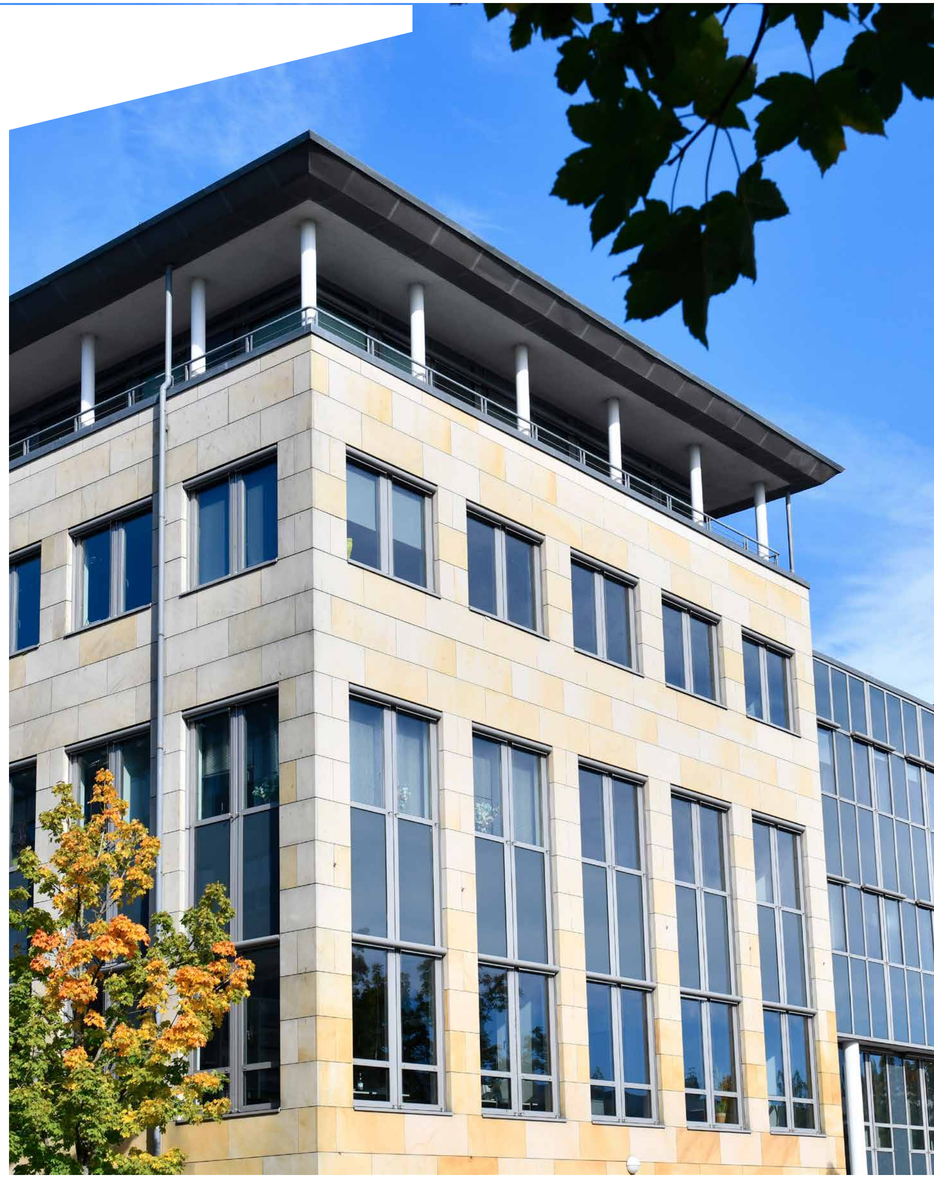
DEMIRE

ANNUAL REPORT 2022



81.1

RENTAL INCOME in EUR million – sales-related fall of 1.5% from EUR 82.3 million in 2021

41.8

in EUR million
FFO I (after taxes, before minority interests), +5.0% compared to EUR 39.8 million in 2021

54.0

in %
NET LOAN-TO-VALUE RATIO (LTV) as defined in the 2019/2024 corporate bond

PROFILE

DEMIRE Deutsche Mittelstand Real Estate AG acquires and holds commercial real estate in medium-sized cities and up-and-coming regions bordering metropolitan areas throughout Germany. We focus on office properties, with retail, hotel and logistics properties also featured in our portfolio. As at 31 December, we managed 62 properties with lettable floor space of around 0.9 million m^2 and a total market value of around EUR 1.3 billion. The Cielo property in Frankfurt is accounted for using the equity method, so is not included in the property-specific figures.

We offer our international and regional tenants state-of-the-art, functional properties for long-term use. Our shareholders benefit from an attractive risk-return structure in a stable asset class. This is reflected in our stable performance.

KEY INDICATORS [2]

in EUR million	2022	2021
Key earnings figures		
Rental income	81.1	82.3
Profit/loss from the rental of real estate [2]	62.3	67.2
Profit/loss from the sale of real estate	–8.2	1.4
Profit/loss from fair-value adjustments of investment properties	–61.2	47.0
Profit/loss from fair-value adjustments of assets held for sale	–37.7	1.8
EBIT	–72.9	101.9
FFO I (after taxes, before minorities)	41.8	39.8
Key balance sheet figures (31 Dec.)		
Total assets	1,537	1,706
Equity ratio (in %)	31.7	34.7
Net-LTV (in %)	54.0	49.7
Average nominal interest costs, p.a. (in %)	1.67	1.66
Key portfolio indicators (31 Dec.)		
Market value of the portfolio	1,329.8	1,412.5
Annualised contractual rents	85.1	78.1
Rental yield (in %)	6.4	5.5
WALT (in years)	4.8	4.7
EPRA vacancy rate [1] (in %)	9.5	11.0
Further indicators (31 Dec.)		
NAV (basic)	526.3	629.0
NAV per share (basic)	4.99	5.96

[1] Excl. properties held for sale and classified as a project development
[2] Adjustment of previous year's figures: For better comparability with the reporting period, the following changes were made to the presentation of the previous year's figures: Income from insurance compensation is now presented under operating expenses to generate rental income and no longer under other operating income. As a result, an amount of EUR 391 thousand has been reclassified in the previous year's figures. Furthermore, the following expenses were reallocated from other operating expenses to administrative costs: further education and trade literature EUR 84 thousand, membership fees EUR 47 thousand and facility management expenses EUR 27 thousand. The explanatory notes/tables and the segment reporting in the notes to the consolidated financial statements have also been adjusted accordingly. In the consolidated statement of cash flows, the distributions to minority shareholders/dividends are now shown in the cash flow from financing activities and the statement of cash flows of the previous year has been adjusted accordingly.

Key for navigating the annual report:

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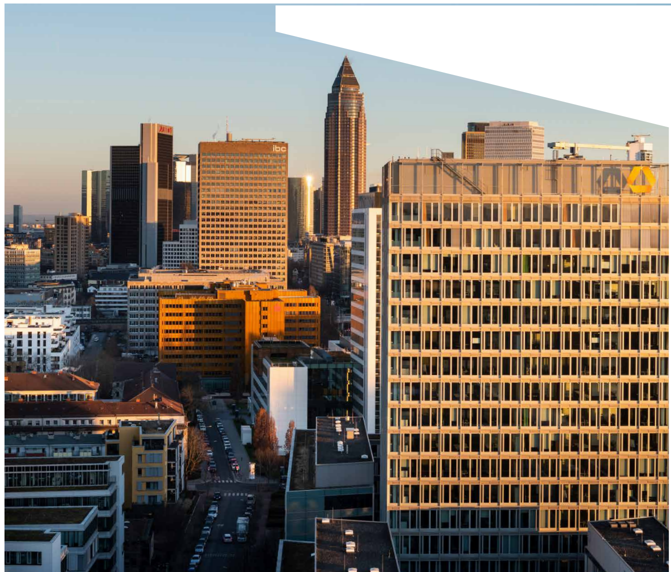


COMPANY AND SHAREHOLDERS

FOREWORD BY THE EXECUTIVE BOARD

Dear Readers,

At the beginning of 2022 and with a weakening of the negative effects of the coronavirus pandemic, signs of an improvement in the overall economic situation became apparent. The forecast by the German Council of Economic Experts predicted strong growth in economic output of 4.6% for Germany in 2022. From this positive economic starting point, it looked like it was going to be a good year for the real estate industry, with rental demand rising again and investment markets picking up.

As we know now, things turned out differently. The turning point was the start of the war in Ukraine. In addition to great human suffering, this also had far-reaching consequences for the German economy. 2022 was dominated by rising energy prices, disrupted supply chains, high inflation, sharply increasing interest rates and economic growth well below expectations at the beginning of the year.

Despite the increasingly challenging macroeconomic environment over the course of the year, DEMIRE was able to end the year 2022 successfully in terms of its performance indicators. For example, at around 290,000 m², the Company achieved high letting performance that was up once again on the figure for the previous year.

"DEMIRE can report on a successful year in operational terms in 2022 with one of the strongest letting performances since the company was established."

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG: Prof. Dr Alexander Goepfert, CEO (right), and Tim Brückner, CFO (left)

> **"In 2022, we were able to continue with the successful development seen in recent years; thanks to falling costs and our strong letting performance, FFO has almost doubled since 2018."**

PROF. DR ALEXANDER GOEPFERT, (CEO)

The EPRA vacancy rate fell to 9.5% (–1.5 percentage points year-on-year) and like-for-like rental growth reached 10.2%. Examples of the strong letting performance include the lease agreement with the NRW police in Essen for 24,000 m² for 20 years and the lease agreement with Premier Inn Hotels in Kassel for 7,200 m² for 25 years; these represent two of the largest leases DEMIRE has concluded since the Company was founded. The Kurfürsten Galerie in Kassel is gaining a new internationally known anchor tenant and is also benefiting from the gentrification of the immediate vicinity. With its lease in Essen, DEMIRE has simultaneously reached a milestone in the sustainable development of its real estate portfolio. The property in Essen will meet the latest energy requirements, among other things thanks to the installation of heat pumps and the use of solar power.

Our REALize Potential strategy has proven itself. In the last four years we have increased the value of our real estate portfolio from EUR 1.1 billion to approximately EUR 1.6 billion (incl. Cielo) with 12 acquisitions and at the same time adjusted the portfolio with 35 sales, in particular of smaller assets that are not in line with our strategy. At the same time, FFO I has almost doubled from around EUR 23 million in 2018 to EUR 41.8 million in 2022. Borrowing costs have fallen by more than one percentage point since 2018 to an average of 1.7%, saving around EUR 8 million p.a. in financing costs. In addition, we have reduced the complexity of the Group, internalised sales and optimised internal structures and processes, thereby almost halving running administrative costs since 2018.

Given the changes in the market environment and in view of the expiring 2019/2024 corporate bond and further bank liabilities maturing in 2024, the Executive Board has decided to temporarily suspend the Company's growth target and instead build up a liquidity reserve and reduce the loan-to-value through property sales. An initial major success in this context was the sale of the LogPark in Leipzig for EUR 121 million at the end of 2022. A further element of liquidity management includes the partial buyback in the nominal amount of EUR 50 million of the 2019/2024 corporate bond at well below par. DEMIRE is in active discussions with various financial institutions regarding the refinancing of the maturing liabilities in order to be able to create the optimal financing mix. Over the course of 2023, it will most likely

> "In addition to solid financial key figures, sustainability aspects are key performance indicators for us in terms of our long-term corporate success."

TIM BRÜCKNER, CFO

become clear how the Company intends to refinance itself in order to replace the liabilities that will expire in the second half of 2024.

In 2022, DEMIRE set itself on the path to anchoring sustainability as an integral part of its business activities. In the summer of 2022 we successfully published the first EPRA Sustainability Report, for which the Company received the Silver Award and the Most Improved Award from EPRA. Our aim is to gradually broaden the collection of data on the ESG indicators for our business activities and to further increase the transparency of our ESG performance. In the second half of the year, DEMIRE established an internal cross-departmental ESG working group. In addition to collecting data on CO_2 emissions, we identified the reduction of the Company's own emissions as one of our primary targets. After external validation, DEMIRE's Scope 1, 2 and 3 emissions amount to 79.34 t CO_2. These we have fully offset, meaning that our operations are therefore carbon neutral from a mathematical point of view. We are aware, however, that we will only achieve our goals by actually reducing our CO_2 emissions, which is why we are working on measures to further reduce our emissions significantly in the short and medium term.

As we enter 2023, the new year appears to be full of challenges with a predicted recession and a decline in demand for office space expected by real estate consultants, as well as rising yields in most real estate asset classes coupled with a significant increase in financing costs. DEMIRE is an efficient and resilient real estate platform, as it proved during the COVID pandemic and also in the past year with a strong letting performance, among other things. Although the secondary markets in which the Company predominantly operates are not detached from the major development drivers of the German real estate markets, they have historically always shown great stability with regard to tenant demand and have not followed the major swings of the primary markets.

Against this backdrop and based on our strong operating performance in 2022, we are optimistic about the new financial year. The DEMIRE team will once again be devoting all its energy to achieving our goals and for this we would like to take this opportunity to express our sincere thanks to all employees.

We hope you enjoy reading our annual report and look forward to exchanging ideas with you.

Frankfurt am Main, Germany, 15 March 2023

The DEMIRE AG Executive Board

Prof. Dr Alexander Goepfert
(CEO)

Tim Brückner
(CFO)

EXECUTIVE BOARD AND SUPERVISORY BOARD

EXECUTIVE BOARD

Ingo Hartlief (FRICS) (CEO)
CEO since 20 December 2018
Retired as of 31 December 2022

Ingo Hartlief (born 1965) had been the Chairman of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG in Langen since 20 December 2018. Mr Hartlief was the Chairman of the Executive Board (CEO) of Fair Value REIT-AG from 15 January until 20 May 2019, after which he was Vice Chairman of the Supervisory Board until he left DEMIRE. The business administration graduate was previously the director of CORPUS SIREO Real Estate GmbH in Cologne. From 2002 until 2010, Mr Hartlief was the managing director of Union Investment Real Estate GmbH in Hamburg. From 1996 until 2002, he was head of division at Viterra AG (now Vonovia SE) in Essen/Bochum as well as director of Viterra Gewerbeimmobilien GmbH. From 1991 until 1996, Mr Hartlief worked for VEBA AG in Düsseldorf in the Group Development Division. Ingo Hartlief is a fellow of the Royal Institution of Chartered Surveyors (FRICS). He left DEMIRE at his own request on 31 December 2022.

Prof. Dr Alexander Goepfert (CEO)
CEO since 1 January 2023
Appointment until 30 June 2024

Prof. Dr Alexander Goepfert (born 1956) has been CEO of DEMIRE Deutsche Mittelstand Real Estate AG in Langen since 1 January 2023. He was previously Chairman of the Supervisory Board from 2018 until the end of 2022. He has been a member of the Supervisory Board of Fair Value REIT-AG since the beginning of 2023. Prof. Dr Alexander Goepfert is an honorary professor at the EBS University of Business and Law in Wiesbaden/Oestrich-Winkel and heads the Competence Center for Real Estate Law there. Until the end of 2020, he was a senior advisor at Apollo Global Management, one of the world's leading private equity investors. Between 2011 and 2018, Prof. Dr Alexander Goepfert was a partner at the law firm Noerr Partnerschaftsgesellschaft mbB, where he set up and headed the international Noerr Real Estate Investment Group. Prior to that, Prof. Dr Alexander Goepfert worked for many years as a partner at Freshfields Bruckhaus Deringer LLP and its predecessor firm Bruckhaus Westrick Stegemann.

Tim Brückner (CFO)
CFO since 1 February 2019
Appointment until 31 December 2024

Tim Brückner (born 1977) has been the Chief Financial Officer of DEMIRE Deutsche Mittelstand Real Estate AG in Langen since 1 February 2019. He was also appointed as the CEO of Fair Value REIT-AG with effect from 20 May 2019. From 2012 until 2019, the trained banker held various positions at Corpus Sireo Real Estate, including Managing Director of the subsidiary in Luxembourg and Head of Portfolio Management. From 2007 until 2012, Mr Brückner worked at Rothschild GmbH, his last position there being that of Vice President. From 2005 until 2007, he worked in the Global Advisory Division at HSBC in London. From 2000 until 2005, Mr Brückner completed a bachelor's degree in Business Administration, Banking and Finance, and a master's degree in Banking and Finance, at the Hochschule für Bankwirtschaft (today's Frankfurt School of Finance & Management). During his studies, he worked as an analyst at BHF Bank AG and ING Investment Banking.

SUPERVISORY BOARD

Prof. Dr Alexander Goepfert (Chairman of the Supervisory Board)
Chairman of the Supervisory Board since 27 June 2018
Resignation from the Supervisory Board as of 31 December 2022 and appointment to the Executive Board as of 1 January 2023

Prof. Dr Alexander Goepfert (born 1956) holds a doctorate in law and, as an honorary professor at the EBS University of Business and Law in Wiesbaden/Oestrich-Winkel, heads the Competence Center for Real Estate Law there. From 2019 to 2020 he was a senior advisor at Apollo Global Management, one of the world's leading private equity investors. Between 2011 and 2018, Prof. Dr Alexander Goepfert was a partner at the law firm Noerr Partnerschaftsgesellschaft mbB, where he set up and headed the international Noerr Real Estate Investment Group. Prior to that, Prof. Dr Alexander Goepfert worked for many years as a partner at Freshfields Bruckhaus Deringer LLP and its predecessor firm Bruckhaus Westrick Stegemann. For many years, he has been considered one of the most important advisors to the German real estate industry, specialising in structuring complex real estate transactions with particular emphasis on financial, tax and planning aspects.

Markus Hofmann (Chair of the Supervisory Board)
Member of the Supervisory Board since 1 January 2023,
Chair of the Supervisory Board since 25 January 2023

Markus Hofmann (born 1969) holds a degree in business administration and is a real estate economist of the EBS, Oestrich-Winkel, where he also worked as a lecturer for over ten years. Since 2009, Mr Hofmann has been managing director of Renocle GmbH in Frankfurt. From 2017 to 2022, he was also a senior advisor at the Arminius Group, based in Frankfurt, and from 2014 to 2017, he was a partner at Oceans & Company GmbH in Frankfurt. Over the past 26 years, Markus Hofmann has successfully completed numerous German and European real estate transactions, asset management activities and financing projects. Other professional positions include managing director of Feldberg Capital GmbH in Frankfurt, head of the German and Central European business of Citi Property Investors in Frankfurt and London as well as activities in private equity at The Carlyle Group, in real estate investment banking at Deutsche Bank and in real estate project financing at Bayerische Landesbank.

