.00	
II. Capital reserve	33,880,000.00		33,880,000.00	
III. Profits carried forward	7,661,084.90		1,522,855.30	
IV. Net profit for the year	10,086,030.47		23,078,229.60	
		57,677,115.37		64,531,084.90
B. PROVISIONS				
1. Tax provisions	0.00		4,504,330.00	
2. Other provisions	264,900.00		194,900.00	
		264,900.00		4,699,230.00
C. LIABILITIES				
1. Bonds - thereof convertible: EUR 50,000,000.00 (previous year: EUR 30,000,000.00)	50,000,000.00		30,000,000.00	
2. Trade payables	822,859.55		1,267,836.79	
3. Amounts owed to affiliated companies	574,538.81		151,195.89	
4. Other liabilities - thereof for taxes: EUR 435,107.00 (previous year: EUR 593,021.05)	669,699.22		1,155,860.90	
		52,067,097.58		32,574,893.58
		110,009,112.95		101,805,208.48

publity AG, Leipzig

Annual financial statements for the financial year from 1 January 2017 to 31 December 2017

Income statement

	2017		2016
	EUR	EUR	EUR
1. Sales revenue		23,570,590.18	41,576,554.89
2. Other operating income		87,430.40	271,838.60
3. Cost of materials Cost of purchased services		3,313,904.91	160,413.23
4. Gross profit		20,344,115.67	41,687,980.26
5. Personnel expenses			
a) Wages and salaries	1,742,090.65		1,866,173.21
b) Social security, pension contributions and other benefits	231,520.85	1,973,611.50	200,044.99
6. Amortisation of intangible assets and depreciation of tangible fixed assets		196,002.73	185,290.12
7. Other operating expenses		7,160,184.51	6,746,136.66
8. Income from profit pooling agreements		1,160,259.95	1,466,839.44
9. Income from other securities and loans included in financial assets		3,965,131.46	1,439,755.37
10. Other interest and similar income		31,681.89	9,375.00
11. Losses absorbed under profit pooling agreements		0.00	78,591.29
12. Interest and similar expenses - thereof to affiliated companies: EUR 1,511.96 (previous year: EUR 3,008.58)		1,692,354.57	1,289,201.25
13. Taxes on income		4,489,475.09	10,915,349.48
14. Result after income tax		9,989,560.57	23,323,163.07
15. Other taxes		-96,469.90	244,933.47
16. Net profit for the year		10,086,030.47	23,078,229.60

publity AG, Leipzig

Annual financial statements for the financial year
from 1 January 2017 to 31 December 2017
Notes to the financial statements

I. General information and notes

publity AG is registered in Leipzig. The Company is registered at the commercial court of Leipzig under the commercial register number HRB 24006.

The annual financial statements of publity AG, Leipzig have been prepared in accordance with the applicable regulations under commercial law regarding financial reporting and the supplementary provisions of the AktG (Aktiengesetz: German Stock Corporation Act).

publity AG, Leipzig is a medium-sized company as defined by § 267 (2) HGB (Handelsgesetzbuch: the German commercial code). The Company has made use of the exemptions available to it due to its size set out in §§ 276, 288 (2) HGB.

The income statement has been prepared under the total cost convention in accordance with § 275 (2) HGB.

In accordance with § 265 (5) sentence 2 HGB an additional position has been included in the annual financial statements from 2017 for “Receivables from credit portfolios”. Comparative figures have been adjusted.

II. Accounting policies and valuation methods

The Company’s assets and liabilities are valued individually, taking account of the principle of prudential accounting. Account has been taken of risks and losses foreseeable when preparing the balance sheet. The annual financial statements have been prepared under the going concern assumption. The accounting policies and valuation methods used in the preparation of previous years’ annual financial statements continue to be applied. The annual financial statements are prepared in euros. There are no receivables or payables denominated in foreign currencies.

Income and expenses are included in the annual financial statements for the financial year irrespective of their payment dates.

Fixed assets

Fixed assets are valued at their acquisition cost, including incidental acquisition costs, and – unless they are deemed to have an indefinite useful life – are subject to planned depreciation and amortisation. Depreciation is recorded on a straight line basis based on the typical operating useful lives of the assets, which are between three and eight years for intangible assets and between three and ten years for other facilities, plant and business equipment. Since the financial year 2011, small value assets with acquisition costs of up to EUR 410.00 are depreciated in full in the year of acquisition.

Financial assets are valued at acquisition cost or, if lower, at their fair value in accordance with § 253 (3) sentence 6 HGB.

Current assets

Receivables and other assets are valued at their nominal values, less any impairment allowances required to reduce their value to their lower fair value. Credit portfolios included within the receivables are recorded at their acquisition cost plus incidental costs of acquisition. Individual allowances are recorded to reflect recognisable and potential risks.

Cash and cash equivalents are valued at their nominal amounts.

Prepaid expenses

Prepaid expenses on the asset side of the balance sheet represent amounts incurred before the balance sheet date to the extent that they represent expenditures made for a specific period subsequent to that date.

