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Annual Report

Business development B-A-L Germany AG

	31.12.2014	31.12.2015	31.12.2016
Residential units	–	16	17
Living space	–	383 m ²	432 m ²
Vacancy	–	0 %	2 %
Cash-Flow	–2,628.62	–8,203.64	11,241.69
Total capital profitability	–3.98 %	–6.82 %	4.35 %
Dept repayment time			14.5 years
Equity ratio	69.23 %	23.82 %	21.09 %

Frankenberg, OT Dittersbach, Am Sachsenpark





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CEO foreword

Dear shareholders,
Ladies and Gentlemen,



The financial results in the fiscal year 2017 were in line with expectations. Now, since profitability has been reached with a result of 12,159.35 € net profit, the losses of the previous years have been almost completely offset.

All of our existing properties contributed to the result over the entire reporting period and improved the net assets, financial position and results of operations, even though the increase in value did not affect our results due to our HGB accounting. One exception that was contrary to our plans was that we did not make any further acquisitions of properties in 2016. The properties available did not meet our strict selection criteria: long-term value preservation with short to medium-term strengthening of earning power. Nevertheless the focus of our activities in 2017 will be on expanding our existing real estate portfolio. Currently we are in advanced examination of various properties.

In October 2016 we acquired another property in the residential complex Neugasse 20, 01662 Meissen, an inner-city apartment with a rentable area of 49 m². This allowed us to increase our stake in this complex by 6.5 %. Thus, we can exert more influence on the development of the complex in the future. B-A-L Germany AG currently owns a total of 17 properties. Two of these are located in Meissen, one in Frankenberg (Dittersbach) and the majority are in Mittweida. The rentable area of these properties amounts to more than 430 m².



As previously explained, the results under commercial law do not reflect the positive development of our real estate portfolio, as the substantial increases in value are not reflected in the accounting according to German accounting rules (HGB). At the same time, annual depreciation on the property portfolio to the value of approximately 3,000 € has a negative effect on earnings. However, these depreciations as well as the increased market value generate reserves.

As mentioned above, the company will foster the acquisition of further existing real estate. We are currently reviewing multiple prospects, but will not deviate from our stringent value and return requirements. The shortage of available real estate in our preferred locations intensified in the second half of 2016, which resulted in higher asking prices on the part of the sellers. In our opinion this trend will continue. In particular, the environment for high quality real estate will become even more evident in 2017, as the impact of a possible increase in interest rates will not directly lead to a noticeable reduction in purchase activity. However, due to our robust network we are confident that we will be able to acquire quality valuable real estate in the current year. We will be able to implement the further expansion of the real estate portfolio without a noticeable increase in operating costs for B-A-L Germany AG. This means that future investments will immediately have a positive effect on earnings.

Our special thanks again this year to you, our shareholders and investors, for the trust placed in us.

Yours sincerely,



Falko Zschunke
CEO



Supervisory Board Report

Ladies and Gentlemen,

The management board, with the approval of the supervisory board, consistently pursued purchases of additional properties, which resulted in the acquisition of another existing property in Meissen.



In the reporting period, the supervisory board performed all duties required of it by law, the articles of association and the charter of the company. We regularly advised the board on the management of the company and monitored its management. We were directly involved in all decisions that were of fundamental importance to B-A-L Germany AG. The board of directors informed us regularly, promptly and comprehensively, through written and verbal reports, on business policy and other fundamental issues of corporate governance and planning, financial performance and results of operations, as well as transactions and events of material significance to the company. Deviations of business development from the plans and targets were discussed in detail by the supervisory board. The management board has coordinated with the supervisory board on the strategic alignment of the company. At the meetings of the supervisory board, the management board provided information about all issues that were of importance to the company and its activity. The focus of the meetings of the supervisory board was to determine the geographical extent of B-A-L Germany AG with regard to future expansion, and to determine the strategic orientation with regard to the type of properties to be acquired. In the fiscal year of 2016, the supervisory board held three regular meetings. The board of management reported extensively on existing, new and planned investments in existing real estate, business policy, corporate strategy and planning, as well as significant transactions. Furthermore, the supervisory board always had an insight into the earnings, assets and financial position of the company. The supervisory board approved the draft resolutions and reports of the management board after careful consideration and thorough discussion, as required by law, the articles of association and the agenda. Outside the meetings, the management board informed us by means of written and verbal reports about current business developments as well as the situation regarding earnings, assets and the



Supervisory Board Report

financial position. In addition to the chairman of the supervisory board, other members of the supervisory board were in regular contact with the management board outside of the meetings in order to obtain information about current business developments and the main business transactions, and to discuss them accordingly. Important topics and upcoming decisions were discussed in regular conversations. No conflicts of interest of supervisory board and executive board members which require disclosure and reporting at the annual meeting have occurred.