Frank Hölzle (Vice Chairman of the Supervisory Board)
Vice Chairman of the Supervisory Board since 14 February 2017

Frank Hölzle (born 1968) holds a degree in economics and has been the CEO of Care4 AG, a single family office located in Basel, Switzerland, since 2015. He has worked at Care4 AG since 2010. From 2003 until 2010, Mr Hölzle was a member of the Executive Board and partner of eCapital entrepreneurial Partners AG, a venture capital company located in Münster. In 2002, Mr Hölzle became the managing director of HvM-Consulting GmbH in Düsseldorf, after having held positions from 1998 until 2002 in Marl and Frankfurt am Main as an authorised representative and director of a listed investment company.

Prof. Dr Kerstin Hennig (Member of the Supervisory Board)
Member of the Supervisory Board since 29 May 2019

Prof. Dr Kerstin Hennig (born 1964) holds the title of Dr rer. pol. She is a senior professor of real estate management and has headed the EBS Real Estate Management Institute (REMI) at the EBS University of Business and Law since 2018. She lectures and carries out research in the field of real estate economics, focusing on real estate innovation & entrepreneurship and leadership, real estate sustainability and real estate management. In recent years, Prof. Dr Kerstin Hennig has also been involved in the real estate sector, focussing on the areas of real estate management and investment. The companies where she previously held positions include debis Immobilienmanagement, Tishman Speyer Properties, UBS AG, IVG Immobilien AG and Groß & Partner. At the same time, Kerstin Hennig has regularly held positions as a lecturer and assistant lecturer at various universities and institutes.

REPORT OF THE SUPERVISORY BOARD

Dear Readers,
Dear Shareholders,

In the 2022 financial year, the Supervisory Board continued to perform the tasks and exercise the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its Rules of Procedure.

The Supervisory Board and the Executive Board continuously worked together and communicated intensively and constructively throughout the entire financial year. In addition to the topics explicitly mentioned in this report, the work and communication of the boards extended to all other material issues concerning the Company and the Group. The Supervisory Board consulted regularly with the Executive Board and supervised the conduction of business under the aspects of legality, effectiveness and economic efficiency. The Executive Board directly involved the Supervisory Board in decisions of fundamental significance for the Company and the Group.

As in previous years, the Executive Board kept the Supervisory Board informed by means of regular written and verbal Executive Board reports. These reports included a detailed discussion of important issues related to the development of the markets relevant for the Company and the Group, current and potential real estate transactions, short- and long-term corporate planning and current business performance. The position of the Company and the Group, the liquidity, financing and risk situation, the Group-wide risk management system, current real estate projects and the further strategic development of the Group were also part of these discussions. The Supervisory Board critically reviewed the information provided by the Executive Board, checking its plausibility.

The Executive Board explained in detail deviations in business from the previously adopted plans and targets, as well as appropriate measures to counteract these deviations or to communicate them to the capital market. This was then checked by the Supervisory Board. After careful examination and consultation, the Supervisory Board members approved the reports and resolution proposals of the Executive Board to the extent required by the provisions of the law, the Articles of Association and the Rules of Procedure.

The Chairman of the Supervisory Board was informed by the Executive Board by way of written and verbal reports – also outside of Supervisory Board meetings – of particular business transactions that, in the opinion of the Executive Board, were of key significance in assessing the position and development of the Company and the Group, and for their management. Matters requiring approval were promptly submitted by the Executive Board for resolution. The Chairman of the Supervisory Board was in personal contact with the Executive Board and kept himself regularly informed of current business developments and significant business transactions. He also kept the other Supervisory Board members informed outside of the scheduled meetings and discussed developments with them.

There were no consulting or other service relationships between members of the Supervisory Board and the Company in 2022. Prof. Dr Alexander Goepfert holds a minority stake in JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, via an investment company. This company has owned the Cielo office property since July 2021. Since 2019, a grant agreement for promoting academic research has existed with the non-profit EBS Universität für Wirtschaft und Recht gGmbH. Prof. Dr Kerstin Hennig is Head of EBS Real Estate Management Institute. Conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information of the Annual General Meeting did not exist in the reporting year.

Composition of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD IN THE 2022 FINANCIAL YEAR

Prof. Dr Alexander Goepfert (Chairman)
Frank Hölzle (Vice Chairman)
Prof. Dr Kerstin Hennig (Member)

SUPERVISORY BOARD COMMITTEES

An Audit Committee was constituted in November 2021, with Frank Hölzle as its Chairman. Other members of the Audit Committee in the reporting year include Prof. Dr Alexander Goepfert and Prof. Dr Kerstin Hennig.

Work of the plenum in the reporting year

In the 2022 financial year, the Supervisory Board convened for two face-to-face meetings on 18 May 2022 following the Annual General Meeting and on 14 December 2022. The Supervisory Board also discussed current topics in 21 telephone and video conferences, particularly in connection with holding the Annual General Meeting, the after-effects of the pandemic, the sale of properties and the strategic alignment of the Company. All of the Supervisory Board members participated in each one of the 23 face-to-face and virtual Supervisory Board meetings, i.e. 100% of them.

FIRST QUARTER OF 2022

Six Supervisory Board meetings via video conference were held during the first quarter of 2022.

Jointly with the Executive Board, the Supervisory Board approved the adoption of the annual and consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG for the 2021 financial year on 16 March 2022.

In the subsequent meetings, the Supervisory Board adopted the Corporate Governance Report as well as the combined management report for the Company and the Group, which was thus approved. In addition, separate meetings were held to report on the current business performance, discuss corporate planning for 2022 and deliberate on DEMIRE AG’s risk management, particularly against the backdrop of the subsiding coronavirus pandemic. Furthermore, the Supervisory Board addressed various purchase and sales transactions presented by the Executive Board. In addition, the Supervisory Board resolved with the Executive Board that the 2022 Annual General Meeting of DEMIRE AG should be held as a purely virtual Annual General Meeting on 18 May 2022 without the physical presence of the shareholders or their authorised representatives.

SECOND QUARTER OF 2022

On 18 May, the Annual General Meeting of DEMIRE AG was held virtually once again without the physical presence of the shareholders. The agenda items proposed by the management, including the disbursement of a dividend and re-election of the Supervisory Board members, were all passed by the shareholders with a large majority.

The Supervisory Board was constituted at the subsequent face-to-face meeting; it also dealt closely with potential acquisitions and sales of various properties during another video conference held in the second quarter.

THIRD QUARTER OF 2022

The future strategic alignment of DEMIRE AG was discussed during the course of four virtual meetings held in the third quarter. Furthermore, in the third quarter, the Supervisory Board was also extensively informed by the Executive Board about various new leasing topics as well as on the EPRA Sustainability Report and was briefed on significant business transactions. The Supervisory Board continued to look in detail at the proposed sale by the two main shareholders of their shareholdings, especially against the background of the current market and interest rate situation.

FOURTH QUARTER OF 2022

The Supervisory Board convened again for eight video conferences in the fourth quarter. The Supervisory Board focused once again on the Company's further strategic orientation, in particular the sale of the logistics park in Leipzig and the sale of other properties. The Supervisory Board also examined the planning and possible development of DEMIRE AG in 2023.

In a further face-to-face meeting on 14 December 2022, the CEO of DEMIRE AG, Ingo Hartlief, informed the Supervisory Board that he would be resigning from his position as a member of the Executive Board effective 31 December 2022. Thereupon, the Supervisory Board appointed Prof. Dr Alexander Goepfert as a new member of the Executive Board with effect from 1 January 2023 and at the same time appointed him as CEO. Prof. Dr Goepfert informed the Supervisory Board that he would resign from his position as Chairman of the Supervisory Board with effect from 31 December 2022 and leave the Supervisory Board. In addition, the Supervisory Board appointed Mr Ralf Bongers as an additional member of the Executive Board with effect from 1 April 2023.

The vacancy in the Supervisory Board resulting from Prof. Dr Goepfert's resignation as of 1 January 2023 was filled with effect from 1 January 2023 by the court replacement appointment of Mr Markus Hofmann. Mr Hofmann was elected as the new Chairman of the Supervisory Board on 25 January 2023.

Dependency report pursuant to Section 312 (1) AktG

In the 2022 financial year, DEMIRE Deutsche Mittelstand Real Estate AG was a dependent company of Apollo Global Management Inc., as defined by Section 312 AktG, via AEPF III 15 S.à.r.l. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relationships with affiliated companies ("Dependency Report") in accordance with Section 312 (1) AktG, which contains the following concluding declaration:

"Our Company received appropriate consideration for each legal transaction according to the circumstances known to us at the time when the legal transactions were carried out. No measures by our Company as defined by Section 312 AktG were either taken or omitted in the year under review."

Following the final result of the examination by the Supervisory Board, the latter raised no objections to the declaration of the Executive Board on the report on relationships with affiliated companies.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's staff for their tremendous dedication, particularly within the scope of preparing the financial statements, managing assets, undertaking transactional and financing activities and for their valuable cooperation in the 2022 financial year.

This report was discussed in detail and adopted by the Supervisory Board in its conference call on 15 March 2023.

Frankfurt am Main, 15 March 2023

Markus Hofmann
Chair of the Supervisory Board

DEMIRE ON THE CAPITAL MARKET

An overview of Demire shares

The share capital of DEMIRE Deutsche Mittelstand Real Estate AG consists of 107.78 million no-par value bearer shares that are admitted for trading on the Frankfurt Stock Exchange and the XETRA electronic trading platform.

DEMIRE KEY SHARE DATA

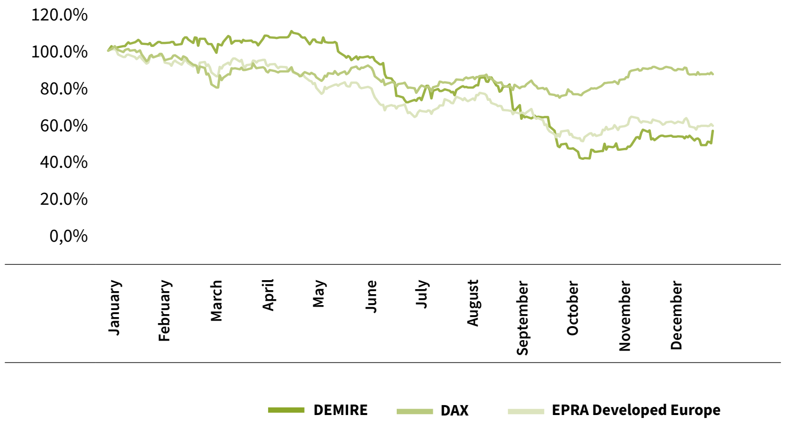
Share	31/12/2022	31/12/2021
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol/ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FSE); XETRA Open markets in Suttgart, Berlin, Düsseldorf	Frankfurt Stock Exchange (FSE); XETRA Open markets in Suttgart, Berlin, Düsseldorf
Market segment	Regulated Market (Prime Standard)	Regulated Market (Prime Standard)
Designated sponsors	BaaderBank, Pareto Securities AS	BaaderBank, Pareto Securities AS
Share capital	EUR 107,777	EUR 107,777
Number of shares	107,777,324	107,777,324
Closing 31 December (XETRA)	EUR 2.50	EUR 4.30
Ø daily trading volume 1 January to 31 December	7,585	13,565
Market capitalisation	EUR 269 million	EUR 463 million
Free float < 3% (in %)	7.15	7.15

Development of the stock market and DEMIRE shares

The 2022 stock market year was weak overall for the capital markets. At times, the DAX fell by up to 25% compared to the beginning of the year, recovered slightly from September onwards and closed the year with a minus of 12% at 13,924 points. The war in Ukraine and disrupted supply chains as well as rising inflation and rising interest rates had a negative impact this year.

DEMIRE's share price slightly underperformed the EPRA Developed Europe index of European real estate stocks, but significantly underperformed the DAX. The share price ended the year down 41.9% at a value of EUR 2.50.

SHARE PRICE DEVELOPMENT 2022



Dividend

In May 2022, DEMIRE disbursed a dividend of EUR 0.31 per share to its shareholders for the financial year in accordance with the resolution of the Annual General Meeting. The dividend per share in the previous year was EUR 0.62. The dividend yield was once again higher than the yield of other real estate stocks.

Development of DEMIRE bonds

European bond markets in 2022 were characterised by falling prices given the central banks' turnaround on interest rates. At the beginning of 2022, the DEMIRE bond was trading at 99.0%. The rising interest rate environment in October 2024 had a negative impact on the bond price over the course of the year. At its minimum, the bond traded at 64.2% on 10 November. The bond buyback in the nominal amount of EUR 50 million in November stabilised the price so that the bond closed the year at 69.8%. However, the nominal amount of the bond decreased to EUR 550 million in December after the buyback.

2019/2024 CORPORATE BOND

Name	DEMIRE Senior Notes 2019/2024
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Rating	B2 (Moody's)
Stock exchange listing/trading	Open market of the Luxemboug Stock Exchange (Euro MTF)
Applicable law	German law
ISIN	DE000A2YPAK1
WKN	A2YPA
Issue volume	EUR 600,000,000
Denomination	EUR 100,000
Coupon	1.875%
Interest payments	On 15 April and 15 October, starting on 15 April 2020
Maturity date	15 October 2024
Repayment	Non Call Life (including 3-month option for early repayment)
Distribution	Regulation S, excluding registration rights
Change of control	101% plus accrued and not yet paid interest
Closing price 31 December 2022	69.764%

Ratings from Moody's

With the rating assessments, DEMIRE strengthens transparency and supports the independent assessment of its business activities.

The rating agency Moody's lowered the rating for the corporate bond to B1 in July 2022 and then again in November 2022 to B2 with a negative outlook. This was done in particular in view of the upcoming refinancing of the corporate bond in October 2024 and rising interest costs as well as a generally weaker economic environment, but not because of DEMIRE's operating performance. DEMIRE was in regular contact with the rating agency throughout the year and reported promptly on its business development.

The detailed rating of the bond is available on the Moody's website at www.moodys.com and on DEMIRE's website.

DEMIRE RATING – AS AT 31 DECEMBER 2022

	Company		Bonds
Rating agency	Rating	Outlook	Rating
Moody's	B2	negative	B2

Annual General Meeting

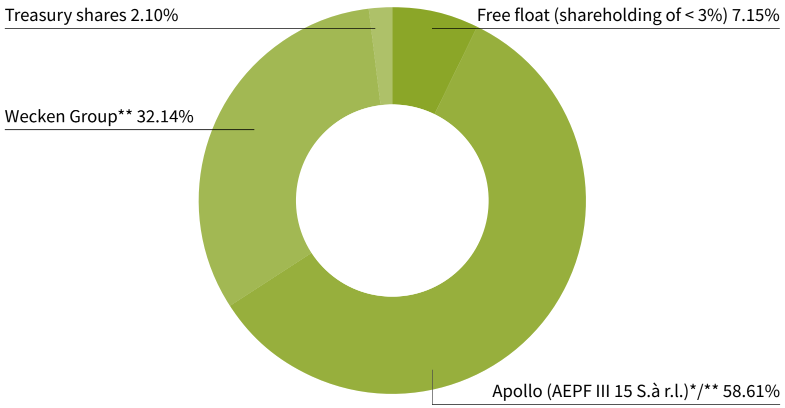
On 18 May 2022, DEMIRE's Annual General Meeting once again took place virtually due to the special circumstances. All the agenda items proposed by the administration were resolved by a large majority, including the disbursement of a dividend for the 2021 financial year.

Shareholder structure

The DEMIRE shareholder structure slightly changed in the 2022 financial year. Apollo and the Wecken Group remain the Company's major shareholders and still hold around 90.7% of the shares in the Company between them.

SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2022

in %



* Including subsidiaries
** Acting in concert
Sources: Notifications from WpHG (German Securities Trading Act) and own calculations

IR activities

The Investor Relations department is responsible for approaching investors and analysts and communicating with debt specialists in a professional manner. Thus, the department handles communication for all capital market activities and is responsible for the reporting requirements for equity and bond investors as well as for the rating agencies.

In the 2022 financial year, DEMIRE participated in various national and international equity and debt capital market conferences, mainly virtually but also increasingly in person. It also regularly presented the Company's current development to existing and potential equity and bond investors and Moody's rating agency.

DEMIRE keeps its stakeholders up to date regularly and comprehensively. This includes publishing its results as at the balance sheet date and organising telephone conferences for interested investors, analysts and the media, and reporting in detail on the results as at the most recent reporting date.

On the capital market, DEMIRE relies on active and transparent dialogue in its communication with all current and potential investors. With the support of existing shareholders and further growth that the Company is aiming to achieve in the long run, DEMIRE's market capitalisation and visibility on the capital market are expected to continue to rise in the future. With the perspective goal of inclusion in the DAX family of indices, awareness among domestic and international investors should increase.

In the Investor Relations section on the DEMIRE website, all investors, analysts and media representatives have access to a wide range of documents such as all published annual reports, half-year reports and quarterly statements. There are also summary presentations of these, as well as recordings of conference calls, current company presentations and further information, such as reports from equity analysts. DEMIRE is committed to treating bond investors and analysts, as well as equity investors and analysts equally.

Analyst coverage

DEMIRE's shares are currently covered and valued by three financial analysts.

DEMIRE RATING – AS AT FEBRUARY 2023

Bank/broker	Analyst	Current rating	Current target price EUR
Hauck & Aufhäuser	Philipp Sennewald	Hold	2.50
Pareto Securities	Dr Philipp Häßler	Hold	2.50
Baader Bank	Andre Remke	Reduce	2.65

CORPORATE GOVERNANCE

2022 Corporate Governance Statement pursuant to Sections 315d and 289f of the German Commercial Code (HGB) including the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG)

DEMIRE Deutsche Mittelstand Real Estate AG submits a Statement on Corporate Governance pursuant to Sections 315d and 289f HGB. The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG, which is contained in this statement, is also available to shareholders on the Company's website under the section entitled "Company" > "Governance".

This section of the website also includes the documents to be published on the remuneration report for the previous financial year as well as the auditor's report pursuant to Section 162 AktG, the applicable remuneration system pursuant to Section 87a (1) and (2)(1) AktG and the latest resolution on remuneration pursuant to Section 113 (3) AktG.