Provisions

Provisions are recorded to take account of all foreseeable risks and uncertain liabilities at their respective fulfilment amounts, determined based on careful commercial assessment. The valuations of provisions maturing after more than one year include allowances for future price and cost increases, and are discounted to present value at the balance sheet date. The discount rates used are based on seven-year average market rates of interest applicable to liabilities with matching maturity periods, as published by the German Bundesbank.

Liabilities

The liabilities, including the convertible bond, are valued at their fulfilment amount.

The option right included in the EUR 20 million convertible bond issued during the year were determined as the difference between the amount issued for the convertible bond including the option right and the estimated amount that would have been issued for an identical debt instrument without the conversion right. An amount was determined which was not material, and was not separately accounted for. The option right for the EUR 30 million convertible bond issued in 2015 was accrued and amortised over five years on a straight-line basis.

III. Notes to the balance sheet

Fixed assets

An analysis of fixed assets and movements thereon is presented in the fixed asset movement schedule attached to these notes.

Financial assets

Loans to companies in which participations are held amounted to TEUR 52,676 (previous year: TEUR 54,107 and represent real estate co-investments and NPLs. No impairment allowances were recorded against the carrying value of financial assets as a result of a permanent diminution of value of investments in the financial year 2017.

Disclosures concerning shares in other companies (participations) in accordance with § 285 (11) HGB are included in the following table:

Name	%	Equity at 31.12.2017 EUR	Result 2017 EUR
publity Investor GmbH, Leipzig	100	550,615.67	-163,634.68
publity Performance GmbH, Leipzig[1)]	100	655,348.62	1,160,259.95
publity Emissionshaus GmbH, Leipzig	100	268,167.66	26,485.62
publity Real Estate Opportunity Services S.à r.l., Luxembourg[3)]	50	5,691,795.07	26,122.10
publity Real Estate Opportunity Services II S.à r.l., Luxembourg[3)]	49	408,000.00	N/A
publity Real Estate Opportunity Services III S.à r.l., Luxembourg[3)]	49	408,000.00	N/A
Publity Wappenhalle S.à r.l., Luxembourg[2) 3)]	50	7,959,223.78	-2,996,569.85
Publity Mainzer Landstrasse S.à r.l., Luxembourg[2) 3)]	50	-1,009,338.64	-277,893.50
Publity ABC Tower S.à r.l., Luxembourg[2) 3)]	50	-1,755,197.81	146,650.26
Publity Leopoldstrasse S.à r.l., Luxembourg[2) 3)]	50	-1,795,706.00	-797,841.93
Publity City Tower S.à r.l., Luxembourg[2) 3)]	50	-2,271,030.41	-1,050,125.80
Publity Frischmarkt Leipzig S.à r.l., Luxembourg[2) 3)]	50	-1,551,709.17	-884,743.38
Publity Bad Vilbel S.à.r.l., Luxembourg[2) 3)]	50	-624,797.30	-401,302.09
Publity Einsteinstrasse Aschheim-Dornach S.à.r.l., Luxembourg[2) 3)]	50	-6,125,184.82	-3,998,952.71
Publity Artecom Ismaning S.à.r.l., Luxembourg[2) 3)]	50	-205,525.19	-326,249.67
Publity R&D Ratingen S.à.r.l., Luxembourg[2) 3)]	50	-1,371,860.42	-517,594.36
Publity Oberhausen Bilfinger S.à.r.l., Luxembourg[2) 3)]	50	-1,946,935.69	-2,994,230.31
Publity KLAN Dusseldorf S.à.r.l., Luxembourg[2) 3)]	50	-1,337,490.97	-550,474.85
Publity Boulevard Bielefeld S.à.r.l., Luxembourg[2) 3)]	50	-1,998,451.71	-1,228,240.72
Publity OCI Ismaning S.à.r.l., Luxembourg[2) 3)]	50	-1,076,050.91	-400,599.11
Publity Bredeney Essen S.à.r.l., Luxembourg[2) 3)]	50	4,213,341.82	-2,577,544.43
Publity Marie Curie Frankfurt S.à.r.l., Luxembourg[2) 3)]	50	-7,236,057.02	-6,175,710.64
Publity Deelbogenkamp Hamburg S.à.r.l., Luxembourg[2) 3)]	50	6,776,280.08	1,015,421.44
Publity Car Center Koln S.à.r.l., Luxembourg[2) 3)]	50	-681,527.65	-335,674.58
Publity Max Planck Aschheim-Dornach S.à.r.l., Luxembourg[2) 3)]	50	-891,188.79	-823,641.54
Luxembourg Investment Company 74 S.à.R.L., Luxembourg[2) 4)]	50	12,500.00	N/A
German Loans 2015 S.à r.l., Luxembourg[2) 3)]	49	-164,821.10	-177,321.10
Real Estate Loans 2016 S.à r.l., Luxembourg[2) 3)]	49	-252,753.27	-265,253.27

1) Result before profit transfer.