Bernd Albrecht

Chairman of the supervisory board



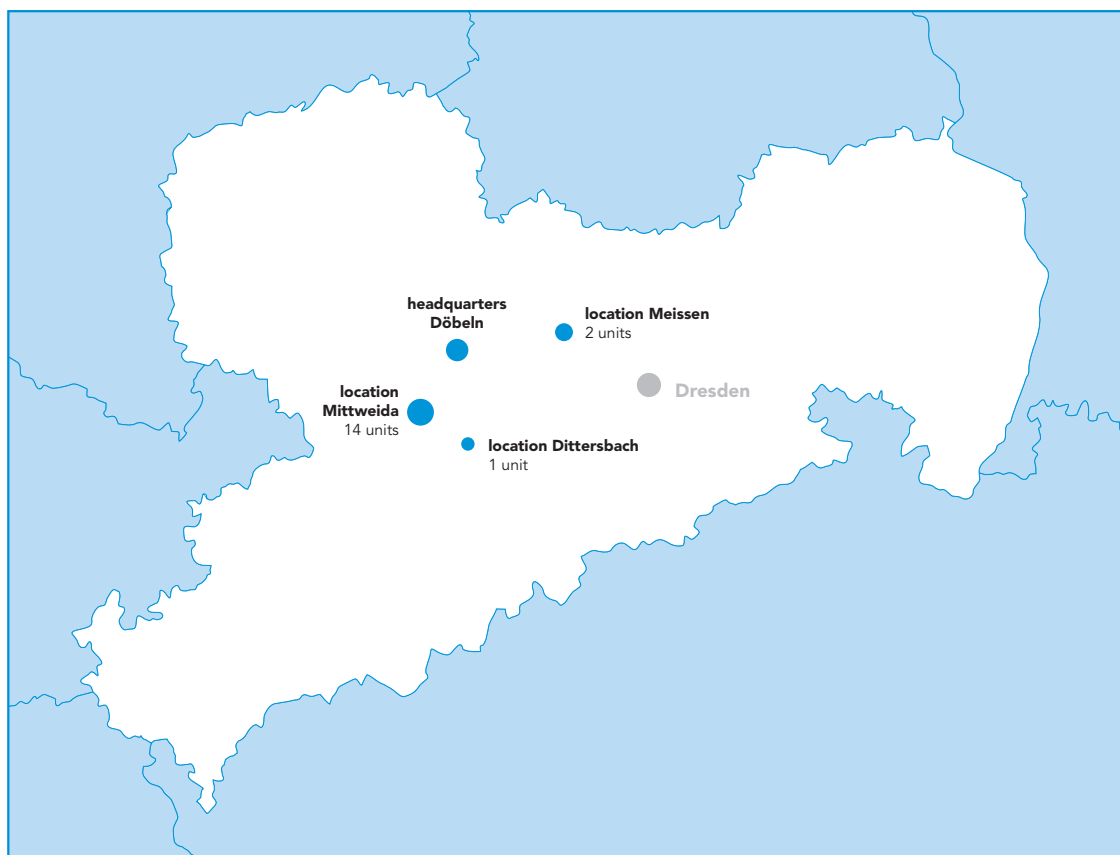
Management report for the 2016 financial year

I. Fundamentals of the company

1. Business activity

The sole business activity of B-A-L Germany AG is the rental of company owned property.

By 2016, the company acquired a total of 17 residential units in three different locations with a total living area of more than 430 m².



The company continues to make use of RESCORE, the selection and evaluation tool that allows the participation of administrative staff and property experts in the selection process.



Management report for the 2016 financial year

In accordance with the economic situation of the sellers, the properties may have shortcomings, such as a vacancy or below average rental rates. These factors produce a value-reducing effect on the purchase price and represent a considerable potential for appreciation. In the selection process, we exclude properties that show structural defects. The company is not set up to carry out construction and refurbishment measures.

The company deals exclusively with the management of company owned real estate, and therefore it has the status of being an asset manager.





Management report for the 2016 financial year

The focus of the company's business is the acquisition and management of residential real estate. With the economical utilization of share capital, apartments in well-managed residential complexes are acquired and held for the long-term. The focus here is on individual units that can be expected to be well leased or which are already rented out.