Commitment

The governing bodies of DEMIRE Deutsche Mittelstand Real Estate AG are committed to the responsible and value-enhancing management and monitoring of the Company and the Group. Ensuring that the Company's management principles and development are transparent is intended to build, maintain and strengthen the trust of the shareholders, business partners, customers, capital market participants and employees. The Executive Board and the Supervisory Board work closely and faithfully together for the Company's benefit and to ensure that the Company is managed and controlled responsibly through good corporate governance.

Organisation and management

DEMIRE Deutsche Mittelstand Real Estate AG (together with its subsidiaries and associates "the DEMIRE Group") is headquartered in Germany. The registered offices of the subsidiaries/associated companies correspond to the location of their real estate holdings in Germany or other countries in which they conduct a majority of their activities.

The management of the Core Portfolio is the responsibility of the Group's internal asset and portfolio management, which also manages and controls the external property and facility management. Administrative duties are also undertaken by the Risk Management and Compliance, Accounting, Investment Management/ Treasury, Corporate Finance/Investor Relations, Legal/ Human Resources/IT, Transactions and Portfolio Controlling divisions.

The Executive Board manages the individual real estate investments based on defined, individual cash-flow-oriented budgets and steers the Group according to an overall plan derived from the individual budgets of the portfolio and property companies and other Group subsidiaries. The development of the individual budgets versus their budget targets is a component of the Executive Board's routine strategy and reporting discussions with the relevant operating managers.

Composition and working practices of the Executive Board and Supervisory Board

As a listed German stock corporation, the Company's management is governed by the German Stock Corporation Act, other legal provisions of corporate and commercial law and the requirements of the German Corporate Governance Code in its current version. German stock corporations are required by law to employ a dual management system. This creates a strict separation of the Executive Board as the managing body of the Company and the Supervisory Board as the supervisory body, whereby the Executive Board and Supervisory Board work together closely and faithfully in the Company's best interest.

Management and control structure

EXECUTIVE BOARD

The Executive Board is solely responsible for managing the Company and represents the Company in dealings with third parties. It defines the strategy in coordination with the Supervisory Board and implements this strategy keeping the goal of sustainable value creation in mind. Executive Board members are responsible for individual areas independent of their joint responsibility for the Group. They cooperate and inform each other of important events and activities in their areas of responsibility. The Executive Board has adopted Rules of Procedure with the approval of the Supervisory Board. The Executive Board shall obtain the Supervisory Board's approval in cases specified by law. In addition, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and the Executive Board's Rules of Procedure list extraordinary transactions that also require Supervisory Board approval.

The Executive Board informs and reports to the Supervisory Board regularly, promptly and comprehensively on all Company-relevant strategy, planning, business developments and issues concerning risk. Other important events must be reported by the Executive Board to the Chairman of the Supervisory Board. The Supervisory Board's Chairman is also routinely and continually informed of business developments. The Executive Board relies on the risk management system applicable throughout the DEMIRE group of companies to conduct reporting.

MANDATES OF EXECUTIVE BOARD MEMBERS IN SUPERVISORY BOARDS OF OTHER COMPANIES OR COMPARABLE SUPERVISORY BODIES

Mr Ingo Hartlief (FRICS) was Vice Chairman of the Supervisory Board of Fair Value REIT-AG until 31 December 2022.

Mr Tim Brückner does not hold an office in any statutory supervisory boards or comparable supervisory bodies or in any comparable domestic or foreign supervisory bodies of commercial enterprises.

The remuneration of the members of the Executive Board is explained in the Remuneration Report chapter of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

SUPERVISORY BOARD

The Supervisory Board appoints the members of the Executive Board, determines their total compensation and oversees their management activities. It also advises the Executive Board on the management of the Company. The Supervisory Board adopts the financial statements and approves the consolidated financial statements. Material decisions of the Executive Board require the approval of the Supervisory Board. In addition, the Supervisory Board has adopted Rules of Procedure.

The Supervisory Board currently consists of three members to be elected by the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG. The Supervisory Board does not include any former members of the Executive Board.

All members of the Supervisory Board have the necessary knowledge, skills and professional experience to perform their duties properly. The Supervisory Board is composed in such a way as to ensure a balanced skill profile. Frank Hölzle contributes his expertise in the field of accounting and Prof. Dr Alexander Goepfert his expertise in the field of auditing. Prof. Kerstin Hennig contributes her knowledge of real estate development and management as an expert.

The Supervisory Board has formed an Audit Committee, which – due to the small number of members – includes all members of the Supervisory Board. This committee is chaired by Frank Hölzle.

The Supervisory Board reports on its activities during the 2022 financial year in its report of the Supervisory Board. The remuneration of the members of the Supervisory Board is explained in the Remuneration Report chapter of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

The Supervisory Board did not conduct a self-assessment in 2022. Due to the small number of members and the regular exchange of information between the members, a self-assessment is not expected to provide any significant additional knowledge. The Supervisory Board considers the organisation of its work to be very effective.

No changes were made to the composition of the Supervisory Board in the 2022 financial year. With regard to the changes made as at 1 January 2023, please refer to the chapter Executive Board and Supervisory Board.

MANDATES OF SUPERVISORY BOARD MEMBERS IN SUPERVISORY BOARDS OF OTHER COMPANIES OR COMPARABLE SUPERVISORY BODIES

Name	Company	Position
Prof. Dr Alexander Goepfert (Chairman of the Supervisory Board) (from 27 June 2018 to 31 December 2022)	shareDnC GmbH, Cologne	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institute, Wiesbaden	Chairman of the Board of Trustees
	Proximus Real Estate AG, Cologne	Member of the Supervisory Board
	Institut der Deutschen Immobilienwirtschaft e. V. (iddiw), Frankfurt	Vice President
Frank Hölzle (Vice Chairman of the Supervisory Board) (since 14 February 2017)	Grey Sky Properties AG, Basel	Member of the Board of Directors
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Care4 AG, Care4 Holding AG, IRESI AG, Basel	Member of the Advisory Board
	rankingCoach GmbH, Cologne	Chairman of the Advisory Board
	SIC Invent AG, Basel / Switzerland	Member of the Board of Directors
	sevDesk GmbH, Offenburg	Member of the Advisory Board
	Fair Value REIT-AG, Frankfurt	Chairman of the Supervisory Board
	Evana AG, Saarbrücken	Member of the Supervisory Board
	KUGU Home GmbH, Berlin	Member of the Advisory Board
	Allmyhomes GmbH, Berlin	Member of the Advisory Board
Prof. Dr Kerstin Hennig (since 29 May 2019)	DWS Grundbesitz GmbH, Frankfurt	Ordinary Member of the Supervisory Board
	Urban Land Institute (ULI), Washington D. C.	Member of the Executive Committee
	pbb Deutsche Pfandbriefbank AG, Munich	Ordinary Member of the Supervisory Board
	Institutionelle Investoren Hotel, Frankfurt	Member of the Advisory Board
	Institut der Deutschen Immobilienwirtschaft e. V. (iddiw), Frankfurt	Member of the Executive Committee
	ZIA Deutschland Mitte	Member of the Management Board

SHARES OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG OWNED BY MEMBERS OF GOVERNING BODIES AND MAJOR SHAREHOLDERS

DEMIRE Deutsche Mittelstand Real Estate AG had 107,777,324 shares outstanding as at 31 December 2022.

Mr Frank Hölzle holds 1,400 shares in the Company, equivalent to an interest of 0.002% of the Company's outstanding shares.

Members of the Executive Board and Supervisory Board are legally obliged under Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation) of 16 April 2014 to disclose any manager's transactions in shares or debt instruments of DEMIRE Deutsche Mittelstand Real Estate AG or related derivatives or other related financial instruments to the extent that the total amount of transactions effected by the member and persons closely associated with them reaches or exceeds the sum of EUR 5,000 within a calendar year. DEMIRE Deutsche Mittelstand Real Estate AG's business dealings of the previous year were published on time on the Company's website.

Shares owned by major shareholders at the end of the 2022 financial year: Based on the information available to the Company, Apollo (AEPF III 15 S.à r.l.) held 58.61% of the Company's outstanding shares and the Wecken Group held 32.14% of the Company's outstanding shares.

Of the remaining 9.25%, 2.10% were held by the Company as treasury shares, and 7.15% were held by institutional and private investors. None of these shareholders held an interest over or equal to 3%.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The shareholders of DEMIRE Deutsche Mittelstand Real Estate AG exercise their administrative and control rights at the Annual General Meeting. The Annual General Meeting executes all of its duties assigned by law in its meeting, which takes place in the first eight months of each financial year. Since the realignment in 2014, DEMIRE Deutsche Mittelstand Real Estate AG's financial year ends on 31 December. The Chairman of the Supervisory Board presides over the Annual General Meeting. Each shareholder is entitled to attend the Annual General Meeting, address the agenda items and demand information about Company matters to the extent necessary for a proper assessment of any agenda item of the Annual General Meeting.

All of the outstanding shares of DEMIRE Deutsche Mittelstand Real Estate AG are no-par value bearer shares with identical rights and obligations. Each share grants one vote at the Annual General Meeting, and there are no special voting rights or limits on the number of voting rights per shareholder. Resolutions of the Annual General Meeting usually require a simple majority of the votes cast. To the extent that the law prescribes a majority of the capital represented for resolutions, the Articles of Association provide for a simple majority of the capital represented as long as a larger majority is not required by law.

ACCOUNTING AND AUDITING OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. DEMIRE Deutsche Mittelstand Real Estate AG regularly provides shareholders and third parties with information during the financial year through its publication of the consolidated financial statements, the half-year financial report and the interim statements for the first and third quarters.

The Executive Board shall prepare the financial statements (balance sheet, statement of income and notes) and the Company's management report within the first three months of each financial year and immediately provide it to the auditor. After the auditor has performed the audit, the Executive Board shall submit the financial statements including the audit report along with the Board's proposal for the appropriation of retained earnings to the Supervisory Board.

The Annual General Meeting elects the auditor for DEMIRE Deutsche Mittelstand Real Estate AG and the Group as well as for the audit review of interim financial reports and statements. The Supervisory Board awards the mandate for the audit following the election by the Annual General Meeting and concludes the fee agreement with the auditor. The auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected as the auditor and Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG for the 2022 financial year, as well as the auditor for a possible audit review of condensed financial statements and interim statements. The declaration on independence required under the German Corporate Governance Code was obtained from this auditing firm.

The following arrangements have been agreed with the auditor:

— The Chairman of the Supervisory Board shall be notified immediately when potential grounds for exclusion or bias arise during the audit and these issues cannot be resolved immediately.

— The auditor reports on all findings and occurrences that arise during the audit, and which are of importance for the tasks of the Supervisory Board.

— If during the audit the auditor discovers inaccuracies in the Declaration of Conformity with the German Corporate Governance Code that was submitted by the Executive Board and the Supervisory Board, the auditor is to make a note of this in the audit report and inform the Chairman of the Supervisory Board.

COMMUNICATION AND TRANSPARENCY

At DEMIRE Deutsche Mittelstand Real Estate AG, timely, consistent and comprehensive information is a top priority. Transparent corporate governance and good communication with shareholders and the public contribute to strengthening the confidence of investors and of the public. When disclosing information to the public, the Executive Board considers the principles of transparency, promptness, openness, clarity and the equal treatment of shareholders. DEMIRE Deutsche Mittelstand Real Estate AG therefore provides comprehensive information on the Company's development as part of its investor relations activities. Reports on the Group's situation, development and especially its financial results are included in the annual report, three-month and nine-month interim statements and half-year financial report. The Group also informs the public through press releases and ad hoc announcements pursuant to Article 17 (1) of the Market Abuse Regulation (MAR). In addition, the Executive Board communicates extensively on financial issues with the relevant capital market participants in Germany and abroad. All financial publications, announcements, and presentations that are created for reporting purposes are available on DEMIRE's website. The Company's financial calendar is also available on the website and lists the scheduled financial reporting dates and key publication dates as well as the date for the Annual General Meeting. The Articles of Association, all declarations of conformity and documentation for corporate governance are also available on DEMIRE Deutsche Mittelstand Real Estate AG's website.

DEMIRE Deutsche Mittelstand Real Estate AG maintains an insider list pursuant to the provisions of Article 18 MAR. Persons affected are informed of their statutory duties and penalties.

INFORMATION ON CORPORATE PRACTICES

Good corporate governance is a top priority at DEMIRE Deutsche Mittelstand Real Estate AG and also includes the application of corporate practices that extend beyond the statutory requirements and allow for the hands-on implementation of the German Corporate Governance Code. Good corporate governance also includes taking a responsible approach to risks so as not to jeopardise the Company as a going concern. The Executive Board has therefore established an adequate risk management system that is constantly evolving in line with the performance of the DEMIRE Group. Further information on this can be found in the section entitled "Risk report".

Responsible and sustainable management is part of DEMIRE Deutsche Mittelstand Real Estate AG's corporate culture and everyday business. Living up to our ethical and legal responsibilities as a company is a top priority for us. This is the only way in which we can be seen as a partner that stands for integrity and reliability in the real estate industry, by tenants, business partners, authorities and the general public. Consequently, we have put a compliance programme in place within our Company and have prepared a Code of Conduct that all employees make a commitment to when they start working for us.

The fact corporate governance is a top priority at DEMIRE Deutsche Mittelstand Real Estate AG is demonstrated by its membership of the Institute of Corporate Governance (ICG), which it was certified for back in 2019 and then re-certified in 2021.

Information on corporate governance at DEMIRE Deutsche Mittelstand Real Estate AG is also publicly available on the Company's website under Company > Corporate Governance.

TARGETS FOR THE PROPORTION OF WOMEN ON THE SUPERVISORY BOARD, EXECUTIVE BOARD AND TWO MANAGEMENT LEVELS BELOW THE EXECUTIVE BOARD

The Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector (Erstes Führungspositionen-Gesetz – FüPoG), which came into force on 1 May 2015, obliges DEMIRE's Supervisory Board to self-determine a target for the proportion of women on the Supervisory Board and the Executive Board. It also obliges the Executive Board to set a target for the proportion of women in the two management levels below the Executive Board. The Act to Supplement and Amend the Regulations for the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector (Zweites Führungspositionen-Gesetz – FüPoG II) of 2021 is intended to improve the effectiveness of the FüPoG and to close any loopholes. No further requirements arise for DEMIRE from FüPoG II, however.

In June 2022, the targets for the proportion of women on the Executive Board and at the first level of management below the Executive Board were set for the period from 1 July 2022 to 31 December 2024. The target for the Executive Board is zero. This is because, at the time the resolution was passed, the two male members of the Executive Board still had current contracts and no changes in the composition of the Executive Board were planned or foreseeable. At the first management level below the Executive Board, a target of 25% was set. The proportion of women at the first management level below the Executive Board was 25% as at 31 December 2022. This means that the target was achieved in the reporting period. Due to the flat hierarchies in the Company, a target figure was not set for the second management level below the Executive Board.

The target for the proportion of women on the Supervisory Board was last set at 20% in December 2022. Currently, the proportion of women is 33.3%, which means that the target is met.

DIVERSITY

DEMIRE Deutsche Mittelstand Real Estate AG does not have a written diversity plan. Nevertheless, the Supervisory Board and the Executive Board pay attention to the issue of diversity within the Company and consider it a matter of course. This is also expressed in DEMIRE Deutsche Mittelstand Real Estate AG's Code of Conduct, which enshrines both protection against discrimination and the fundamental principle of mutual respect. The Company believes that providing extensive protection against discrimination is an appropriate way of sufficiently promoting diversity within the Company.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 AKTG

The Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG ("Company") monitor compliance with the German Corporate Governance Code. They hereby declare that DEMIRE Deutsche Mittelstand Real Estate AG has been complying with and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated 16 December 2019. The following exceptions apply:

A. I. Principle 3: "The Executive Board stipulates target values for the proportion of women in the two management levels below the Executive Board."

Due to the flat hierarchies in the Company, there is no second management level below the Executive Board. As a result, no target figure could be set here.

B. B. 2: "Together with the Executive Board, the Supervisory Board shall ensure long-term succession planning and the procedure for this shall be described in the Corporate Governance Statement."

There is currently no written concept for succession planning. Discussions on an extension are held between the Executive Board and the Supervisory Board in good time before the Executive Board employment contract concerned ends. If the talks do not result in further cooperation, the Supervisory Board is of the view that it will be able to ensure succession with sufficient advance notice without the need for a written concept.

B. B. 5: "An age limit shall be set for members of the Executive Board, and this shall be specified in the Corporate Governance Statement."

DEMIRE currently has no age limit for members of the Executive Board. It is the Company's view that age alone is not an appropriate exclusion criterion for appointing members to the Executive Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Executive Board.

C. I. C. 1: "The Supervisory Board shall define concrete goals for its composition and develop a skills profile for the entire body. The Supervisory Board shall pay attention to diversity when doing so. Proposals of the Supervisory Board to the Annual General Meeting shall take these goals into account while striving to complete the skills profile of the entire body at the same time. The implementation status shall be published in the Corporate Governance Statement. It shall also provide information on what the shareholder representatives in the Supervisory Board consider as the appropriate number of independent shareholder representatives as well as the names of these members."

The Supervisory Board has not created any concrete goals in writing, nor has it developed a skills profile for the entire body. Diversity and neutrality were taken into account when filling the current positions of the Supervisory Board. In the case of changes in personnel, the Supervisory Board shall work out the specific required skills for the proposal of a new member of the Supervisory Board, ensuring that the new member complements the entire body in the best possible way.

C. I. C. 2: "An age limit shall be set for members of the Supervisory Board, and this shall be specified in the Corporate Governance Statement."

No age limit has been set for members of the Supervisory Board of DEMIRE. In the opinion of the Company, age is not an appropriate criterion for electing a member of the Supervisory Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Supervisory Board.

D. I. D. 1: "The Supervisory Board shall establish Rules of Procedure and publish them on the Company's website."

The Supervisory Board of DEMIRE has established Rules of Procedure. However, they are not published on the Company's website. The Company does not believe that publication of the Rules of Procedure for the Supervisory Board will give shareholders any additional information.

D. II. 2. D. 5: "The Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the General Meeting."

DEMIRE Deutsche Mittelstand Real Estate AG has not formed a Nomination Committee owing to the fact it has a small number of members.

D. IV. D. 12: "The Company shall provide an appropriate level of support for the members of the Supervisory Board when they take up their roles and also through further training and education. This shall be described in the Supervisory Board's report."

The members of the Company's Supervisory Board already undergo a great deal training as a result of their full-time professional activities. The Company provides appropriate support in this regard. As it is not always possible to clearly assign the activities, they are not listed in the Supervisory Board's report.