2) Wholly owned subsidiaries of Publity Real Estate Opportunity Services S.à.r.l., S.à.r.l. II and S.à.r.l. III, Luxembourg.

3) The result for the year ended 31.12.2016 had not been determined by the date of preparation of the annual financial statements. The amount presented is the equity at 31.12.2016 and the result for 2016.

4) The amount presented is the subscribed capital.

Current assets

Receivables and other assets – as in the previous year – mature within one year.

Trade receivables include receivables from credit portfolios which have already been sold amounting to TEUR 4,000 (previous year: TEUR 7,765). Additions were made to individual impairment allowances against trade receivables totalling EUR 1,950,000.00. No general allowances were recorded.

Receivables from credit portfolios total TEUR 12,950 (previous year: TEUR 2,173). The intended holding period of these securities is less than one year. Individual impairment allowances were not required.

Receivables from affiliated companies consist of trade receivables totalling TEUR 645 (previous year: TEUR 986) and other receivables of TEUR 1,982 (previous year: TEUR 1,907).

Receivables from companies in which participations are held include TEUR 870 of other receivables.

Other assets (TEUR 3,021) include corporation tax receivables (TEUR 1,304), trade tax receivables (TEUR 1,257) as well as receivables resulting from repayments due under a rental agreement (TEUR 301).

Prepaid expenses

Prepaid expenses primarily include the proportionate cost of the option right included in the convertible bond issued in 2015 of TEUR 362 (previous year: TEUR 488).

Equity

The Company's equity amounts to EUR 6,050,000.00 and is divided into 6,050,000 registered bearer shares.

On 14 March 2016 the General Meeting adopted a resolution to cancel the current authorised capital, to create new authorised capital and to amend § 3 (3) ("authorised capital"). Under a resolution approved on 14 March 2016 the Executive Board is authorised, until 13 March 2021 and subject to the prior approval of the Supervisory Board, to increase share capital by an amount of up to EUR 2,750,000.00 in total, on one or more occasions, in exchange for cash or for consideration in kind, whereby the terms and conditions may exclude shareholders' pre-emptive rights (authorised capital 2016).

The Company's capital was increased by EUR 550,000.00 to EUR 6,050,000.00 under partial utilisation of the approved capital 2016, which was registered at the commercial register on 18 March 2016.

The capital increase of EUR 550,000.00 was complemented by a share premium amount of EUR 19,250,000.00. The share premium amount was credited in full to the capital reserve. The remaining authorised capital approved on 14 March 2016 subsequent to partial utilisation (authorised capital 2016) amounts to EUR 2,200,000.00.

The Company's shares were admitted for trading in the Scale segment (Regulated Unofficial Market) of the Frankfurt Stock Exchange on 1 March 2017.

Disclosures under § 152 (2) and (3) AktG are made in respect of movements in the capital reserve and retained profits. There were no changes in the financial year 2017. An amount of EUR 9,250,000.00 was added to the capital reserve as a result of the 2016 capital increase in accordance with § 272 (2) (1). The capital reserve totalled EUR 33,880,000.00 at 31 December 2017. The retained profit at 31 December 2017, prior to the net profit for the financial year 2017, amounted to EUR 7,661,084.90.

Other provisions

The other provisions primarily include provisions for outstanding invoices (TEUR 20), costs in connection with the preparation of annual financial statements (TEUR 60), legal costs (TEUR 150) and other items (TEUR 35).

Liabilities

On 30 March 2015 the General Meeting of the Company authorised the Executive Board, up until 29 March 2020 and subject to the approval of the Supervisory Board, to issue, on one or more occasions, bearer or registered convertible bonds with a total par value of up to EUR 50,000,000.00, with or without term restrictions, and to grant or impose conversion rights and/or obligations to the holders or creditors of convertible bonds for registered shares of the Company with a pro rata amount of the share capital of a total of up to EUR 2,500,000.00, in accordance with the specific conditions of these convertible bonds.

The bonds are divided into partial bonds. The holders or creditors of partial bonds receive the right to convert their partial bonds into registered shares of the Company in accordance with the bond terms and conditions defined by the Executive Board.

Making use of this authority, the Executive Board, with the approval of the Supervisory Board, issued a convertible bond with a total nominal value of EUR 30,000,000.00 under resolutions dated 9 November 2015 and 11 December 2015. Under a resolution dated 2 May 2017 the Executive Board issued a further amount of EUR 20,000,000.00. The total volume now amounts to EUR 50,000,000.00. The shareholders' statutory pre-emptive rights were excluded. The convertible bond may be converted into up to 1,119,069 new shares. The conversion right may be exercised at any time from 1 October 2016 until three working days before the repayment date of 17 November 2020. No conversion rights were exercised in 2017.