The acquisition of individual units enables a high degree of diversification of property in terms of size and locations. The higher effort associated with the individual purchases rather than multiple apartment blocks is quite acceptable for the company. The advantage of using the relatively scarce financial resources as effectively as possible outweighs the effort. Consistent reinvestment of the generated income achieves stable growth in sales and space. The remaining investment target is a rentable area of 5,000 m² by 2020.

The acquired properties continue to be managed by the management company IMMOPLAN GmbH Döbeln.





2. Organization and management

In accordance with Section 76 AktG (Stock Corporation Act), the company is managed by the management board. During the entire reporting year, the sole member of the management board was Mr Falko Zschunke, based in Döbeln. The management board is supervised by the supervisory board.

The members of supervisory board for the entire reporting year are listed below:

- Mr Bernd Albrecht, business resident of Moscow (Chairman)
- Mrs Ute Spengler, based in Castrop Rauxel (Vice-Chairman)
- Mr Frank Richter, based in Riesa





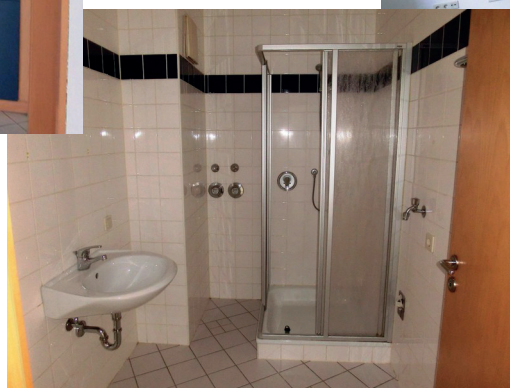
Management report for the 2016 financial year

II. Business report

1. Real Estate Market

Demand is growing, supply is declining.

Saxony has been one of the fastest growing regions in Germany for several years. In the state capital Dresden, the population has been growing steadily for more than ten years. This also has an impact on the real estate market: In the major cities and along the A4 motorway, prices rose above-average last year. The land values in the urban areas have risen sharply within the past year, in some cases by 100% in the city centers. This has led to rising purchase prices. It is also likely that land owners keep their property off the market in order to enjoy future gains in value. In comparison to other similar regions, the price level in Saxony is still at the lower end. This applies equally to rents. For this reason, no negative effects are to be expected in the medium term from the "rent brake" (§ 556d BGB, Civil Code (BGB) Section 556d Permitted rental amount at the beginning of the lease; statutory authorization).





2. Course of Business

The planned expansion of the company-owned portfolio continued in the year under review. In the regions favored by the company, there is a shortage of supply and consequently an increase in the purchase prices has been seen.

In 2016, an apartment with 49 m² of living space was purchased utilizing the company's funds and was added into the administrative system. B-A-L Germany AG already owns real estate in the same building.

At the location Mittweida, the acquisition of a further housing package was initiated, but the execution will not be realized until 2017.

The RESCORE software tool introduced for evaluation and coordination will continue to be used by management for decision-making and performance monitoring.





Management report for the 2016 financial year

3. Financial Position

The total balance of B-A-L Germany AG amounts to 213,270.75€ (previous year: 152,494.46€).

The subscribed capital is unchanged from the previous year at 50,000.00€. The balance sheet equity amounts to 48,489.33€. This results in an equity ratio of 22.74% (previous year: 23.82%). The return on equity is 25.08% (previous year: –30.11%). Due to this positive result, the return on equity will improve.

Borrowed capital amounts to 155,851.01€ (previous year: 116,164.48€). The increase in debt resulted primarily from the increase in trade accounts payable and provisions, as well as the taking out of new loans (35,000.00€). This results in a debt ratio of 73.08% (previous year: 76.18%). Thus, the degree of indebtedness is 339.83% (previous year: 319.75%).

Net debt for the year 2016 is 160,246.74€ (previous year: 114,886.19€).

The debt repayment period is 10.8 years.

This results in a cash flow of 14,741.69€ (previous year: –8,203.64€). Thus, the goal of a positive cash flow was achieved. In the coming years, this positive trend can be expected to continue.

It determines a return on assets in the amount of 5.99% (previous year: –6.82%).





III. Supplementary report

There were no events of special significance after the end of the financial year.

IV. Risks and Opportunities

1. Opportunities

The real estate market in Germany has proved to be stable in comparison to the international market during the crisis and continues to be attractive for new investments. Low interest rates favor the granting of loans to directly acquire property. From the latest publications of the ECB, it can be seen that the current interest rate level will remain constant over the medium term.