G. I. 2. G. 3: "To assess the appropriateness of the specific remuneration of the members of the Executive Board in comparison with other companies, the Supervisory Board shall involve a peer group of other companies and disclose its composition. The peer group comparison shall be used with caution to prevent an automatic upward trend."

The Supervisory Board made use of a peer group when determining the remuneration of the Executive Board. However, the Supervisory Board has refrained from disclosing the specific benchmark companies involved as it does not believe this gives shareholders and stakeholders any additional information.

On 27 June 2022, the German Corporate Governance Code as amended on 28 April 2022 came into effect. The Executive Board and Supervisory Board hereby declare that DEMIRE Deutsche Mittelstand Real Estate AG has been complying with and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated 28 April 2022. The following exceptions apply:

A. I. Principle 3: "The Executive Board stipulates target values for the proportion of women in the two management levels below the Executive Board."

Due to the flat hierarchies in the Company, there is no second management level below the Executive Board. As a result, no target figure could be set here.

B. B. 2: "Together with the Executive Board, the Supervisory Board shall ensure long-term succession planning and the procedure for this shall be described in the Corporate Governance Statement."

There is currently no written concept for succession planning. Discussions on an extension are held between the Executive Board and the Supervisory Board in good time before the Executive Board employment contract concerned ends. If the talks do not result in further cooperation, the Supervisory Board is of the view that it will be able to ensure succession with sufficient advance notice without the need for a written concept.

B. B. 5: "An age limit shall be set for members of the Executive Board, and this shall be specified in the Corporate Governance Statement."

DEMIRE currently has no age limit for members of the Executive Board. It is the Company's view that age alone is not an appropriate exclusion criterion for appointing members to the Executive Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Executive Board.

C. I. C. 1: "The Supervisory Board shall define concrete goals for its composition and develop a skills profile for the entire body. The Supervisory Board shall pay attention to diversity when doing so. The skills profile of the Supervisory Board shall also include expertise on sustainability issues of importance to the Company. Proposals of the Supervisory Board to the Annual General Meeting shall take these goals into account while striving to complete the skills profile of the entire body at the same time. The status of implementation is to be disclosed in the form of a qualification matrix in the Corporate Governance Statement. It shall also provide information on what the shareholder representatives in the Supervisory Board consider as the appropriate number of independent shareholder representatives as well as the names of these members."

The Supervisory Board has not created any concrete goals in writing, nor has it developed a skills profile for the entire body. Accordingly, no qualification matrix is published in the Corporate Governance Statement. Diversity and neutrality were taken into account when filling the current positions of the Supervisory Board. In the case of changes in personnel, the Supervisory Board shall work out the specific required skills for the proposal of a new member of the Supervisory Board, ensuring that the new member complements the entire body in the best possible way.

C. I. C. 2: "An age limit shall be set for members of the Supervisory Board, and this shall be specified in the Corporate Governance Statement."

No age limit has been set for members of the Supervisory Board of DEMIRE. In the opinion of the Company, age is not an appropriate criterion for electing a member of the Supervisory Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Supervisory Board.

D. I. D. 1: "The Supervisory Board shall establish Rules of Procedure and publish them on the Company's website."

The Supervisory Board of DEMIRE has established Rules of Procedure. However, they are not published on the Company's website. The Company does not believe that publication of the Rules of Procedure for the Supervisory Board will give shareholders any additional information.

D. II. 2. D. 4: "The Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the General Meeting."

The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG has not formed a Nomination Committee owing to the fact it has a small number of members.

D. IV. D. 10: "The Audit Committee shall discuss with the auditor the assessment of the audit risk, the audit strategy and audit planning as well as the audit results. The Chair of the Audit Committee shall regularly discuss the progress of the audit with the auditor and report to the committee. The Audit Committee shall regularly consult with the auditor, also without the Executive Board."

In 2022, no consultations between the Audit Committee and the auditor took place without the Executive Board. Such consultations are planned for 2023.

D. IV. D. 11: "The Company shall provide an appropriate level of support for the members of the Supervisory Board when they take up their roles and also through further training and education. This shall be described in the Supervisory Board's report."

The members of the Company's Supervisory Board already undergo a great deal of training as a result of their full-time professional activities. The Company provides appropriate support in this regard. As it is not always possible to clearly assign the activities, they are not listed in the Supervisory Board's report.

D. IV. D. 12: "The Supervisory Board shall regularly assess how effectively the Supervisory Board as a whole and its committees perform their duties. In the Corporate Governance Statement, the Supervisory Board shall report whether and how a self-assessment has been carried out."

DEMIRE's Supervisory Board comprises only three members and therefore also simultaneously constitutes the Audit Committee. Due to this small number of members on the one hand and the constant exchange between the members of the Supervisory Board on the other hand—including on questions of efficiency in the fulfilment of tasks—regular self-assessment generally takes place informally. A formal self-assessment did not take place in 2022, but it is planned for 2023.

G. I. 2. G. 3: "To assess the appropriateness of the specific remuneration of the members of the Executive Board in comparison with other companies, the Supervisory Board shall involve a peer group of other companies and disclose its composition. The peer group comparison shall be used with caution to prevent an automatic upward trend.

The Supervisory Board made use of a peer group when determining the remuneration of the Executive Board. However, the Supervisory Board has refrained from disclosing the specific benchmark companies involved as it does not believe this gives shareholders and stakeholders any additional information.

This declaration was published immediately and made available to shareholders on the website. The Declaration of Conformity with the Code of Fair Value REIT-AG, which is included in the consolidated financial statements, dated 17 February 2023, is published on Fair Value REIT-AG's website.

Frankfurt am Main, 17 February 2023

The Executive Board of DEMIRE
Deutsche Mittelstand Real Estate AG

Prof. Dr Alexander Goepfert (CEO)	Tim Brückner (CFO)

On behalf of the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG

Markus Hofmann
(Chairman of the Supervisory Board)

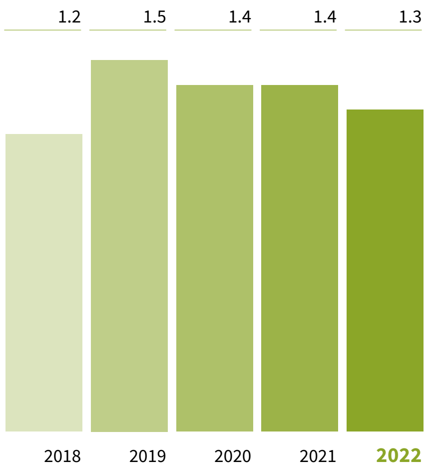
OVERVIEW OF OUR PORTFOLIO

We focus on commercial properties that are suitable for holding in our portfolio for the long term. Our top priority is location. In addition to the micro and macro location, we also look very closely at the long-term prospects of the location. When making our investment decisions, we also rely on support from external experts in local and regional real estate markets.

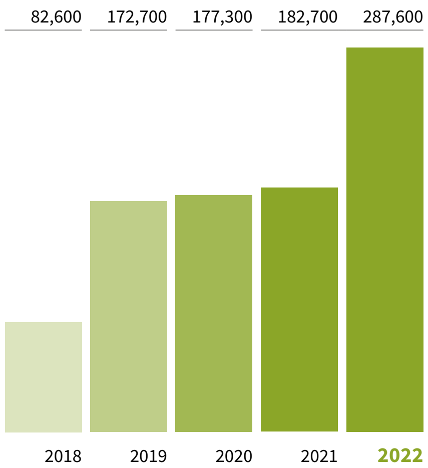
The fact that we align our portfolio in the best possible way for the long term is also reflected in our ABBA strategy, which guides us in selecting our locations. ABBA stands for A locations in B cities and B locations in A cities. We also add a small number of properties in prime locations to our portfolio. The fact that we are positioning ourselves correctly with our focus on B locations is proven, for example, by the analyses prepared together with bulwiengesa in the “Office Real Estate Market Study – Investment Opportunities in Secondary Locations”. According to this study, office properties in secondary locations in particular boast comparatively high potential returns and are subject to lower volatility than A cities.

This alignment for our portfolio sends an important message to both our investors and our tenants: DEMIRE provides them with a stable foundation for the development of their interests – one that allows promising prospects to emerge.

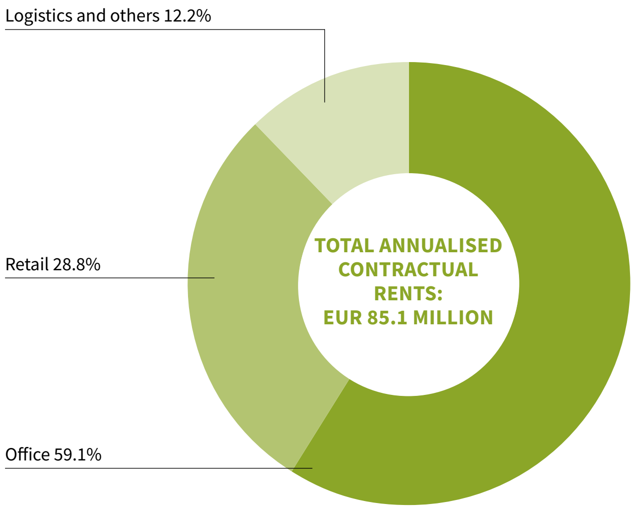
MARKET VALUE (IN EUR BILLION)



LETTING PERFORMANCE(IN M²)

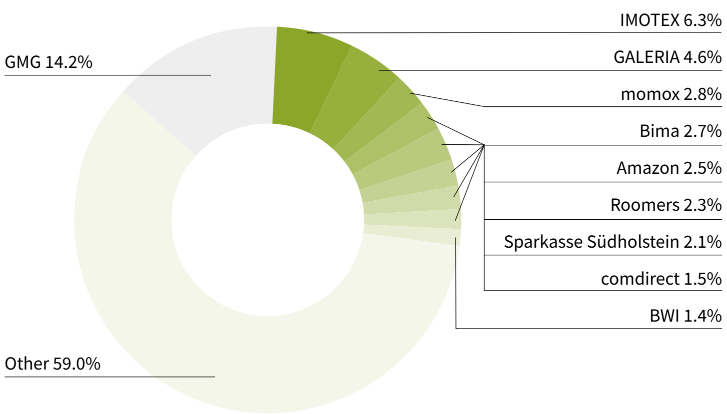


ANNUALISED CONTRACTUAL RENTS BY ASSET CLASS

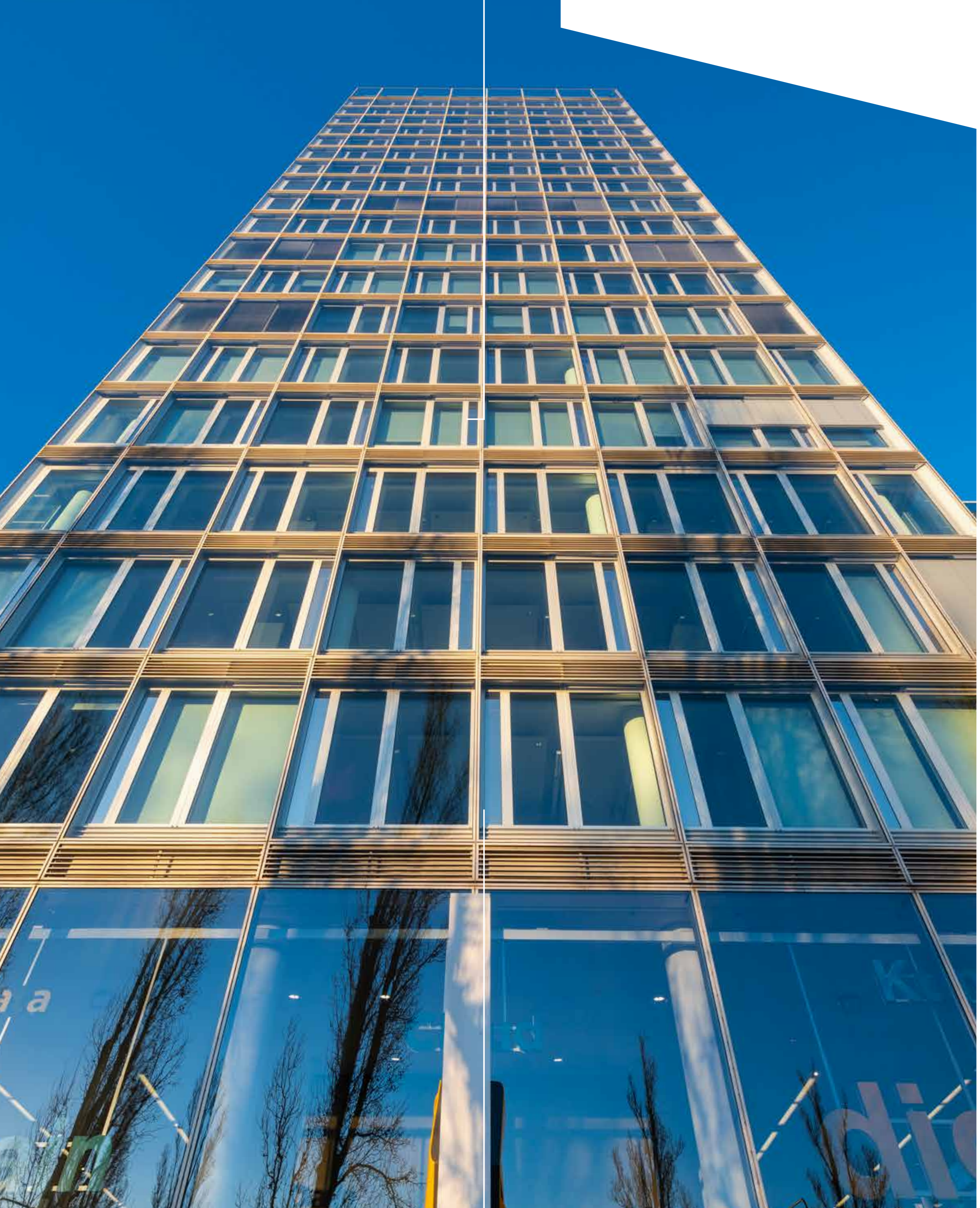


This broad expertise in real estate allows us to cover a wide range of asset classes in our search for suitable properties. We embrace diversification in geographical terms, too. Investment candidates can be located in all German regions, allowing us to exploit regional real estate cycles. Our properties are predominantly used by solvent tenants with good reputations and stable business prospects. Of our annualised contractual rents, 40.4% comes from our ten biggest tenants. The mix of a small number of large tenants and a large number of medium-sized tenants allows us to strike a good balance between management expenses and the resulting benefits.

BREAKDOWN OF ANNUALISED CONTRACTUAL RENTS BY TENANT



PORTFOLIO BREAKDOWN BY REGION



ON THE RIGHT TRACK

EXCELLENT PERFORMANCE LEADS TO ALL-TIME HIGH

In 2022, we once again reported much higher letting performance than in the previous year. We managed to let a total of around 287,600 m² of space last year. Contractual rents rose by 10.2% to EUR 85.1 million, based on like-for-like space let. Indexing of our rental contracts also contributed to this strong performance. We also provide professional real estate management services, ensuring that our properties remain attractive.

The attractiveness of our properties is demonstrated by our successful resales when we have completed a real estate project. This is also demonstrated by our quick follow-on lettings process when a lease agreement is due to be extended or has ended. We were particularly successful with new lettings last year. Overall, we managed to generate 90,500 m² of space, equalling rental volume of EUR 144.4 million over the entire term, from new lettings.

HOW WE SUCCESSFULLY MANAGE TO RETAIN ADDED VALUE WITH OUR PROPERTIES

— Ongoing quality assurance measures for properties

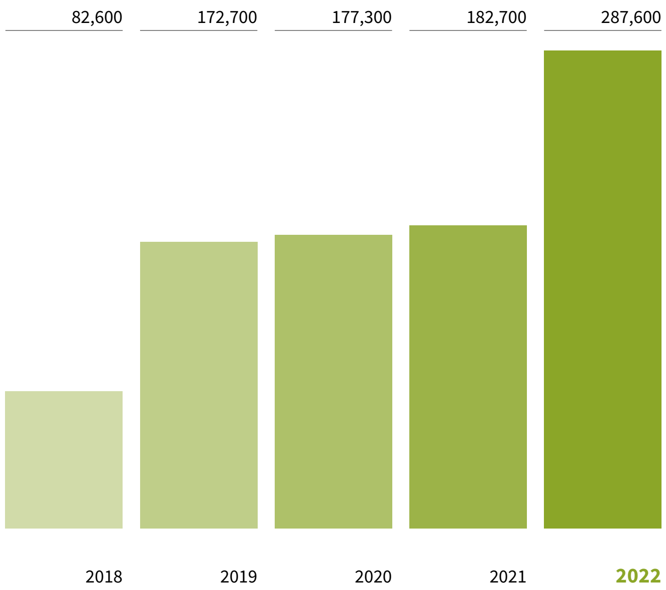
— Close collaboration with tenants

— Highly detailed monitoring of values

— Permanent location monitoring

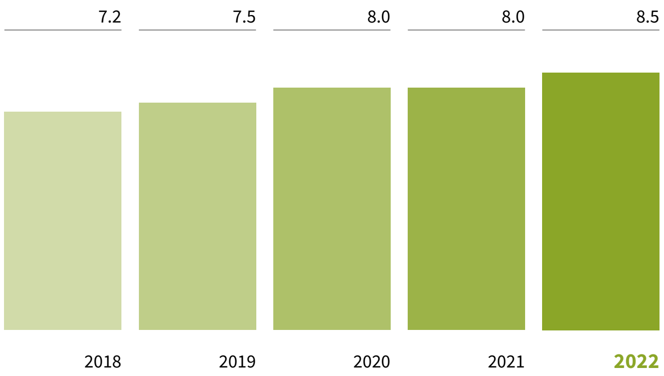
— Close maintenance of local network

LEASED SPACE PER YEAR (in m²)



The benefits associated with our focused investment in secondary locations are also evident in these particularly difficult times. These markets tend to be less volatile during times of crisis. They are more resilient and stable in terms of rental growth, provided, of course, you have invested in the right properties or micro-locations – as DEMIRE has done.

AVERAGE CONTRACTUAL RENT (per m²)



Prof. Dr Goepfert
CEO

“Our strong operating performance is the result of an experienced, established team at DEMIRE.”

Part of DEMIRE’s strategy: strong secondary locations in “A” cities – the Cielo property in Frankfurt am Main.