Interest is payable at an annual rate of 3.5% of the nominal amount under the terms of the convertible bond. The bonds shall be repaid at par value, plus accrued interest on the nominal amounts, on 17 November 2020 provided they have not been repaid, converted or reacquired and redeemed prior to that date. The bonds confer entitlement to convert each bond – but not in partial amounts – into registered shares without par value with a proportionate amount of the share capital of EUR 1.00 per share on the date of issue. The conversion price was EUR 41.58, subject to later adjustment in accordance with the terms of the bond.

As in the previous financial year, the other liabilities mature within one year.

The amounts owed to affiliated companies amounted to EUR 574,538.81 (previous year: EUR 151,195.89) and comprise the following:

	EUR	EUR (PY)
publity Emissionshaus GmbH, Leipzig	152,707.85	151,195.89
publity Investor GmbH, Leipzig	421,830.96	0.00

These represent other liabilities (EUR 574,538.81; previous year: EUR 151,195.89).

IV. Notes to the income statement

Out of period income and expenses

Other operating expenses include out of period expenses of TEUR 0 (previous year: TEUR 994). The amounts reported in the previous year consisted of rebates of servicing charges from one year earlier.

Taxes on income include out of period expenses of TEUR 27 (previous year: TEUR 0).

Other taxes include out of period repayments of value added taxes of TEUR 97. In the previous year back payments of value added tax amounting to TEUR 244 were required.

V. Other disclosures

Executive Board

The following persons served in office as members of the Executive Board in the financial year:

Mr Thomas Olek, Chairman of the Executive Board, Strategy

Mr Frederik Mehlitz, Member of the Executive Board, Finance

Remuneration of the Executive Board

The total remuneration paid to members of the Executive Board of publity AG in the financial year 2017 amounted to TEUR 747.

Supervisory Board

The following persons are members of the Supervisory Board:

Günther Paul Löw, lawyer in (own) private practice
(Chairman of the Supervisory Board)

Norbert Kistermann, Member of the Executive Board, Bankhaus Bauer Aktiengesellschaft
(Deputy Chairman of the Supervisory Board)

Hans-Jürgen Klumpp, management consultant, HJK Financial Consulting

The members of the Supervisory Board were appointed for a further five years at the General Meeting held on 30 March 2015. Thomas Backs, Munich ceased to be a member of the Supervisory Board with effect from 31 December 2016. The vacancy created by the resignation of Thomas Backs was filled by Hans-Jürgen Klumpp, who was appointed by the court as a new member of the Supervisory Board on 1 January 2017.

Remuneration of the Supervisory Board

Supervisory Board remuneration of TEUR 60 was paid for 2017.

Other financial obligations

Other financial commitments under § 285 (3 and 3a) HGB totalled TEUR 3,908, which relates to the remaining terms of one leasing commitment and one tenancy arrangement. The publity Center was sold and leased back under a long-term lease contract under the terms of a sale and lease back transaction entered into at the end of the financial year 2015. Other financial obligations of TEUR 3,840 arise under this lease agreement as of the balance sheet date.

Employees

The average number of employees was 28 in the financial year (previous year: 26).

Significant events subsequent to the balance sheet date

A number of holders of the convertible bond 2015/2020 (ISIN DE000A169GM5) issued by the Company have stated that in their opinion the dividend payment in 2017 contravenes a negative assurance included in the terms and conditions of the convertible bond. As a consequence, approximately 30% of the bondholders have, issued a termination notice in respect of their bondholdings. The Company is of the opinion that these termination notices are not justified. Nevertheless, the Company has already reacquired bonds with a nominal value of EUR 2,044,000.

Given these circumstances, the Company has proposed to appoint One Square Advisory Services GmbH, Munich as the joint representative of all bondholders and to engage them to negotiate with the Company with the objective of agreeing a satisfactory settlement arrangement for the convertible bond which meets with the approval of the bondholders. This approach was accepted by the necessary majority of the bondholders in discussions held (without holding a bondholder's meeting) from 30 May 2018 to 1 June 2018.

There have been no other matters of particular significance since the balance sheet date.

Proposed appropriation of retained profits 2017

The Executive and Supervisory Boards will make a proposal to the General Meeting that the reported retained profits for the financial year 2017 shall be carried forward.

The retained profits are calculated in accordance with § 158 (1) AktG as follows:

	EUR	EUR (PY)
Retained profits (previous year)	24,601,084.90	12,522,855.30
Dividends	16,940,000.00	11,000,000.00
Retained profits at the balance sheet date	7,661,084.90	1,522,855.30
Net profit for the year	10,086,030.47	23,078,229.60
Retained profits	17,747,115.37	24,601,084.90
	===========	===========

The Executive and Supervisory Boards will make a proposal to the ordinary General Meeting 2018 to increase the subscribed capital by EUR 3,781,250.00 in exchange for cash contributions providing for the exercise of existing shareholder's statutory subscription rights.