The trend towards single households and the further increase in demand for more space per person remains a driving factor in the residential rental market. Thus, prices for new leases are expected to rise further. At the same time, despite the fact that numbers of new builds are rising again, the number of housing completions is far from the level necessary to meet the growing demand for attractive, modern accommodation. The market is still not catching up with demand for multi-family dwellings by supplying new constructions. This demand was generated by a massive slump in new construction, especially in the years 1995 – 2005. The effects of this are still noticeable.

The further development of the real estate portfolio in some areas can lead to the possibility of reducing vacancies and introducing cost saving measures and the reduction of external fees for management by directly managing the properties by B-A-L Germany AG. An increased portfolio within a specific area increases the possibility to establish leases and reduce vacancies. A larger selection of properties, in size and quality, in one location will strengthen our market position.

Stable rental rates such as those seen in our locations remain, providing significant returns. Rental rates in the metropolitan areas are rising, consequently we see increasing interest in the areas adjacent to where B-A-L Germany AG's properties are located.



Management report for the 2016 financial year

2. Risk

With the introduction of RESCORE in 2014, an internal risk management system was created. The ability for early identification of risks is a main advantage of the system. RESCORE is regularly adapted in accordance with new developments and findings.

With the identification of potential risks, measures for prevention and elimination are instantly introduced.

The operational business of the company is controlled, among other measures, by providing detailed and meaningful statistics, reports and evaluations on the development of existing real estate, liquidity and financing structure. This includes cyclic control systems such as outstanding leases, opportunities for rental rate adjustments, and vacancies, as well as the necessity for the adjustment of additional deposit payments by tenants. Furthermore, repair, modernization and renovation needs are recorded and can be forecasted.

Financing control is broken down into maturity-related liquidity balances, residual debt balances, interest and repayment obligations, and residual terms of commitments and loans, as well as the average weighted interest on the portfolio and open loan commitments.

These data are always accessible to the management in order to identify immediate risks and to enable these to be limited or mitigated.

Despite strict monitoring of corporate risks, entrepreneurial activity by its nature entails both risks and opportunities. As at the reporting date of the 2016 Annual Report, there were no specific risks to be recorded or forecasted.





V. Forecast

The further expansion of the company real estate portfolio is to be achieved primarily through the purchase of individual properties. If market conditions permit, it is preferable to acquire individual apartments in residential complexes or larger multi-family dwellings; the belt around Dresden and the smaller cities along the A4 are preferred as investment locations.

Changes in capitalization are planned for 2017, which will significantly increase the capital base of B-A-L Germany AG. For example, it is planned to increase the company's equity by 500,000€ and to create additional authorized capital (at least 250,000€). These measures will increase the company's investment activity and reduce existing liabilities.

VI. Subsidiaries

The company maintains no branch offices.

VII. Compensation

As agreed, Mr Zschunke receives no compensation for his activity. This rule applies until the break-even point has been reached, or, at least three full financial years. The company grants the supervisory board a lump-sum allowance. The supervisory board does not receive any further compensation.



BALANCE SHEET as at 31 December 2016

BALANCE SHEET as at 31 December 2016

ASSETS

	EUR	Financial year EUR	Previous year EUR
A. Fixed assets			
I. Intangible fixed assets			
1. Purchased concessions, industrial and similar rights and assets and licences in such rights and assets		972.00	1,805.00
II. Tangible fixed assets			
1. Land, land rights and buildings, including buildings on third-party land	174,918.31		124,811.02
2. Prepayments and assets under construction	<u>0.00</u>		<u>11,856.45</u>
		174,918.31	136,667.47
B. Current assets			
I. Receivables and other assets			
1. Trade receivables	3,491.42		1,534.62
2. Other assets	<u>29,354.34</u>		<u>11,209.08</u>
		32,845.76	12,743.70
– of which from shareholders EUR 5,121.00 (EUR 4,893.06)			
– of which due after more than one year EUR 15,850.89 (EUR 9,422.00)			
II. Cash-in-hand, central bank balances, bank balances and cheques		<u>4,534.68</u>	<u>1,278.29</u>
		<u>213,270.75</u>	<u>152,494.46</u>



BALANCE SHEET as at 31 December 2016

EQUITY AND LIABILITIES

	EUR	Financial year EUR	Previous year EUR
A. Equity			
I. Subscribed capital		50,000.00	50,000.00
II. Accumulated losses brought forward		13,670.02–	2,731.26–
III. Net income for the financial year		8,659.35	10,938.76–
B. Provisions			
1. Other provisions		11,935.41	5,352.03
C. Liabilities			
1. Trade payables	13,920.64		4,185.50
– of which due within one year EUR 13,920.64 (EUR 4,185.50)			
2. Other liabilities	141,930.37		106,131.95
		155,851.01	110,317.45
– of which to shareholders EUR 117,585.70 (EUR 82,515.22)			
– of which due within one year EUR 137,585.70 (EUR 20,015.22)			
– of which due after more than one year EUR 4,344.67 (EUR 86,116.73)			
D. Deferred income		495.00	495.00
		<u>213,270.75</u>	<u>152,494.46</u>