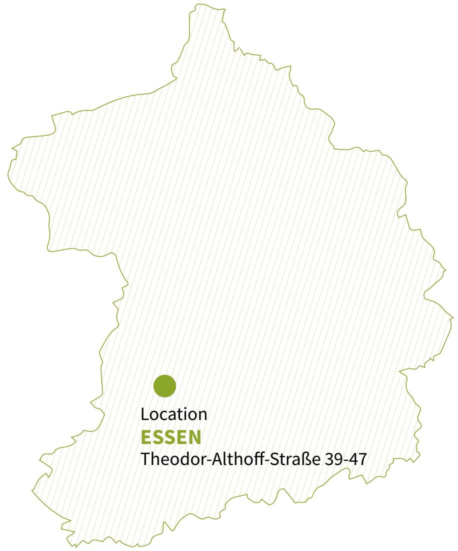
Essen: Full occupancy achieved with the State of North Rhine-Westphalia

Last November, we managed to lease a space measuring approximately 24,100 m² at the Büropark Bredeney business park, Theodor-Althoff-Straße 39-47, in Essen. We leased this space to the State of North Rhine-Westphalia on a long-term contract. Prior to the contract being drawn up, we participated in a public tender and successfully won over the new tenant with a modern space concept, a comprehensive sustainability approach and an excellent architectural design for the new Polizeipräsidium Essen police headquarters.

The lease agreement was concluded for a term of 20 years; Polizei Essen is due to occupy the site in 2025. This new lease involves gutting part of the building, completely renovating it and bringing it up to BEG-55 standards in terms of energy efficiency. In addition to improving energy efficiency, including, for example, by installing heat pumps and a solar power system, the building will be extended with a new construction. A newly designed façade will also create an urban landmark in a prime spot in the Essen-Bredeney district.

IMPROVING ENERGY EFFICIENCY by installing heat pumps and a solar power system.

REAL ESTATE LOCATION ESSEN



Purchased
2019

Development approach
REPOSITION AND REVITALISE

Plot size
36,000 m²

Lettable space
46,144 m²
(as of 2025)

WALT
4.4 YEARS
(currently) as at
31 December 2022

Covering approximately

45,600 m²

of space, the Büropark Bredeney business park is one of the largest office properties in our portfolio.

Covering approximately 45,600 m² of space, the Büropark Bredeney business park is one of the largest office properties in our portfolio. Built in 1996, we purchased the complex in 2019. The location has excellent links to local public transport and is connected to the highways network via its link to the A52 autobahn. It is connected directly to the city centre, Essen's main railway station and Düsseldorf Airport.

With this lease agreement having been signed, the property is now fully occupied. Back in 2021, we managed to extend an existing lease agreement from 2011 covering 3,000 m² of space for five more years with the Medizinischer Dienst des Spitzenverbandes der Gesetzlichen Krankenkassen (MDS) association. In 2020, we also agreed a long-term contract with Autobahn GmbH des Bundes covering 7,000 m² of space in the same office building. Given the backdrop of the current debate over working from home (WFH), we believe the contract extension agreed with MDS confirms the fact the office location is a particularly attractive option.

Essen Office Park Bredeney: The lease agreement was concluded for 20 years; occupation by the Essen police is planned for 2025.

Kassel: Premier Inn Hotels opt for the Kurfürsten Galerie

In September 2022, we managed to secure Premier Inn Hotels as a new anchor tenant for the Kurfürsten Galerie in Kassel. The lease agreement was concluded for a term of 20 years; the Company is due to occupy the site in 2025.

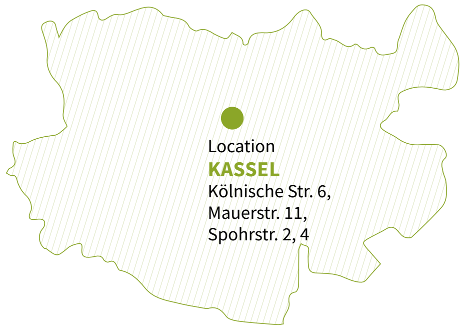
The Kurfürsten Galerie in Kassel has been part of our portfolio since 2015. This mixed-use building opened in 1991 and has a total lettable space of 20,000 m². Approximately 7,000 m² of this space is used for hotel operations. The remaining space is taken up by shops, restaurants and cafes, practices, offices, apartments and the Kasseler Spielbank casino. Hotel guests have plenty of parking options using the city's largest underground car park in the centrally located Kurfürsten Galerie, which has 734 parking spaces.

The hotel, which was originally operated by the Mövenpick Group and subsequently by the Best Western Group, will be completely modernised and renovated and brought into line with the latest technical requirements as the operator changes. The scheduled renovation work will increase the number of rooms from 128 to 165 rooms. Premier Inn offers a fresh design concept combined with an impressive range of accommodation. Both of these elements are a perfect match with the mixed concept of the Kurfürsten Galerie.

Kassel has long been a preferred location in Germany for the new tenant. The city is not only a sought-after option for overnight stays thanks to its cultural highlights, it is also in demand thanks to its role as a regional economic powerhouse.

As Kassel's first shopping arcade, the Kurfürsten Galerie has a very central location.

REAL ESTATE LOCATION KASSEL



Purchased
2015

Development approach
REPOSITION AND REVITALISE

Plot size
8,697 m²

Lettable space
21,502 m²

Level of occupancy
89%

WALT
2.0 YEARS

More than 20 years

is the period covered by the lease agreement with Premier Inn.

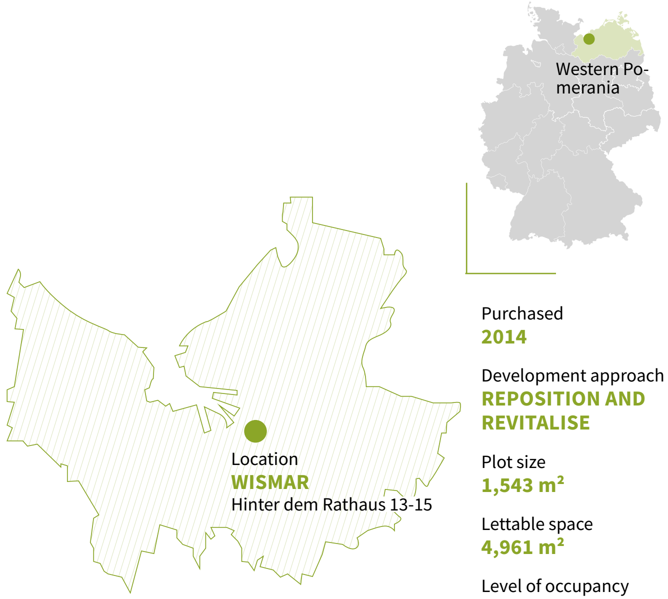
Wismar: NEW YORKER right by the Town Hall

Fashion retailers are currently experiencing a difficult time on the market. The increase in online sales and the pandemic have heavily influenced consumer behaviour in recent years. Despite this, we have managed to conclude a lease agreement for ten years with the clothing company NEW YORKER, who will move into our city centre property in Wismar. The space in the pedestrian zone covers approximately 2,000 m² and was opened by NEW YORKER in November 2022. This property, located in the direct vicinity of the Town Hall, is therefore also let on a long-term basis. Office and apartment tenants can also be found in the property.

With 1,150 branches in 47 countries and more than 21,000 employees, NEW YORKER is one of the world's largest fashion brands. The owner-run company is headquartered in Braunschweig. The mixed-use property in a prime city centre location was built in 2000, covering a total lettable space of approximately 5,000 m².

Our property in the Hanseatic city of Wismar, a popular tourist destination, is centrally located in the pedestrian zone.

REAL ESTATE LOCATION WISMAR



Purchased
2014

Development approach
REPOSITION AND REVITALISE

Plot size
1,543 m²

Lettable space
4,961 m²

Level of occupancy
100%

WALT
7.8 YEARS

Approximately 5,000 m²

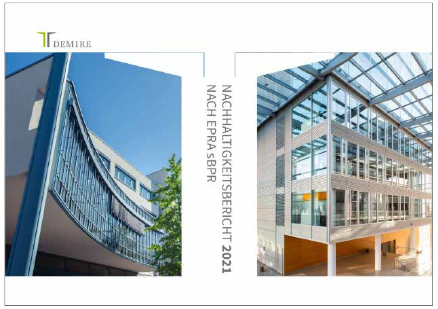
is the total lettable space of the mixed-use property in a prime city centre location.

OUR PATH TO SUSTAINABILITY IS TAKING SHAPE

With the changes to framework conditions seen in recent years, the issue of sustainability has also transformed into a key area of action for management within our Group. We believe in good faith the various elements of ESG (Environment, Social and Governance) are essential to ensuring our Company will continue to enjoy future success in the market.

The strategic areas we focus on include measures that will preserve our environment for future generations. Such measures include strategies for protecting the climate, strategies regarding the use of renewable energies and strategies to enhance resource efficiency and minimise air and wastewater emissions.

The social aspect of corporate performance is just as important for us. This includes safeguarding the rights of our employees, occupational health and safety, adequate remuneration and ensuring compliance with sustainability standards in the supply chain.



In 2022, we drew up our first sustainability report according to EPRA standards and published it in the summer.

In 2022, we drew up our first sustainability report according to EPRA standards and published it in the summer of 2022. We have used this report to take stock of the activities undertaken by our Company in terms of ESG and define initial steps to help us make progress in this area in the coming years, both holistically and strategically. In future, we also want to apply the Sustainability Best Practices Recommendations (sBPR) of the European Public Real Estate Association (EPRA), as the interest group representing Europe's listed real estate companies, in general reporting. In the coming years, we will also ensure compliance with additional information obligations as required, such as those arising from the Corporate Sustainability Reporting Directive (CSRD).

Tim Brückner
CFO

> "We see the development of a comprehensive sustainability strategy as an integral component of our business activities."

COMMENDED

Our first EPRA report for 2022 was commended by the EPRA European Public Real Estate Association, winning a Silver award in the "Most Improved" category.

Environmental: pursuing realistic goals, one step at a time

We consider environmental matters to be the most important area of activity at the present time. Our intention in the medium term is to implement technical improvements to our portfolio. The consumption values recorded are used as the basis for making decisions on technical improvements. A comprehensive digital infrastructure is key to collecting these data. In order to achieve this, for example, we are gradually replacing the conventional energy meters (for electricity and heat) and water meters with digital meters.

Sustainability issues are discussed on a regular basis within an ESG Team, chaired by the Executive Board. These discussions are based on an e-action plan, which describes the specific proposed measures along with the respective goals, responsibilities and the status quo.

We consult external partners to help plan and implement individual measures, particularly with regard to renewing technical equipment and improving systems engineering in specific properties to reduce consumption, as well as with regard to preparing data and compiling and auditing the EPRA report (the latter with effect from 2023 onwards).

In order to establish the digital infrastructure, conventional meters will be gradually replaced by digital meters.

As part of the "Portfolio Optimisation" sub-project, we are also striving to conclude

"GREEN" LEASE AGREEMENTS.

Our "Next Steps 2022/2023" e-action plan breaks down our projects over the medium term into a manageable period of time. This has allowed us to make significant and visible progress in recent months:

As part of the "Company Optimisation" sub-project, we have managed to complete the resource consumption data of our DEMIRE spaces for our headquarters over a period of three years retrospectively. We have also undertaken a feasibility study to equip our spaces with smart meters. The electricity we purchase and consume ourselves in our own premises at our headquarters has been converted to 100% green electricity since 1 January 2023.

As a tenant, we also indirectly consume electricity purchased as general electricity for the property in question. The same applies to energy required to generate heat (gas). There are also plans in place here to replace both energy types with green energy in future.

As part of the “Portfolio Optimisation” sub-project, we are also striving to conclude “green” lease agreements, to improve the collection of data within our portfolio and for potential framework agreements for green energy in our properties. Other sub-projects focused on issues such as energy-saving measures for lighting, smart consumption management using sensors/AI and construction options for e-charging infrastructure. We have been and continue to be intensively involved in initiating energy audits for our properties and using suitable tools to define property-specific decarbonisation paths.

REDUCED OFFSETTING – WHAT WE ARE DOING TO ACHIEVE THIS:

- Promoting the use of local public transport and carbon-neutral modes of transport for commuting
- Further reduction in company cars and increased focus on carbon-neutral driving concepts
- Strict limiting of air travel
- Further reduced consumption in offices
- Purchasing of green electricity and biogas for general power supply to our headquarters

LOWER EMISSIONS – WHAT WE HAVE ALREADY ACHIEVED WITHIN OUR DIRECT SPHERE OF INFLUENCE:

- Less commuting to and from work thanks to mobile working
- Reduced heating and cooling in offices by adjusting the heating/cooling systems
- Fewer company cars, and with lower emissions
- CO_2-offset train travel and less air travel

In 2022, we recorded for the very first time our Company’s Scope 1, 2 and 3 emissions totalling 79.34 t CO_2. We arranged for this data to be validated externally and offset in full via atmosfair. We therefore achieved a calculated carbon-neutral status in the 2022 calendar year. Our property portfolio is not yet included here. This is the next element that we are working hard to achieve.

We are aware of the fact that our Company’s CO_2 emissions need to be reduced further and that offsetting models will only have limited scope in the medium to long term. This is why we have already identified further measures that we can implement in the short to medium term. Our aim in the medium term is to become carbon-neutral and avoid the need to use offsetting measures.

Social: freedom for top performers

Here at DEMIRE, we enjoy the basic principle of flat hierarchies and short decision-making processes. The Executive Board and heads of department maintain a culture of exchange within the team, ensuring that employees are actively involved in making the relevant decisions. For us, it is imperative that employees always feel good working for DEMIRE.

The issue of staff retention has also become increasingly important to us, particularly during these times of demographic change and tighter labour markets. We therefore foster better identification with our Company by offering communal events on a regular basis, for example. These events help us get to know each other better and support team building. Last year, in 2022, we arranged a joint cooking event and a raft-building contest, for example.

We provide our employees working at our office location in Langen with attractive offices featuring a generous lounge area. We operate a modern app solution that allows us to offer employer-subsidised meals, we provide our team with free fruit, muesli and various beverages on our premises and make it possible to park for free. In future, our aim is to help our employees travel to the office using low-emission transport methods.

We attach a great deal of IMPORTANCE to enabling our employees to develop both professionally and personally.

People are and indeed remain the driving force behind the Company's successful performance. We also attach a great deal of importance to enabling our employees to develop both professionally and personally. With this goal in mind, we earmark an annual budget for training that employees can use at any time. Further training sessions are organised based on individual agreements and are tailored to reflect personal needs. We help young talent with the potential to become top performers to complete a (co-)financed part-time (postgraduate) course. We currently work in collaboration with EBS Universität für Wirtschaft und Recht in Wiesbaden. In addition to this, our employees can also attend specialist lectures/events and industry-related trade fairs and other information, work and networking events whenever they like.

Investing in knowledge and skills helps increase worker satisfaction, ensuring that we as a Company can face the growing market challenges in future as well.

We already knew about the importance of health even before the coronavirus crisis hit. Employees who look after their health not only have fewer absences from work but also perform better. To help contribute towards maintaining their health and fitness, we provide employees with grants to cover the costs of fitness studio memberships. The pandemic was still not completely over in 2022. We therefore continued with our measures to raise awareness and protection measures, making tests available and giving employees the opportunity to receive coronavirus and flu vaccinations. We collaborate with the occupational health and safety service provider MEDITÜV on everyday health issues.

Maintaining a good work-life balance has become increasingly important in recent years. Social awareness of the need to make work and family life compatible has increased since the coronavirus pandemic. We make use of offers such as mobile working and the option to work part-time to take into account the individual life circumstances of our employees as much as possible. Recent experiences show that these new forms of collaboration do not have a negative impact on our team's performance. On the contrary, traditional stress points have dissipated and our Company benefits from the extra time saved from not having to commute.

We promote an inclusive work environment and an open work culture in which individual differences are respected and diversity is encouraged. We have laid out our aim for diversity and equal opportunity in our Code of Conduct. All employees are obliged to observe this and are required to implement the various principles in their everyday tasks. We will counteract any form of discrimination by adopting a clear position or, if required, by applying corresponding sanctions. We are committed to having a diverse team in which each and every individual can fully develop their individual potential and strengths. We believe discrimination starts with the little things you encounter in everyday life. So we take precautionary measures to deal with this; whether it's at team events or other regular employee events, we ensure that everybody has the freedom to make their statement or contribute to a topic, unless there are obvious reasons against doing so.

Maintaining a good
WORK-LIFE BALANCE
has become increasingly important in recent years.

Our employees can easily strike a balance between work and family commitments.

We assign new positions and tasks based on merit as a general principle. Job advertisements are intentionally worded openly. Those looking for a part-time position will also find opportunities to work for us. To ensure we fulfil our diversity and equality objectives in our day-to-day work, the Executive Board and HR department regularly and explicitly review how the criteria of diversity and equal opportunities have been factored in when we appoint new employees.

In order to achieve our ambitious goals, we also need new employees, both at the junior level as well as those with expertise. To attract these people to our Company, we maintain a presence in the job market and at university fairs, demonstrating our strengths as an attractive employer. One such example is the fact we give employees the responsibility to work in attractive areas of activity, starting from the date they come on board. We also have a "buddy programme" in place, ensuring new employees settle in nicely and integrate within the Company from day one. This involves pairing each new employee with an experienced staff member from another department as a "buddy" who is on hand as an additional contact for any questions the new employee may have. We also pay performance-based salaries, provide top-quality technical equipment and give our employees the freedom to develop themselves. Anyone who joins us will enjoy our full support. This approach has proven itself in the past. And we are certain it will continue to do so in future as well.

Each new employee is paired with an experienced staff member from another department as a "BUDDY".

The fluctuation rate as a long-term average demonstrates that the market considers us to be an attractive employer. Whenever we lost staff, as was the case last year, we were able to quickly cover these vacancies and fill them successfully with qualified staff, all despite the challenging labour market environment.

Flat hierarchies and short communication channels are TYPICAL OF THE WAY WE WORK at DEMIRE.

Governance: commitment builds trust

We want our stakeholders to perceive and regard us as a trustworthy and reliable partner. We achieve this by maintaining good corporate governance measures that are embraced throughout the entire Company and implemented in day-to-day work duties. We understand corporate governance to be the responsible management and control of the Company, geared to long-term value creation.