Leipzig, 5 June 2018

publity AG	publity AG
Thomas Olek	Frederik Mehlitz
Chairman of the Executive Board	Executive Board

publity AG, Leipzig

Management report for the financial year from 1 January 2017 to 31 December 2017

I. Basic information about the Company

1. Business model and overview

publity AG is an asset management company specialising in commercial real estate in Germany. The Company covers a broad value chain, from acquisition and development through to the disposal of properties. The spectrum of the product portfolio ranges from material asset-based financial investments to AIFM-compliant closed-end property funds.

publity AG focuses its business activities on the purchase, management and disposal of real estate, and on financing activities, primarily of real estate-related transactions in Germany whose performance is suffering due to exceptional situations. Such exceptional situations can take many forms; they range from non-performing financing arrangements and strategic withdrawals by banks from the affected loan business, through to differences in interests of the owners. Publity AG is active both directly in real estate, as well as indirectly via distressed financing (non-performing loans, or NPL), and focuses its business activities on German commercial property from bank liquidations.

publity AG controls the entire value chain within its commercial business, covering major parts of the value chain in-house. In the Company's opinion the basis of the value chain is its many years of expertise in the real estate sector, the management of debt and debt collateral from non-performing loans, the Company's own asset management, and the Company's network in the banking industry and many years of experience of developing financial products.

Further, publity AG also invests in co-investments in the form of joint venture transactions together with institutional investors. In doing so publity AG participates as co-investor to acquire real estate and property portfolios, and thereafter provides comprehensive asset management services for those assets. publity AG participates in the resulting success when value gains can be realised on the disposal of the properties.

publity AG attracts capital investment for its real estate funds from private and institutional investors, and from institutional investors exclusively for its special-situation funds. Institutional investors finance investments using joint-ventures arrangements in which publity AG participates using smaller co-investments.

2. Management system

The Company is managed using regular analyses of performance and cost trends, in which these are compared to the Company's planning throughout the year. In this way variances from plan are transparent. The Company's financial statistics are analysed on a regular basis. The significant performance indicators are sales revenues, EBIT and the net result for the year. We refer to the information provided under "The Company's situation", below.

3. Research and development

The Company has no research and development investment activity.

II. Report on economic position

1. Macroeconomic and sector-specific environment

The German economy finds itself in a strong economic upturn. Gross domestic product (GDP) increased by 2.2% in 2017 after adjusting for inflation. The federal government expects further growth of 2.4% for the current year. The return of a friendlier global economic environment is having a favourable effect on the German economy. This has contributed to growth in exports and investment. In addition, domestic growth continues to provide a solid foundation for positive trends for the economy as a whole, which is particularly noticable in the employment market and in public finances (source: Federal Ministry of Economics and Energy: annual economic report 2018).

Years of loose lending policies before the financial crisis resulted in high demand and presented banks with an enormous number of claims on cancelled loans and properties used as collateral.

In publity AG's view there continues to be a high level of pressure on banks to liquidate assets as a result of this situation, which, consistent with publity AG's experience, has led banks, regional banks and savings banks to increase sales of selected properties from such credit exposures over many years. For banks, this is an opportunity to restructure their credit business and improve their balance sheet performance.

As far as the German commercial real estate market is concerned, the conditions for further investment remain good. Based on publications issued by John Lang Lasalle (JLL), a leading provider of real estate services in Germany, demand remains high, in particular given the differential between returns on real estate and those available for treasury bonds. A significant criterion for investors remains the question of when interest rates will rise and what consequences this could have for the real estate investment market. In JLL's opinion, a real step-up in interest rates is not to be expected until at least mid- or late 2019 (source: http://vorbuilder.jll/3-fragen-an/was-die-ezb-geldpolitik-fuer-die-immobilienwirtschaft-heisst (in German)).

As far as the transaction volume for real estate for commercial use in Germany is concerned, a new record was set in 2017. With a volume totalling EUR 56.8 billion, the levels recorded in 2015 were exceeded by EUR 1.7 billion and the 2016 level was exceeded by EUR 3.9 billion. Foreign investors are playing an ever more important role in this, as in previous years, and make up almost 50% of the total investment volume (source: https://www.presseportal.de/pm/62984/3830905 (in German)).

publity AG shares this assessment of the German real estate market for office and commercial real estate. The current macroeconomic climate has been a supporting factor for the trend growth which has now been apparent for many years in real estate transactions in Germany. As publity AG sees it, international institutional investors currently have large volumes of liquidity and they continue to see the German real estate market as attractive for investment purposes.

2. The Company's situation

Compared to the previous year, we can look back on a less successful financial year, although an acceptable one measured in terms of the annual result. The net profit for the year fell by TEUR 12,992 to TEUR 10,086, and sales revenues fell by TEUR 18,006 to TEUR 23,571 compared to the previous year. Accordingly, the net profit and planned EBIT was significantly lower than forecast. A significant share of this was the forecast sales of investments, which could not be achieved due to delays in sales of real estate investments in 2017.