INCOME STATEMENT

INCOME STATEMENT from 01.01.2016 to 31.12.2016

	EUR	Financial year EUR	Previous year EUR
1. Sales		36,802.00	15,610.10
2. Gross revenue for the period		36,802.00	15,610.10
3. Other operating income			
a) Miscellaneous other operating income		2,672.95	706.79
4. Depreciation, amortisation and write-downs			
a) Amortisation and write-downs of intangible fixed assets and depreciation and write downs of tangible fixed assets		3,951.73	1,918.86
5. Other operating expenses			
a) Occupancy costs	15,488.98		7,591.33
b) Insurance premiums, fees and contributions	170.00		195.00
c) Cost of third-party repairs and maintenance	329.46		154.98
d) Selling and distribution expenses	1,597.22		4,577.17
e) Miscellaneous operating costs	7,930.22		11,420.94
f) Miscellaneous other operating expenses	249.59		816.25
		25,765.47	24,755.67
6. Other interest and similar income		50.58	19.34
– of which from affiliated companies EUR 34.07 (EUR 14.17)			
7. Interest and similar expenses		604.55	534.89
– of which from affiliated companies EUR 0.00 (EUR 12.77)			
8. Taxes on income		0.00	0.31
9. Net income/net loss after tax		9,203.78	10,873.50 –
Carry forward		9,203.78	10,873.50 –



INCOME STATEMENT

	EUR	Financial year EUR	Previous year EUR
Carry forward		9,203.78	10,873.50 –
10. Other taxes		<u>544.43</u>	<u>65.26</u>
11. Net income for the financial year		<u><u>8,659.35</u></u>	<u><u>10,938.76 –</u></u>



Independent Auditor's Report

Based on the final results of my audit, I have issued the following unqualified audit opinion on the annual financial statements as at 31 December 2016 for the financial year from 01. January to 31. December 2016 (Appendices I - III) and the management report (Appendix IV) of B-A-L Germany AG, Meissen, dated 28. February 2018, as presented here:

"To B-A-L Germany AG, Meissen:

I have audited the annual financial statements as at 31. December 2016 – which comprise the balance sheet, the statement of profit and loss and the notes to the financial statements - together with the bookkeeping, and the management report of B-A-L Germany AG, Meissen, for the business year from 01. January to 31. December 2016.

The bookkeeping and the preparation of the annual financial statements and management report in accordance with German commercial law and the exemption for small companies pursuant to § 264 (1) sentence 5 HGB are the responsibility of the company's management. My responsibility is, on the basis of the knowledge obtained in the audit, to express an opinion on the annual financial statements, together with the bookkeeping, and the management report.

I have conducted my audit of the annual financial statements in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audit promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require the audit to be planned and performed in such a way that misstatements materially affecting the presentation of the assets, liabilities, financial position and financial performance in the annual financial statements in accordance with German Legally Required Accounting Principles 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 evaluations of 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 bookkeeping, the annual financial statements and the management report are examined primarily on a random sampling basis within the framework of the audit.



Independent Auditor's report

The audit includes an assessment of the accounting principles used and of the reasonableness of estimates made by executive directors, as well as an evaluation of the overall presentation of the annual financial statements and the management report. I believe that my audit provides a reasonable basis for my opinion.

My audit has not led to any objections.

In my opinion, based on the knowledge obtained in the audit, the annual financial statements as of 31. December 2016 of B-A-L Germany AG, Meissen, for the business year from 01. January to 31. December 2016 comply with the legal requirements and in accordance with German Legally Required Accounting Principles and the exemption for small companies pursuant to § 264 (1) sentence 5 HGB give a true and fair view of the assets, liabilities, financial position and financial performance of the Company. The management report is consistent with the annual financial statements and appropriately presents the Company's position and the opportunities and risks of future development."

The audit report above is prepared in accordance with the legal requirements and German Generally Accepted Standards for Financial Statement Audits (IDW PS 450).

Any use of the audit opinion reproduced above outside this audit report requires my prior approval. In the case of publications or the forwarding of the annual financial statements in a form deviating from the audited version, my prior opinion is required if my audit opinion is quoted or reference is made to my audit; reference is made to § 328 HGB.

Bad Schwalbach

Ralf Bartsch

Wirtschaftsprüfer
(German Public Auditor)