Adherence to governance and compliance principles forms the basis for the trust that our shareholders, customers, employees, business partners and also the general public place in our Company. We ensure this through our membership of the Institut für Corporate Governance in der Immobilienwirtschaft e.V. (ICG), which requires a corresponding audit.

As the responsible bodies involved, the Executive Board and the Supervisory Board are committed in particular to ensuring good corporate governance. The management and supervisory committee express this once a year by issuing the Corporate Governance Statement pursuant to Sections 315d and 289f of the German Commercial Code (HGB) and the Declaration of Conformity with the GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG). Both declarations are published on our Company's website. With these declarations, our entire organisation is committed to complying with the principles set out in the German Corporate Governance Code (GCGC). These principles serve as the benchmark and guide for all employees in management and business activities.

Our corporate management also actively embodies this understanding in our organisation on a daily basis. Documentation and policies that are easy to access ensure everyone within the Company understands the various applicable principles and stringent internal regulations and guidelines.

Markus Hofmann
Chair of the Supervisory Board

"Holistic responsible action is a key guiding principle for DEMIRE extending beyond the statutory requirements."

As the RESPONSIBLE BODIES involved, the Executive Board and the Supervisory Board are committed in particular to ensuring good corporate governance.

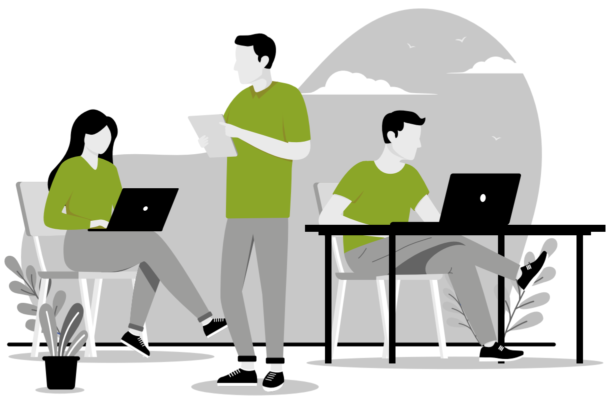
Since 2021, we have ensured our service providers comply with a

CODE OF CONDUCT.

Our Code of Conduct sets out how we, the Company's employees, fulfil our ethical and legal responsibilities as company representatives. At the same time, it sets out our Company's values, which place particular emphasis on fairness, both among employees and in cooperation with investors, customers and business partners. New employees are familiarised with the Code of Conduct when they take up their position. Subsequent regular training ensures that their knowledge is always kept up to date.

Since 2021, we have ensured our service providers comply with a Code of Conduct, which governs collaboration in everyday business activities. Over the course of this year, the Code of Conduct will be extended to all of our business partners.

A key tool in protecting against reputational loss and financial losses suffered by our Company is our compliance management system: this system ensures DEMIRE's employees comply with all laws and internal regulations. The system provides us, our customers and our partners with a sense of security in our day-to-day work and helps us safeguard the integrity of our Company. It encompasses the tasks of preventing, identifying and sanctioning breaches of laws and regulations. The Executive Board is responsible for adherence to the compliance standards.



A compliance officer ensures that the topic of compliance is firmly established in day-to-day business life and that employees remain familiarised with compliance issues through annual training sessions. Employees can contact the compliance officer at any time if they have any questions or concerns regarding compliance. The Executive Board can also be approached at any time. Anyone wanting to report a suspicious case can also do so anonymously using a reporting address. We systematically follow up on all reports and suspicious cases. The Supervisory Board is provided with regular, timely and comprehensive information on compliance within the Company by the Executive Board. If breaches are identified, we look into the option of taking employment law or criminal law measures and imposing appropriate sanctions. If necessary, we also consult external legal experts to coordinate the action to be taken. No compliance breaches were reported in the reporting period.

In 2022, we called upon external support to develop a new training concept (dilemma training and online training sessions) and utilised a new data protection tool. During the course of this year, we will implement this training concept within our teams and integrate the data protection tool into everyday processes.

COMBINED MANAGEMENT REPORT

GROUP PRINCIPLES

The combined management report reports on business development at DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt am Main, and the Group ("DEMIRE" or "the DEMIRE Group") for the financial year from 1 January to 31 December 2022. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB). The composition of the scope of consolidation, which forms an integral part of the consolidated financial statements, is shown in the Notes to the consolidated financial statements starting on page 185.

Set-up and orientation

Business activities

Acquisition and value-oriented development of commercial real estate
DEMIRE acquires and holds commercial real estate in regional centres, medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. In focusing on this, the Company has come up with the ABBA approach: This approach states that DEMIRE will focus its investments on "A" locations in "B" cities and "B" locations in "A" cities. The portfolio has potential for real estate investments and is attractive both to international as well as regional tenants.

At the same time, these markets showed particular price resilience due to what tends to be the high stability of medium-sized companies based in the region. On the other hand, efficient real estate management in such regions requires a specific understanding of the regional markets along with an excellent network – DEMIRE has both to a particular degree.

In principle, the Company focuses its portfolio on a mix of office, retail and hotel properties. With a current surplus in office properties, DEMIRE considers the return/risk structure for the commercial real estate business segment to be appropriate in the current phase.

The Company attaches great importance to signing contracts with solvent tenants and realising a property's potential. The Executive Board considers this to be the case. As a result, DEMIRE continues to expect stable, sustainable rental income and reliable prices too.

The business approach is fundamentally geared towards portfolio growth, and the Company disposes of any properties that are not consistent with its strategy. To prepare for the upcoming refinancing in 2024, in particular for the 2019/2024 corporate bond, the Company has been striving since the summer of 2022 to improve the liquidity situation and the loan-to-value ratio with the help of property sales and active liability management. In 2022, the only remaining logistics property was sold and a nominal amount of EUR 50 million of the 2019/2024 corporate bond was bought back.

DEMIRE continues to advance the organisation from an operational and procedural perspective by implementing all kinds of different measures. Alongside cost discipline, operating performance is improved by means of directing external property managers and other service providers in a targeted manner, as well as by expanding the internal asset and portfolio management structures.

Listing on the stock market allows shareholders to participate in growth
DEMIRE's securities are listed on the regulated market (Prime Standard segment) of the Frankfurt Stock Exchange.

Satisfying the interests of shareholders is at the heart of DEMIRE's work to advance the business. The aim is to continue increasing the value of the Company's portfolio in their interests. At the same time, the Company is keen to develop stable sources of income, which will then be distributed to investors via regular dividends.

When it comes to possible acquisitions, the Company focuses on assets with potential. Economically mature assets and smaller properties that are not part of the core portfolio will continue to be sold. As at the reporting date, DEMIRE has a real estate portfolio of 62 properties with lettable space of around 0.9 million m² and a market valuation of around EUR 1.43 billion. The Cielo office property in Frankfurt am Main is not included in these figures as it is held within a joint venture and accounted for using the equity method.

Division of the business into three segments

DEMIRE divides its business into three segments: “Core Portfolio”, “Fair Value REIT” and “Corporate Functions/Others”. The strategically important “Core Portfolio” segment comprises the assets and activities of DEMIRE’s subsidiaries and sub-subsidiaries that are not allocated to the Fair Value REIT-AG subsidiary. The “Fair Value REIT” segment comprises the investment activities in direct and indirect real estate holdings of this listed subsidiary with REIT status in a Group context. The “Corporate Functions/Others” segment comprises the Group’s administrative and cross-segment tasks such as risk management, finance, controlling, investor relations, legal, IT and compliance.

Strategy and Objectives

REALIZE POTENTIAL

In 2019, DEMIRE drafted a strategic medium-term plan for its subsequent development, summarising it under the concept of “REALize Potential”. This plan also provided guidance during the year under review, but was adjusted due to market conditions and the upcoming refinancing in 2024. It consists of the following objectives:

1. Increase the portfolio volume to more than EUR 2 billion

2. Ensure the Company’s ability to pay dividends in the long run

3. Achieve an investment grade rating

In order to achieve these objectives, the Company pursues four central approaches or strategic levers:

1. **Transactions** – Optimisation of the portfolio structure with short-term creation of additional liquidity for refinancing while maintaining the medium-term goal of portfolio growth in ABBA locations (“A” locations in “B” cities and “B” locations in “A” cities)

2. **Management** – Realising real estate potential through active and value-oriented property management

3. **Financials** – Refinancing of liabilities expiring in 2024

4. **Processes** – Realising optimisation potential in processes and structures

Realising optimisation potential in processes and structures:

Transactions

The medium-term goal of increasing the portfolio value to more than EUR 2 billion is overridden in 2023 and 2024 by the short-term goal of creating a liquidity reserve for the refinancing of liabilities expiring in 2024. In order to further build up the liquidity reserve, properties are to be sold. This will probably lead to a temporary reduction in the property portfolio in the coming years.

Strategically, the Company is focusing its acquisitions on regional centres, medium-sized cities and up-and-coming regions bordering metropolitan areas throughout Germany. To further improve the risk structure, DEMIRE diversifies the portfolio according to a mix of uses appropriate to the German commercial property market. These are office, retail, logistics and other (including hotel). The Company is currently focused on office properties.

Expanding the portfolio in the medium term allows the Company to exploit economies of scale, with a positive impact on the cost structure, for example, by reducing administrative, financing and service costs.

Management

The Company's aim is to further leverage real estate potential by continuing to improve its real estate management with a value-based approach. This includes the expansion of the Company's in-house portfolio and asset management capacities. These steps enable the portfolio and asset management activities to create dedicated individual property strategies, maintain a high level of management attention on existing tenant support and new lettings, and help to optimise the cost structures at the individual property level through the close control of property and facility management.

In terms of portfolio management, the Company is actively working on optimising its portfolio structure and the consistent implementation of the ABBA strategy. As part of this, small, low-yield properties in non-strategic areas are sold and properties consistent with the strategy are acquired. Properties that require restructuring due to changes in market conditions are repositioned using DEMIRE's active asset management approach.

DEMIRE is also expanding its regional network of administrations, trade associations, estate agents and other regional real estate players.

Financials

DEMIRE constantly reviews its financial performance indicators and takes steps to improve them where possible. In these endeavours, the Company pays special attention to cost structures. In addition to monitoring the performance indicators, DEMIRE regularly reviews and benchmarks non-operating costs in particular.

The intention is to gradually build up financial reserves for the repayment of the 2019/2024 corporate bond (nominal amount of EUR 550) with proactive liquidity management. Overall, financial liabilities fell to EUR 829 million compared to the end of 2021 (EUR 891 million).

Running administrative costs were reduced again in 2022 (–4.9% compared to the previous year). The positive development of the financial result reflects the income from the participation in the Cielo joint venture. The net loan-to-value ratio increased to 54.0% compared to the end of 2021 (49.7%) primarily due to the devaluation of the properties.

Due to the sale of the LogPark in Leipzig and the property in Ludwigsburg, the net loan-to-value ratio will fall again as a result of the cash inflow.

Processes

DEMIRE's corporate culture includes the continuous improvement of existing processes, procedures and structures. The DEMIRE Group continued to optimise and standardise its processes in 2022. From 2022, Group-wide property management will be conducted by STRABAG, while Group-wide asset management will be conducted by DEMIRE AG. This will be a starting point for further efficiency gains, in terms of both property management and administrative processes.

Corporate management

Management: key performance indicators are geared towards earnings and value development

We make use of a range of financial indicators to manage our Company. They relate to income and liquidity on the one hand, whilst also looking at value on the balance sheet.

On the income side, DEMIRE uses indicators such as rental income and operating cash flow (funds from operations after taxes and before minority interests [FFO I]). In order to grow FFO I, management is tasked with improving the cash flow of the existing portfolio over time and through active portfolio management. To achieve this, the development of the occupancy rate, the actual net rent per m², excluding service charges, ongoing maintenance and operating costs, allocable service charges, rent losses and the net operating income of the properties (NOI) are monitored and actively controlled at the operating level by means of regular target/actual comparisons. Integrated cash flow planning links both the business segments and the individual properties together.

In addition to the earnings position, we also continuously monitor the liquidity situation. Revenue and cash flows are aggregated and evaluated at the level of DEMIRE AG. The annual result is the key performance indicator for DEMIRE AG.

Interest expenses are also of major importance because they have a significant impact on the financial result and thus also on the profit/loss for the period and the development of cash flow. The active and ongoing management of the debt financing portfolio, combined with continuous market observation and evaluation, aims to steadily improve the financial result.

The key balance sheet-related performance indicator for measuring added value is the change in net asset value (NAV), adjusted for dividend payouts.

Another key performance indicator for the Group is the net loan-to-value (LTV) ratio, which, according to the definition of the 2019/2024 corporate bond, is calculated as financial and leasing liabilities minus cash and cash equivalents as a ratio to total assets minus goodwill and cash or cash equivalents (see page 61).

Corporate governance: Executive Board and Supervisory Board

The Group's parent company is DEMIRE AG. It is controlled by the Executive Board, which assumes responsibility for managing the business and determining the Company's strategic direction. The strategy is implemented in close coordination with the Supervisory Board. The Supervisory Board monitors the activities of the Executive Board and receives regular information from the latter regarding business developments, strategy and potential opportunities and risks. In the financial year under review, the Executive Board consisted of two members: Chairman of the Executive Board Ingo Hartlief (FRICS) and Chief Financial Officer Tim Brückner. Ingo Hartlief left the Company at his own request at the end of 2022. Prof. Dr Alexander Goepfert was appointed as the new CEO as of 1 January 2023. The Executive Board will also be joined by Ralf Bongers for the areas of Transactions and Asset Management as of April 2023.

The Executive Board is monitored by the Supervisory Board. It was made up of three members, whose positions were confirmed at the 2022 Annual General Meeting. Prof. Dr Alexander Goepfert assumed the role of Chairman, with Frank Hölzle as Deputy and Prof. Dr Kerstin Hennig as the other member. With the appointment of Prof. Dr Alexander Goepfert as CEO, Markus Hofmann was appointed as the new Chairman of the Supervisory Board.

The Executive Board and Supervisory Board are committed to the responsible management and monitoring of the Company in line with the principles of good corporate governance. The principles are a prerequisite for sustainable corporate success and a central guideline for conduct in DEMIRE AG's day-to-day business. The Executive Board and the Supervisory Board are convinced that good corporate governance strengthens trust in the Company among business partners and employees, as well as the general public. It enhances the Company's competitive standing and secures the trust of financial partners in DEMIRE AG.

Portfolio

Diversified portfolio with a focus on office properties

As at 31 December 2022, the core portfolio comprised 62 commercial properties (previous year: 64) with total lettable floor space of around 912,704 m² (previous year: 912,724 m²).

The **market value** of the properties totalled EUR 1,329.8 million (previous year: EUR 1,412.5 million). Office properties accounted for the largest share of this portfolio in terms of market value, at around 62% (31 December 2021: 60%). Retail properties account for approximately 24% (31 December 2021: 25%). Around 14% of the portfolio is made up of other properties, including hotels (31 December 2021: 15% including logistics). The market value per square metre averages EUR 1,457 and is below the replacement cost, i.e. the cost of constructing a comparable new building, across all property classes.

PORTFOLIO BY ASSET CLASS

	Number of properties	Market value in EUR million	Share by market value in %	Lettable space in thousand m²	Market value per m²	Contractual rent in EUR million p.a.	Contractual rent per m²	Rental returns in %	EPRA Vacancy Rate[1] in %	WALT in years
Office	40	821.1	61.7	504.4	1,628	50.3	9.57	6.1	12.0	3.3
Retail	17	320.1	24.1	220.1	1,455	24.5	9.69	7.6	3.0	5.6
Logistics & Other	5	188.5	14.2	188.2	1,002	10.4	5.22	5.5	18.0	10.1
Total 31 December 2022	**62**	**1,329.8**	**100.0**	**912.7**	**1,457**	**85.1**	**8.46**	**6.4**	**9.5**	**4.8**
Total 31 December 2021	**64**	**1,412.5**	**100.0**	**912.7**	**1,548**	**78.1**	**8.00**	**5.5**	**11.0**	**4.7**
Change (in %/pp)	–2	–5.9	0.0	0.0	–5.9	9.0	5.7	0.9	–1.5	0.1

[1] Excluding project developments and assets held for sale

Portfolio and asset management

DEMIRE defines proactive asset management as a key factor in achieving positive portfolio development in the long run. This requires regular contact with all stakeholders, especially tenants. This strategy also played a key role last year in allowing us to achieve yet another increase in the high letting performance reported in the previous year.

Active portfolio management is also part of our comprehensive asset management approach and is aimed at keeping the real estate portfolio attractive and competitive in the long term. As part of these endeavours, DEMIRE is continuously refining its portfolio and taking advantage of attractive acquisition opportunities, as well as selling in a targeted manner small properties that are no longer consistent with its strategy.

The last valuation of the entire portfolio was carried out by the independent real estate appraiser Savills as at the reporting date, 31 December 2022. The change in value compared to the previous year, from EUR 1,412.5 million to EUR 1,329.8 million is due primarily to the sale of two properties with a total market value of EUR 13.4 million as at 31 December 2021 and a gross valuation result of EUR –61.4 million at the end of 2022.

Letting performance

At around 287,600 m², letting performance in 2022 clearly surpassed the level achieved in the previous year (around 182,700 m²). 31.5% of the letting performance in 2022 was attributable to new lettings and approximately 68.5% to follow-on lettings. Nevertheless, rental income was slightly lower at EUR 81.1 million due to sales in the previous year (previous year: EUR 82.3 million).

The EPRA vacancy rate for the core portfolio, excluding properties held for sale and project developments, was 9.5% as at the reporting date, which was below the previous year's value of 11.0%. One of the main reasons for the lower vacancy rate was the high letting performance in the financial year in the properties in Bad Vilbel, Kassel and Freiburg, among others. The weighted average lease term (WALT) of the entire portfolio increased slightly to 4.8 years, up from 4.7 years on 31 December 2021.

The annualised contractual rents generated from the real estate portfolio rose by 10.2% in like-for-like terms in the financial year. If we take a more differentiated look at rental growth by asset class, the following picture emerges:

DEVELOPMENT OF ANNUALISED CONTRACTUAL RENTS IN 2022

Asset class	Like-for-like rental growth
Office	8.4%
Retail	7.3%
Logistics and others	28.9%
Total	**10.2%**

Active portfolio management

In the 2022 financial year, the two properties in Bremen and Ludwigsburg were sold for a total of EUR 11.7 million, which corresponds to a cumulative reduction of 12.6% on the previous year's market value. This included the property in Ludwigsburg, which was valued at EUR 8.15 million in the current market value report dated November 2022, and for which the sales price was EUR 8.2 million (0.6% premium). In the reporting period, the sales contract for the LogPark logistics property in Leipzig was also signed for EUR 121.0 million (market value as at 31 December 2021: EUR 141.6 million, market value as at 30 November 2022: EUR 120.6 million). The benefits and encumbrances are expected to be transferred in the summer of 2023.