Assets under publity AG management increased to EUR 4.6 billion (assets under management) during the course of 2017. Of this total, 78% relate to international clients and 22% to national clients.

The (undiluted) earnings per share were EUR 1.67, significantly below the level in the previous year (EUR 3.89). The General Meeting will propose the payment of a dividend of EUR 0.00 from the current year's result.

a) Results of operations

In total, sales revenues fell by TEUR 18,006 to TEUR 23,571 in the financial year. The Company's results of operations are dependent on various revenue sources.

The Company generates revenues from servicing non-performing loan claims on behalf of third parties (TEUR 1,349; previous year: TEUR 9,072). Income of TEUR 4,344 was generated from the Company's own credit portfolio (previous year: TEUR 9,327). Overall, the NPL segment is in decline, as the service contracts with the funds have ceased as a result of the funds being closed in 2017.

Further revenues were generated from real estate in the Asset Management segment. This generated TEUR 15,465 in 2017 (previous year: TEUR 18,535) from asset management contracts with institutional investors concerning real estate investments held jointly by the Company and international investors using investment companies. The real estate acquired consists of office real estate in Germany for which publity AG is engaged as asset and investment manager. The revenues are generated from the provision of support services in the acquisition process, from the management of ongoing ownership, and from a success-based participation generated on disposal.

Other operating income fell from TEUR 272 to TEUR 87. A significant proportion of this figure in the previous year resulted from the sale of publity Vertriebs GmbH and from out-of-period income, which did not recur to the same extent in 2017.

The expenses for purchased services increased from TEUR 3,153 to TEUR 3,314 compared to the previous year, resulting in a material expense ratio of 14.0% (previous year: 0.4%). This was due to commission expenses incurred in connection with asset management services.

The average number of employees increased by 2 to 28. However, personnel costs fell by TEUR 93 to TEUR 1,974 as a result of the resignation of one member of the Executive Board.

Other operating expenses increased by TEUR 414 to TEUR 7,160. A significant proportion of this increase results from recording individual impairment allowances against receivables (+ TEUR 1,950) as well as bad debt expense (+ TEUR 634). There was an opposite effect from lower legal and consultancy costs (- TEUR 558) and from the absence of out-of-period expenses (- TEUR 994).

The financial result increased by TEUR 1,283 to TEUR 2,831 compared to the previous year. Income totalling TEUR 3,965 was generated from loans to companies in which participations are held (previous year: TEUR 1,440). Counteracting this effect was the interest expense, which increased compared to the previous year as a result of the increase in convertible bonds (TEUR 1,692: (previous year: TEUR 1,289).

Overall the Company's EBIT, taking into account the result from profit transfers (TEUR 1,160; previous year: TEUR 1,388), fell to TEUR 16,140 (previous year: TEUR 35,518).

b) Financial position

Our financial management is designed to ensure that liabilities are settled and receivables are collected within their due payment terms.

The equity ratio at the balance sheet date was 52.4% (previous year: 63.4%). The decrease resulted from the dividend payment and the lower net profit for the financial year.

The Company's most significant obligation is the convertible bond, which was issued in 2015 and subsequently increased by EUR 20 million to EUR 50 million in the financial year 2017; the bond is the largest part of total liabilities, representing 45.5% of the balance sheet total. The convertible bond matures on 17 November 2020 and carries interest at 3.5%.

Off balance sheet obligations totalled TEUR 3,908 (previous year: TEUR 4,336) and primarily represent leasing and rental obligations in connection with the real estate used for the Company's own commercial operations.

The cash flow, calculated as the sum total of net profit for the year and depreciation, totalled TEUR 10,282, significantly lower than in the previous year (TEUR 23,264).

c) Net assets

The convertible bond issue in 2015, the increase in the bond issue in 2017, and the capital increase in 2016 ensure the matching of financing maturities with the co-investments made.

The most significant share of assets on the balance sheet are represented by financial assets, at 50.6% of the total (previous year: 56.1%).

III. Opportunity and risk report

1. Risk report

The overall risk position, which consists of diverse individual risks (macroeconomic risks, sector-specific risks, organisational risks, financial risks and legal risks) has, in our view after performing relevant analysis and evaluation, changed since the previous year as follows.

Sector-specific risks

The current property market could attract further competitors and therefore increase the level of competition for publity AG. publity AG's competitiveness is dependent on several factors. In the event of an increase in competition, competitors could gain similar access to suitable properties for purchase and operate a more successful asset management programme for purchased properties, including any increase in value. Competitors could also have similarly or better qualified personnel in the area of asset management and the property sector available to them, and consequently could also be more successful in the exploitation of properties. Each of these factors or all of them together could have a negative impact on the assets, financial position and results of operations of publity AG.