DISPOSALS 2022

Location	Asset class	Market value (31/12/2021) in EUR	Selling price in EUR
Bremen	Office	3,280,000	3,490,000
Ludwigsburg	Office	10,100,000	8,200,000
Total		**13,380,000**	**11,690,000**

Non-financial performance indicators

Non-financial performance indicators are non-quantifiable values that are not used to directly control the Company but rather play a fundamental role in the success of the Company's development and the appreciation in DEMIRE's value. The non-financial performance indicators are based on competencies, competitive advantages and qualifications that have accumulated through the Company's history in the context of current business activities and the people involved. We consider our employees, as well as the maintenance of our network of actual and potential tenants and the comprehensive topic of sustainability, to be key performance indicators.

Personnel

KEY SPECIALISTS AND CENTRAL DEVELOPMENT DRIVERS

The Group employed a total of 34 employees, excluding the Executive Board, as at 31 December 2022 (31 December 2021: 35 employees). These figures include all consolidated and non-consolidated entities.

DEMIRE embraces and promotes diversity throughout the Company. The age structure of our employees is widely distributed. Around 6% of our employees are younger than 30 years of age, around 41% are between 30 and 40 years old, and around 32% are aged between 40 and 50. Just under 15% of our employees between 50 and 60, and around 6% are over 60 years.

DEMIRE's corporate structure is based on flat hierarchies. We offer motivated and committed employees a variety of responsibilities and areas of activity. Lean decision-making processes and direct, open communication between all levels provide ideal conditions for constructive cooperation. The Company creates the framework for this, recognising the fact that employees are at the heart of the Company's success, as well as being an essential component in allowing it to achieve its medium to long-term corporate goals.

A market and performance-oriented remuneration system encourages the management's and employees' focus on achieving corporate and departmental goals. Remuneration is reviewed regularly within the Company and adjusted to the Company-wide operational and personnel targets.

We offer our employees opportunities to undertake internal and external training, thus helping to advance their personal and professional skills. This ensures the areas they can be deployed in are in line with the Company's performance requirements.

Our employees benefit from a contemporary working environment, with modern workplaces and generously sized recreational areas to help foster team building. This supports the targeted exchange of knowledge within the workforce and promotes cooperation between the various working areas and project groups.

Flat hierarchies and the formation of cross-divisional project groups encourage the exchange between departments and employees with different professional experiences. To support the health and fitness of the employees, subsidies are paid towards the costs of gym contracts. Offers such as mobile working and the option to work part-time take into account the individual life circumstances of our employees.

DEMIRE WELCOMES DIVERSITY AND VARIETY

The Executive Board and Supervisory Board believe that diversity has a positive impact on the Company's culture and commercial success. DEMIRE AG embraces an inclusive work environment and an open work culture in which individual differences are respected, valued and encouraged. We are committed to having a diverse team in which each and every individual can fully develop and utilise their individual potential and strengths.

Tenant relationship management and network maintenance

DEMIRE's commercial success plays a significant role in the Company's ability to maintain and further expand its relationships with the environment around it. Maintaining regular dialogue and encouraging partnerships with our tenants ensures that we can identify potential need for action at an early stage in order to secure a lease for the long term. This particular strength was very much required during the pandemic.

On the operational side, we are regularly in constructive dialogue with all of our many cooperation partners. We integrate them into our processes, depending on the requirements and project cycle in question. These partners include experts (such as lawyers, architects or building specialists) and partners with special local knowledge (such as estate agents or local authorities).

CLOSE TENANT SUPPORT

Our Company relies on maintaining trust in our relationships with tenants. Our employees responsible for ensuring this are in regular contact with our tenants by telephone, but also by providing regular direct support on location.

DEMIRE generally aims for long-term tenancies when drafting its lease agreements. This involves a careful review and discussion of the requirements and overall conditions by both sides at the beginning of a tenancy, making it easier for both parties to plan and minimising the default risks for DEMIRE.

Close tenant support also paid off in the past year. Constructive dialogue allowed individual solutions to be found in the vast majority of cases, keeping rent default risks to a minimum.

NETWORKING

DEMIRE is a member of the European Public Real Estate Association (EPRA), the representative body of listed European real estate companies. As part of this, we support the EPRA best practice recommendations promoting the transparent presentation of key performance indicators for listed real estate companies. We have presented detailed performance indicators as defined by EPRA since the 2020 financial year (see EPRA key performance indicators). EPRA awarded DEMIRE a Gold Award for the implementation of the Best Practice Recommendations for this reporting. In the summer of 2022, we published the first EPRA Sustainability Report, which received the Silver Award and a special prize for the greatest improvement in reporting.

DEMIRE is also a member of DIRK e. V., the German Investor Relations Association. The association represents the interests of German listed companies on the capital market and provides them with professional support, access to networks and hands-on capital market knowledge so as to optimise dialogue between capital market participants.

Sustainability

EPRA SILVER AWARD FOR THE FIRST SUSTAINABILITY REPORT

In recent years, social and environmental factors have become much more important alongside economic aspects. For this reason, DEMIRE is currently exploring the topic in greater depth and in 2022 prepared its first EPRA sustainability report. This was recognised by EPRA with the Silver Award and the Most Improved Award. We aim to further improve ESG reporting and increase transparency on the ESG impacts of our business in 2023.

ESG – ENVIRONMENTAL, SOCIAL & GOVERNANCE

Our Company strives to act responsibly and sustainably in every situation. In doing so, we observe ecological and social aspects in our business activities and act in accordance with the principles of good corporate governance. We support measures that help to save energy and reduce emissions. In the future, our Company will continue to pay attention to the sustainable use of environmental resources and consider the impact of its entrepreneurial activities on them. Dealing with our employees, customers, business partners and the general public in a responsible and fair way is a matter of course for us. This comes from the high demands we place on implementing a responsible corporate culture.

Our Company strives to further anchor sustainability by implementing guidelines in the Group. Among other things, a cross-departmental working group has been formed for this purpose in order to anchor a sustainability strategy as an integral part of the Company's actions. Initial goals identified include a noticeable reduction in the company's own CO_2 emissions (Scope 1 and 2), the recording of CO_2 emissions and the energy consumption of our properties as well as savings through optimised building technology. The revitalisation of older existing buildings to meet the latest energy standards is likewise becoming increasingly important for DEMIRE. The largest new lease in the Company's history to the NRW police in Essen is based on a comprehensive sustainability concept for the revitalisation of an office property from the existing portfolio, which in comparison to a new building creates new rental space in a resource-saving manner.

In 2019, our Company underwent an external audit to document and apply the principles of good corporate governance based on the standards of the Institute for Corporate Governance (ICG) and was admitted as a member following successful certification in 2020. At the end of 2021, another audit took place, which once again confirmed compliance with the standards. In 2022, the report was updated again with the auditor. In 2023, the required self-audit will take place.

ECONOMIC REPORT

Economic environment

Macroeconomic situation

The macroeconomic situation in Germany in 2022 was influenced to a considerable degree by the consequences of the war in Ukraine, extreme energy price increases and a sharp rise in inflation. Despite the negative impact of material and supply bottlenecks, a drastic rise in prices, the shortage of skilled labour and the ongoing COVID-19 pandemic, although this eased over the course of the year, the German economy held up well. The German Federal Statistical Office (destatis) reported growth in price, season and calendar-adjusted gross domestic product (GDP) of 1.9% for 2022 compared to the previous year. This means that economic output was around 0.7% higher than in 2019, the year before the start of the COVID-19 pandemic. The recovery on the labour market continued in 2022. At 5.3%, the average unemployment rate for the year was 0.4 percentage points below the previous year's figure.

Of particular note is the large increase in the inflation rate when compared to the long-term figure. There was an increase of 7.9% compared to 2021, based on the consumer price index. According to the German Federal Statistical Office, this development can be traced back primarily to significant price increases for energy products and food since the beginning of the war in Ukraine.

As a result of the significant increase in the inflation rate, the ECB raised its key interest rate in several steps from 0% at the beginning of the year to 2.5% in December 2022, also making the financing of real estate investments much more expensive.

DEVELOPMENT OF THE REAL ESTATE AND CONSTRUCTION SECTORS

After the record year that was 2021, the transaction volume on the German real estate investment market dropped significantly in 2022. According to the Investment Market Overview by international brokerage Jones Lang Lasalle (JLL), properties with transaction volumes of EUR 66 billion were traded in the reporting period, down by 41% year-on-year. The main reason for the comparatively weak result is the second half of the year, which was characterised by increasing restraint and market observation among investors. The reasons for this investor restraint include the ongoing key rate hikes implemented by the European Central Bank (ECB), which make investment alternatives such as German Bunds more attractive again. JLL believes that there is still sufficient capital available, but only expects it to be used for real estate investment once the price level has been recalibrated.

The construction industry had to deal with supply shortages in primary products, particularly during the first half of 2022. The industry association BAU INDUSTRIE expects to see revenue growth of 10.5% compared to 2021. Due to the extremely dynamic price development, a decline of –5.3% is expected in real terms. According to the industry association, the negative change in real terms can be traced back to high material prices, rising interest rates and the expiry of new construction subsidies in the residential construction segment, which showed above-average negative development in 2022.

The section below outlines developments in the sub-markets that are the most relevant to DEMIRE in 2022.

OFFICE REAL ESTATE MARKET

The office letting market was once again more dynamic in 2022 than in 2021. JLL, a brokerage house with international operations, recorded office space turnover of 3.5 million m² in what are known as "A" cities (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart). This figure represents an increase of a good 6.5% compared to the previous year. Vacancies at these top locations totalled 4.9%, which was 9% or 40 basis points above the previous year's value. JLL attributes this to increasing supply in the form of space available at short notice (vacancies) and completed new construction space. Meanwhile, rising vacancy rates and increasing prime rents appear to be co-existing, which is due to the increased demand for high-quality, modern space. Prime rents increased by 13% in total compared to the previous year.

The office investment market, on the other hand, cooled as against the previous year. Looking at nationwide transaction volumes, figures from the international brokerage house BNP Paribas Real Estate show a total of EUR 22.3 billion, 28% short of the previous year's strong result and around 10% lower than the 10-year average. Accounting for a share of 41% of all commercial real estate investments, office transactions remained the asset class that dominated transaction activity in 2022, but lost seven percentage points compared to the previous year. In terms of prime yields, "A" cities recorded an average increase of 30 basis points to a yield range of 3.2% to 4.0%.

LOGISTICS REAL ESTATE MARKET

According to surveys conducted by the international brokerage firm Savills, momentum on the industrial and logistics real estate market once again slightly surpassed previous years. The positive structural influences from increasing inventory levels to counteract more fragile supply chains outweighed the economic stress factors. The transaction volume increased by around 2% year-on-year in 2022 to around 9.3 million m², the second highest transaction result ever recorded. The interest rate turnaround led to net initial yields in a range of 3.7-4.1% in the top 7 logistics regions (+70-110 basis points since Q1). Savills expects that a large part of the yield expansion has already taken place.

RETAIL REAL ESTATE MARKET

Due to the significant increase in consumer prices for energy and food, among other products, German retail sales fell by 0.6% in real terms in 2022, as reported by the German Federal Statistical Office (destatis). Whereas food retail, for example, recorded a marked drop in sales, the retail trade involving textiles, clothing, shoes and leather goods was able to expand its position. E-commerce was once again one of the main beneficiaries in 2022. According to statista, share of online retail sales grew to around 16%.

The transaction volumes for retail real estate fell slightly in 2022. CBRE recorded a year-on-year decline of around 4% in the transaction volume on the German market to approximately EUR 9.4 billion, close to the ten-year average. Specialist stores and specialist retail parks remained the most important sub-asset class at 48% (previous year: 60%), followed by shopping centres at 29% (previous year: 10%) and 1A retail real estate at 15% (previous year: 20%).

The gross initial yields for properties varied depending on the type of use and location at the end of 2022. They ranged from around 3.9% (+70 basis points year-on-year) for retail properties in "A" locations within top cities to around 4.3% (+70 basis points year-on-year) for food stores and specialist retail parks, to 5.1% (+25 basis points year-on-year) for shopping centres in "A" locations.

HOTEL REAL ESTATE MARKET

According to analyses conducted by BNP Paribas Real Estate, transaction volumes were down by around 25% year-on-year to EUR 1.9 billion. This means that the investment volume was around 45% lower than the ten-year average. Portfolio transactions, in particular, were missing in the market. The fourth quarter of 2022 saw the second-best quarterly result since the outbreak of the pandemic, meaning that there are signs of a revival in transaction activity in the hotel real estate market.

Implications for DEMIRE

The macroeconomic and property market environment was challenging in 2022. Even in this period, however, DEMIRE benefited from the portfolio focus on economically strong German secondary locations. Secondary locations are characterised by lower levels of market volatility compared to "A" locations, as joint studies conducted by DEMIRE and bulwiengesa have shown in the past.

General assessment of the Executive Board

General statement on the business performance and position of the Group

DEMIRE once again closed the 2022 financial year successfully in terms of its operating performance based on key performance indicators, particularly in view of the continued adverse environment, but had to report a negative result for the year due to market factors driving the value of the real estate portfolio down. Rental income and FFO as key management indicators showed positive development in line with, or even outstripping, our expectations. As already seen in previous years, the effects of the pandemic were once again not significant in terms of results in 2022, but again tied up part of the Company's management capacities, especially in the first half of the year. Even though the pandemic was still dominating day-to-day life and economic activity at the beginning of 2022, the main restrictions on public life were gradually lifted from the spring onwards. Our close contact with tenants is, however, not only due to the pandemic, but rather has been an integral part of our strategy since 2019, and also made a contribution to our high letting performance in 2022. Following the successful measures taken to streamline the portfolio in recent years, two further properties that were no longer consistent with the strategy and a real estate company in Romania were sold in 2022. As a result of this, and due to the reclassification of the LogPark property in Leipzig as non-current assets held for sale and the write-downs on the real estate portfolio amounting to EUR 61.2 million, the value of the portfolio decreased to EUR 1,231.1 million as at the reporting date (previous year: EUR 1,433.1 million). The sale of the LogPark property, the agreement for which was signed at the end of the year, will, however, not be reflected in the portfolio figures until the transaction is completed in the course of 2023. The conclusion of the sales contract resulted in a fair value adjustment on the property of EUR –37.7 million. The sales are part of our efforts announced in summer 2022 and also form part of the strategy to create further liquidity to refinance liabilities that will mature in 2024.

This provides us with an excellent basis to continue to pursue our strategic objectives, first and foremost the operating performance of our properties, in 2023 and to exploit opportunities as and when they arise.

TARGET/ACTUAL COMPARISON

Indicator/date in EUR million	2021 actual	Forecast 17/03/2022	2022 actual
Rental income	82.3	78.0–80.0	81.1
FFO I (after taxes, before minority interests)	39.8	38.5–40.5	41.8

The 2022 results once again reflect the success achieved with the “REALize Potential” strategy in numerous respects. The strategy, which was developed back in early 2019 and was then put into practice, has proven to be the right approach, and an efficient one, in an environment characterised by unusual circumstances caused by the coronavirus pandemic. This strategic orientation and the focus on a diversified portfolio with a balanced risk/opportunity profile is a key factor differentiating DEMIRE from competitors. The active management approach will continue to help us leverage valuation potential, generate increasing rental income and reduce our costs in the future. It is also easy to add any future acquisitions to this effective platform with low marginal costs. The resulting improved long-term profitability forms the basis for allowing DEMIRE achieve its objective of being able to pay sustainable dividends.

Following the extensive refinancing activities performed in previous years, in 2022 the Company continued to reap significant benefits from lower financing costs.

Measures were taken to actively shape the real estate portfolio in the financial year under review, even though the development of the transaction market for real estate triggered weaker demand for real estate investments in the course of 2022 in view of the rising interest rates. Two properties that were no longer consistent with the strategy were sold for a total of EUR 11.7 million, and the sale of a real estate company in Romania completely ended the last foreign investment, which had been held for historical reasons. Annualised contractual rents increased on a like-for-like basis, i.e. excluding purchases and sales, by a record 10.2% (previous year: –1.4%), mainly due to the commencement of several, in some cases large, leases in Leipzig, Kassel, Düsseldorf and Wismar, as well as indexation of existing leases and extensions. Thanks to the very strong letting performance, the EPRA Vacancy Rate, which excludes properties held for sale or under project development, fell by 150 basis points to 9.5% compared to the previous reporting date. The WALT increased slightly compared to the end of 2021 to 4.8 years (previous year: 4.7 years).

In summary, DEMIRE achieved positive operating development in the 2022 financial year in terms of its key performance indicators and in view of the special situation, even though the write-downs on the real estate portfolio lead to a negative annual result. In the course of the “REALize potential” strategy that the Company is still planning to implement in the medium term, the focus in the 2023 financial year will primarily be on refinancing existing liabilities that are scheduled to mature in 2024. Due to the associated sales, the Company expects to see a decline in rental income and FFO I (after tax, before minority interests) in the 2023 financial year. In the medium term, DEMIRE’s objectives are still to achieve an investment grade rating, to further expand the portfolio and to pay an attractive and sustainable dividend to its shareholders.

Results of operations, net assets and financial position

Results of operations

Rental income (EUR 81.1 million; previous year: EUR 82.3 million) and the profit/loss from the rental of real estate (EUR 62.3 million; previous year: EUR 67.6 million) decreased compared to the previous year due to the sales in 2021, as was to be expected. In addition, the operating expenses from property management increased due to the higher cost base driven by inflation. The profit/loss from the sale of real estate (EUR –8.2 million; previous year: EUR 1.4 million) was negative, as the properties were sold below the market value of the previous year. Due to the market situation, the profit/loss from the fair value adjustment of investment properties (EUR –61.2 million; previous year: EUR 47.0 million) is in negative territory and almost exceeds the profit/loss from the rental of real estate. In addition, there is a negative contribution from the fair value adjustment of the properties held for sale (EUR –37.7 million; previous year: EUR 1.8 million), which includes the LogPark in Leipzig. This results in negative earnings before interest and taxes (EUR –72.9 million; previous year: EUR 101.9 million). The financial result (EUR –0.4 million; previous year: EUR –21.1 million), on the other hand, improved significantly thanks to the increased contribution made by the Cielo joint venture and the bond buyback at below par.