The commercial success of publity AG is dependent on developments in the German property market, in particular the commercial property market. The development of this market is influenced in particular by the overall economic environment and by valuation estimates and the value development of property in Germany. These variables are dependent on numerous, sometimes mutually interacting, factors over which the Company has no control. A negative change or negative interactions in one or several of these factors influencing the property market could have a negative influence on the activities of publity AG

publity AG is dependent on developments in the financial and capital markets and on the confidence of investors in the financial and capital markets. Uncertainty concerning the scope and long-term impact of the financial and economic crisis could lead to a continued reduction in demand for financial products such as the alternative investment funds (AIFs) offered by publity AG. For this reason, the Company decided in 2017 that it will not issue any real estate funds for the retail market for the time being. In the medium-term this may lead to a lower income level from the funds business in the publity financial group.

Risks associated with income from operations

The pressure of competition could lead to a position in which purchase prices increase significantly and it becomes difficult or even impossible for publity AG to purchase properties at an acceptable market price. In the same way, decreasing property prices could also have a negative impact for publity AG. In this case, there is a risk that negative developments in property prices would lead to the need to make corrections to the basis of property valuations previously made by publity AG.

The Company has receivables from credit portfolios totalling TEUR 12,950 at the balance sheet date. The ability to dispose of these credit portfolios at a price above their acquisition cost represents a risk to publity AG's results of operations.

Financial risks

A number of holders of the convertible bond 2015/2020 (ISIN DE000A169GM5) issued by the Company have stated that in their opinion, the dividend payment in 2017 contravenes a negative assurance included in the terms and conditions of the convertible bond. As a consequence, approximately 30% of the bondholders have, issued a termination notice in respect of their bondholdings. The Company is of the opinion that these termination notices are not justified. Nevertheless the Company has already reacquired bonds with a nominal value of EUR 2,044,000.00 from its available liquid funds in 2018.

Given these circumstances, the Company has proposed to appoint One Square Advisory Services GmbH, Munich as the joint representative of all bondholders and to engage them to negotiate with the Company with the objective of agreeing a satisfactory settlement arrangement for the convertible bond which meets with the approval of the bondholders. This approach was agreed by the necessary majority of the bondholders in discussions held (without holding a bondholder's meeting) from 30 May 2018 to 1 June 2018.

The Company had originally made a proposal to the bondholders in discussions held (without holding a bondholder's meeting) that the bondholders should receive warrants granting the right to purchase a new convertible bond issued by the Company carrying a higher interest rate, with the remaining terms and conditions largely unchanged. However, it emerged that certain bondholders whose holdings amount to a significant proportion of the total bond issue require further questions and discussions and potential amendments to the concept proposed by the Company. In order to meet these requirements the Company amended its proposed resolution, initially to appoint a joint representative, and subsequently to develop a concept with that joint representative which would receive the approval of the necessary majority of the bondholders. This could then be proposed as a resolution to the bondholders at a later date.

The concept of a bond restructuring suggested by the Company, which would take the form of an exchange for the bond issue for warrants to acquire a new convertible bond, remains a possible way forward. However, the risk of the negotiations failing cannot be excluded, with the result that there could be a legal dispute with the bondholders concerning their termination. Should the Company lose that dispute, it may be required to make more early redemptions of the bond issue. In addition, it is possible that an exchange of the convertible bond issue for warrants to acquire a new convertible bond, or a different resolution agreed as part of negotiations, might only be achieved by entering into terms and conditions which are inferior to those the Company has been able to achieve to date, which would result in further costs for the Company.

The Executive and Supervisory Boards will make a proposal to the ordinary General Meeting 2018 to increase the subscribed capital by up to EUR 3,781,250.00 in exchange for cash contributions, providing for the exercise of existing shareholders' statutory subscription rights. In this connection, the Company's major shareholder, TO-Holding GmbH, Frankfurt am Main, has provided an assurance that it will, in its own name, acquire any new shares resulting from the capital increase described above, should they not be acquired from other shareholders. The sole shareholder of TO-Holding GmbH is Thomas Olek, a member of the Executive Board of publity AG. The Company assesses the risk that the Company's largest shareholder cannot meet the commitment that it has entered into as extremely remote.

The Company expects a significant strengthening of its liquidity and equity position from the capital increase in exchange for cash – in particular in view of the assurance given by the Company's largest shareholder. As result the Company does not expect any liquidity bottlenecks, in particular given that the capital increase (under consideration of the assurance given by the Company's largest shareholder) is expected to make negotiations with bondholders and their joint representative significantly easier.

Accordingly, the Company does not view the liquidity risk as a threat to the Company's ability to continue as a going concern.

There is no exposure to currency risk. At 31 December 2017 publity AG had cash and cash equivalents of TEUR 7,962 available to cover its operating liquidity needs.

Asset management risks

publity AG is primarily engaged in providing management services for real estate and non-performing loans (NPLs). The objective of providing these services is to increase the value of the respective assets and, as a result, to generate value for the investor. In performing these management activities, publity AG is able to draw on a wide range of experienced experts. In addition, publity AG does not provide the investor with any success guarantee (increase in asset value); it promises only the effort required to perform the services offered. Accordingly, the value increase risk is carried by the investor and affects publity AG only at a very low level. In addition, risk management procedures are employed to transfer and take out insurance covering various critical success factors.

Despite this, it is possible that publity AG could be exposed to claims from investors for damages arising from the provision of poor management services.

Since 2014, publity AG has acted as co-investor or investor in addition to performing its role as asset manager. For the Company's own investments, any management mistakes also involve the risk of losses on investments in addition to the risk of claims being made. At the balance sheet date, publity AG has investments in variable interest rate loans totalling EUR 43.5 million (previous year: EUR 43.5 million).

2. Opportunities report

The market for non-performing loans guarantees that a sufficient volume of loan receivables will be offered for sale and/or servicing over the medium-term. The Company counters the market competition with experience and reliability, by optimising our networks and by continuous improvement in the quality of servicing processes.

Assets under management increased with the issue of Fund no. 8 with a total volume of EUR 30 million on 31 December 2017. The results of operations will be further improved with the resulting agreed income.

The asset management contract originally agreed with Consus Real Estate AG, Berlin has been renewed with the acquirer of the property in 2018. The acquirer has already made enquiries concerning further property investments and will increase the volume of assets under management.

On the buyer side, publity AG benefits in the real estate transaction market from access to the respective decision-makers at banks, thanks to long-term and established partnerships. publity AG has been familiar with the conditions on the real estate transaction market in Germany for many years – particularly with respect to the acquisition of bank liquidations – and can, in its view, respond quickly to new developments.

publity AG has developed standardised and formalised processes that make it possible to implement transactions quickly. In particular, the economic, technical and legal due diligence reviews by internal and external specialists are formalised and can be accessed at short notice. At the same time, publity AG has flat hierarchies and few committees, meaning that despite comprehensive reviews, publity AG is able to ensure that investments are always prepared quickly.

The financial products offered by publity AG benefit from the experience of the publity financial group and its management. The Company acquires “German real estate from bank liquidations” at below market price, in order to resell quickly and at a profit. Taken together with the rental income generated up until that date, above average returns are generated. However, publity AG only invests when quality, location and expected investment returns are appropriate. In order to ensure investments are secure, the investments made are in a range of commercially used properties in good locations – preferably in regions such as Frankfurt/Main, Dusseldorf, Cologne, Hamburg, Berlin and Munich.

3. Overall assessment

Risks associated with future developments are primarily those associated with changes in the currently volatile economic climate. The potential early repayment of the bond can be met from the planned capital increase in exchange for cash and from current cash flow from operating activities.

IV. Forecast report

publity AG's corporate strategy is primarily focused on further strengthening and expanding its competencies and strengths in the two segments “real estate” and “non-performing loans”.

publity AG plans to continue to focus its investments in the German real estate market in special situations, particularly those involving commercial properties. In publity AG's view, there will continue to be attractive value creation potential in the future from the acquisition of properties from bank liquidations, and, also in publity AG's view, a deterioration in the conditions on the real estate market for these properties is not discernible at present. publity AG is of the opinion that it can use its expertise and many years of experience in real estate asset management, in combination with its access to properties from bank liquidations as well as to potential buyers of properties, in order to continue earning attractive returns in the future. Investor demand for German commercial properties – particularly from abroad – will, in the estimation of publity AG, also remain uninterrupted for the foreseeable future.

We assess the Company's expected development as positive. For all additional co-investments we receive success-based fees and the repayment of the investments made, as well as management and service fees.

Where we did not generate income from the successful sale of real estate investments in 2017 in line with forecasts, we aim to realise these sales in 2018. Accordingly, our planning anticipates an increase in income from asset management. However, in the planning we anticipate that total revenue will be slightly below the level of the previous year as no sales agreements have been entered into for the portfolios of receivables held.The share generated from this source totalled EUR 4.3 million in the financial year 2017. Overall the Executive Board expects that the net profit for the year and EBIT in 2018 will be at the same level as in 2017.

The Executive Board expects that the Company will in future continue to be in a position to meet its payment obligations in full on a timely basis.

Leipzig, 5 June 2018

publity AG Thomas Olek Chairman of the Executive Board	publity AG Frederik Mehlitz Executive Board

Auditor’s report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes – together with the bookkeeping system and the management report of publity AG, Leipzig for the financial year from 1 January 2017 to 31 December 2017. The maintenance of the books and records, and the preparation of the annual financial statements and the management report in accordance with German commercial law, are the responsibility of the Company’s legal representatives. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [“Handelsgesetzbuch”: German commercial code] and the generally accepted German standards for the audit of annual financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Certified Public Accountants in Germany]. Those standards require that we plan and perform the audit such that errors and items of non-compliance materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company’s legal representatives, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of publity AG for the financial year from 1 January 2017 to 31 December 2017 comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements, and as a whole provides a suitable view of the company’s position and suitably presents the opportunities and risks of future development.

Leipzig, 7 June 2018

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Sebastian Koch	Kathleen Hennig
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]