CONSOLIDATED INCOME STATEMENT[1]

in EUR thousand	2022	2021	Change	in %
Rental income	81,079	82,325	–1,246	–1.5
Income from utility and service charges	28,065	20,206	7,859	38.9
Operating expenses to generate rental income[1]	–46,832	–34,959	–11,873	34.0
Profit/loss from the rental of real estate[1]	**62,312**	**67,572**	**–5,260**	**–7.8**
Income from the sale of real estate and real estate companies	12,743	104,106	–91,363	–87.8
Expenses related to the sale of real estate and real estate companies	–20,907	–102,665	81,758	–79.6
Profit/loss from the sale of real estate and real estate companies	**–8,164**	**1,441**	**–9,605**	**>100**
Profit/loss from fair value adjustments of investment properties	–61,228	46,996	–108,224	>100
Profit/loss from fair value adjustments of assets held for sale	–37,650	1,781	–39,432	>100
Impairment of receivables	–1,501	–3,475	1,974	–56.8
Other operating income[1]	800	797	3	0.4
General and administrative expenses[1]	–10,699	–11,410	711	–6.2
Other operating expenses[1]	–16,793	–1,836	–14,957	>100
Earnings before interest and taxes	**–72,925**	**101,866**	**–174,791**	**>100**
Financial income	18,411	3,167	15,244	>100
Financial expenses	–19,296	–18,331	–965	5.3
Profit/loss from companies accounted for using the equity method	–266	1,084	–1,350	>100
Interests of minority shareholders	770	–6,972	7,742	>100
Financial result	**–381**	**–21,052**	**20,671**	**–98.2**
Earnings before taxes	**–73,306**	**80,814**	**–154,120**	**>100**
Current income taxes	–6,841	–6,663	–178	2.7
Deferred taxes	8,644	–12,564	21,208	>100
Net profit/loss for the period	**–71,502**	**61,587**	**–133,090**	**>100**
Thereof attributable to minorty shareholders	–5,758	3,089	–8,847	>100
Thereof attributable to parent company shareholders	–65,745	58,499	–124,244	>100
Basic earnings per share (in EUR)	–0.62	0.55	–1.17	>100
Weighted average number of shares outstanding (in thousands)	105,513	105,513	0	0.0
Diluted earnings per share (in EUR)	–0.62	0.55	–1.17	>100
Weighted average number of shares outstanding (diluted) (in thousands)	106,023	106,023	0	0.0

[1] For the purpose of better comparability with the reporting period, the following disclosure changes have been made in relation to the prior-year disclosures:
Income from insurance compensation is now presented under other property-specific expenses and no longer under other operating income. As a result, an amount of EUR 391 thousand was reclassified in the prior-year figures. Furthermore, the following expenses have been reclassified from other operating expenses to administrative expenses: Training costs and technical literature EUR 84 thousand, contributions and memberships EUR 47 thousand, and facility management expenses EUR 27 thousand.

DEVELOPMENT OF THE MAIN ITEMS OF THE STATEMENT OF INCOME

In the 2022 financial year, the DEMIRE Group generated **rental income** totalling EUR 81.1 million (previous year: EUR 82.3 million). As expected, the slight decline is attributable to the sales in 2021, with offsetting effects from rent indexations and new lettings. Rental income slightly overshot the upper end of the forecast range, which was published in March 2022 as EUR 78.0 million to EUR 80.0 million.

Income from utility and service charges of EUR 28.1 million (previous year: EUR 20.2 million) includes tenant prepayments for operating costs. Expenses to generate rental income include utility and service charges and amounted to EUR 46.8 million in the reporting year (previous year: EUR 35.4 million). Overall, profit/loss from the rental of real estate fell in the financial year under review by 7.2% to EUR 62.3 million (previous year: EUR 67.2 million) due to higher maintenance costs, declining rental income after sales and higher other non-allocable costs.

The **profit/loss from the sale** of real estate came to EUR –8.2 million in the 2022 financial year (previous year: EUR 1.4 million), resulting from the sale two properties in Bremen and Ludwigsburg that were not consistent with the strategy and a real estate company in Romania with a volume of EUR 12.7 million. The property in Ludwigsburg was valued at EUR 8.15 million in the market value report dated November 2022 and the sales price was EUR 8.2 million (0.6% premium). The balance also includes the necessary expenses for brokers and consultants associated with the sales, including costs for the sale of the LogPark property in Leipzig (EUR 6.8 million).

The **profit/loss from fair value adjustments** of investment properties (valuation result) amounted to EUR – 61.2 million or 4.8% of the portfolio value (previous year: EUR 47.0 million). A large number of the properties in the portfolio were written down; in particular, retail properties leased to Galerie Karstadt-Kaufhof showed an above-average loss in value. On the other hand, a small number of properties increased in value, in particular after successful new lettings, as in Essen. The result from the fair value adjustment of assets held for sale amounted to EUR –37.7 million and is attributable to the LogPark logistics property in Leipzig (previous year: EUR 1.8 million).

Impairments on receivables amount to EUR 1.5 million in the reporting period (previous year: EUR 3.5 million) and relate primarily to impairments on financial instruments.

Other operating income remained unchanged compared to the previous year (previous year: EUR 0.8 million) at EUR 0.8 million.

General and administrative expenses fell further in 2022 to EUR 10.7 million (previous year: EUR 11.4 million). This figure reflects the annualised efficiency measures taken at the start of the pandemic in 2020 and highlights the Company’s earnings potential and its ability to improve its operating results by applying cost discipline.

Other operating expenses rose considerably compared to the previous year to EUR 16.8 million, due in particular to the impairment of the goodwill associated with the shares in Fair Value REIT-AG (previous year: EUR 1.9 million).

As a result of all of the factors referred to above, **earnings before interest and taxes** (EBIT) came to EUR –72.9 million, as against EUR 101.9 million in the previous year.

The **financial result** improved to EUR –0.4 million in 2022 (previous year: EUR –21.1 million). Financial income (up by EUR 15.2 million to EUR 18.4 million) increased due to the investment in the Cielo property, which was recognised through profit or loss for a full year for the first time in 2022, and the bond buyback at below par. After a positive contribution to earnings made by minority shareholders of EUR 7.0 million in the previous year, the contribution was negative at EUR 0.8 million in the financial year, in particular due to the lower value of the real estate portfolio and the write-downs on rental incentives. By contrast, financial expenses increased (by EUR 1.0 million to EUR 19.3 million) due to costs associated with the partial bond buyback.

The **net profit/loss for the period** (earnings after taxes) came to EUR –71.5 million in the 2022 financial year compared with EUR 61.6 million in the previous year.

FUNDS FROM OPERATIONS (FFO)

Funds from operations (FFO) measure the operating result of the DEMIRE Group. It corresponds to the earnings before taxes, which are adjusted for valuation results, other sales and one-off effects and non-periodic income and expenses.

FFO CALCULATION

in EUR thousand	2022	2021	Change	in %
Earnings before taxes	–73,306	80,815	–154,120	>100
Interests of minority shareholders	–770	6,972	–7,742	>100
Earnings before taxes (EBT)	**–74,075**	**87,787**	**–161,862**	**>100**
± Profit/loss from the sale of real estate	8,164	–1,441	9,605	>100
± Profit/loss from the valuation of investment properties and the valuation of assets held for sale	98,878	–48,777	147,655	>100
± Other adjustments [1]	11,636	6,033	5,603	92.9
FFO I before taxes	**44,603**	**43,602**	**1,001**	**2.3**
± Current income taxes	–2,842	–3,773	931	–24.7
FFO I after taxes	**41,761**	**39,829**	**1,932**	**4.8**
of which attributable to parent company shareholders	33,406	35,018	–1,612	–4.6
of which attributable to non-controlling interests	8,355	4,810	3,545	73.7
± Profit/loss from the sale of real estate and real estate companies (after taxes)	–7,083	–2,903	–4,180	>100
FFO II after taxes	**34,678**	**36,925**	**–2,247**	**– 6.1**
of which attributable to parent company shareholders	26,082	32,416	–6,334	–19.5
of which attributable to non-controlling interests	8,596	4,509	4,087	90.6
FFO I after taxes and minority interests				
Basic earnings per share (in EUR)	0.40	0.38	0.02	4.2
Weighted average number of shares outstanding (in thousands)	105,513	105,513	0	0.0
Diluted earnings per share (in EUR)	0.39	0.38	0.01	3.7
Weighted average number of shares outstanding (diluted) (in thousands)	106,023	106,023	0	0.0

FFO CALCULATION

in EUR thousand	2022	2021	Change	in %
FFO II after taxes and minority interests				
Basic earnings per share (in EUR)	0.33	0.35	–0.02	–6.1
Weighted average number of shares outstanding (in thousands)	105,513	105,513	–0	–0.0
Diluted earnings per share (in EUR)	0.33	0.35	–0.02	–6.5
Weighted average number of shares outstanding (diluted) (in thousands)	106,023	106,023	0	0.0

[1] Other adjustments include:
— One-time refinancing costs (EUR 3.1 million, previous year: EUR 2.4 million)
— One-time legal and consultancy fees (EUR 0.4 million, previous year: EUR 0.8 million)
— One-time administrative costs (EUR 0.6 million, previous year: EUR 0.5 million)
— Non-period expenses/income (EUR 0.7 million, previous year: EUR -0.2 million)
— Expenses from impairment of goodwill and other extraordinary write-offs (EUR 6.8 million, previous year: EUR 2.3 million)
— One-time fines/fees (EUR 0.0 million, previous year: EUR 0.3 million)

FFO I (after taxes, before minority interests) increased again in the 2022 financial year, primarily due to lower administrative costs and lower income taxes relevant to FFO, and amounted to EUR 41.8 million (2021 financial year: EUR 39.8 million); after taxes and after minority interests, FFO I amounted to EUR 33.4 million (2021 financial year: EUR 35.0 million). Taking into account the result from the sale of real estate, funds from operations (FFO II) amounted to EUR 34.7 million after taxes and before minority interests (2021 financial year: EUR 36.9 million), and to EUR 26.1 million (2021 financial year: EUR 32.4 million) after taxes and after minority interests. Other adjustments to FFO during the period under review amounted to EUR 11.6 million compared to EUR 6.0 million in the previous year. The adjustments in the year under review are mainly due to the adjustment of effective interest (EUR 3.1 million) and the write-down on goodwill for the investment in Fair Value REIT-AG (EUR 6.8 million).

SEGMENT DEVELOPMENT

The segmentation of the data in the consolidated financial statements is based on the internal alignment according to strategic business segments pursuant to IFRS 8 "Operating Segments". The segment information presented represents the information to be reported to DEMIRE's Executive Board. Segment information is presented on a net basis, minus consolidation entries.

The key segment data developed as follows in 2022:

SELECTED DISCLOSURES FROM THE CONSOLIDATED INCOME STATEMENT

	Core Portfolio		Fair Value REIT		Corporate Functions/Others		Group	
in EUR thousand	2022	2021	2022	2021	2022	2021	2022	2021
External revenue	97,577	168,116	23,256	38,521	1,053	–	121,887	206,637
Total revenue	97,577	168,116	23,256	38,521	1,053	–	121,887	206,637
Profit/loss from fair value adjustments of investment properties	– 88,813	42,325	– 10,066	6,452	–	–	– 98,878	48,777
Other income	375	470	201	586	224	132	800	1,188
Segment revenue	**9,140**	**210,911**	**13,391**	**45,559**	**1,277**	**132**	**23,808**	**256,601**
Expenses relating to the sale of real estate	– 20,907	– 88,806	–	– 13,859	–	–	– 20,907	– 102,665
Other expenses	– 41,235	– 32,398	– 25,689	– 9,903	– 8,902	– 9,768	– 75,826	– 52,071
Segment expenses	**– 62,142**	**– 121,205**	**– 25,689**	**– 23,762**	**– 8,902**	**– 9,768**	**– 96,733**	**– 154,736**
EBIT	**– 53,001**	**89,706**	**– 12,297**	**21,797**	**– 7,626**	**– 9,636**	**– 72,925**	**101,866**
Financial income	70	217	26	0	18,315	2,950	18,411	3,167
Financial expenses	– 18,068	– 17,028	– 1,228	– 1,148	– 0	– 154	– 19,296	– 18,331
Profit/loss from companies accounted for using the equity method	– 266	1,084	–	–	–	–	– 266	1,084
Interests of minority shareholders	–	–	770	– 6,972	–	–	770	– 6,972
Income taxes	–4,864	– 5,476	1,212	– 747	5,455	– 13,004	1,803	– 19,227
Net profit/loss for the period	**–76,128**	**68,502**	**– 11,517**	**12,930**	**16,144**	**– 19,845**	**–71,502**	**61,587**
Significant non-cash items	**102,669**	**– 37,221**	**8,859**	**– 7,825**	**– 6,433**	**13,111**	**105,095**	**– 31,934**
Impairment losses in net profit/loss for the period	**595**	**1,336**	**186**	**85**	**720**	**2,055**	**1,501**	**3,475**

The two business segments “Core Portfolio” and “Fair Value REIT” each represent sub-areas of the real estate portfolio that are held for the purpose of generating rental income and achieving value appreciation. The segment “Corporate Functions/Others” mainly contains the activities of DEMIRE AG in its function as the Group holding.

Revenue in the “Core Portfolio” segment amounted to EUR 97.6 million in 2022 compared to EUR 168.1 million in the previous year. Net profit/loss for the period totalled EUR –76.1 million in 2022 (previous year: EUR 68.5 million).

Revenue in the “Fair Value REIT” segment amounted to EUR 23.3 million in 2022 compared to EUR 38.5 million in the previous year. Net profit/loss for the period totalled EUR –11.5 million in 2022 (previous year: EUR 12.9 million).

The “Corporate Functions/Others” segment generated revenue of EUR 1.1 million as against EUR 0 in the previous year. Net profit/loss for the period totalled EUR 16.1 million in 2022 as against EUR –19.8 million in the previous year.

At Group level, revenue came to EUR 121.9 million in 2022 compared with EUR 206.6 million in the previous year. The Group’s net profit/loss for the period amounted to EUR –71.5 million in 2022 as against EUR 61.6 million in 2021.

Further information on segment reporting can be found in the Notes to the consolidated financial statements starting on page 169.

Net assets

NET ASSET VALUE (NAV)

NAV, previously known as EPRA NAV, is the value of all tangible and intangible assets of the Company minus liabilities and adjusted for the fair values of derivative financial instruments, deferred taxes and goodwill from deferred taxes.

NET ASSET VALUE (NAV/NNNAV)

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Net asset value (NAV)	450,226	549,023	–98,797	–18.0
Deferred taxes	76,047	84,692	–8,644	–10.2
Goodwill resulting from deferred taxes	0	–4,738	4,736	–100.0
NAV (basic)	**526,273**	**628,977**	**–102,704**	**–16.3**
Number of outstanding shares (basic) (in thousands)	105,513	105,513	–0	–0.0
NAV per share (basic) (in EUR)	4.99	5.96	–0.97	–16.3
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0
NAV (diluted)	526,783	629,486	–102,703	–16.3
Number of outstanding shares (diluted) (in thousands)	106,023	106,023	–0	–0.0
NAV per share (diluted) (in EUR)	**4.97**	**5.94**	**–0.97**	**–16.3**

In 2022, diluted NAV decreased by 16.3% to EUR 526.8 million, down from EUR 629.5 million at the end of 2021, due primarily to the lower value of the real estate portfolio. Based on the number of shares outstanding equalling EUR 106.0 million, diluted NAV per share equalled EUR 4.97, compared to EUR 5.94 at the end of 2021. The number of underlying shares remained unchanged compared to the previous year.

Total assets down by 9.9%

Total assets of the DEMIRE Group as at 31 December 2022 amounted to EUR 1,536.9 million (31 December 2021: EUR 1,705.6 million), down by 9.9% in a year-on-year comparison.

For the real estate portfolio (investment properties), the external real estate appraiser Savills determined a total market value of EUR 1,208.8 million (31 December 2021: EUR 1,412.5 million). The difference compared to the property value shown in the balance sheet is due to accounting accruals, deferrals and capitalisations. This is explained in the Notes to the consolidated financial statements (section E.1.1.3).

SELECTED DISCLOSURES FROM THE CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET – ASSETS

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Assets				
Total non-current assets	1,325,808	1,543,819	–218,011	–14.1
Total current assets	90,043	161,775	–71,732	–44.3
Non-current assets held for sale	121,000	0	121,000	–
Total assets	**1,536,851**	**1,705,594**	**–168,743**	**–9.9**

As at 31 December 2022, non-current assets were down by EUR 218.0 million to EUR 1,325.8 million (31 December 2021: EUR 1,543.8 million). Investment property accounted for the lion's share of this development, with a decrease of EUR 202.0 million. This decline is mainly due to the negative valuation result (EUR –61.2 million), property sales (EUR –13.8 million) and the reclassification of the LogPark property in Leipzig as assets held for sale (EUR –158.7 million). Capitalised, value-enhancing expansion measures and rent incentives (EUR 31.9 million) have the opposite effect.

Loans to companies accounted for using the equity method were reported at EUR 24.8 million (previous year: EUR 26.5 million). This relates to an interest-bearing shareholder loan to the joint venture in conjunction with the purchase of the Cielo property. Loans and financial assets also remained virtually stable at EUR 62.8 million (previous year: EUR 64.3 million).

As at 31 December 2022, the DEMIRE Group's current assets decreased by EUR 71.7 million to EUR 90.0 million (31 December 2021: EUR 161.8 million). The decrease is due, in particular, to the drop in cash and cash equivalents, which now amount to EUR 57.4 million (previous year: EUR 139.6 million) following the bond buyback (EUR 36.8 million) and dividend distributions (EUR 32.7 million) in 2022.

As at 31 December 2022, the LogPark property in Leipzig (EUR 121 million) was held as an asset held for sale (31 December 2021: EUR 0 million).

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Equity and liabilities				
Equity				
Equity attributable to parent company shareholders	450,226	549,023	–98,797	–18.0
Non-controlling interests	36,465	43,339	–6,874	–15.9
Total equity	**486,691**	**592,362**	**–105,671**	**–17.8**
Liabilities				
Total non-current liabilities	996,049	1,066,581	–70,532	–6.6
Total current liabilities	54,111	46,651	7,460	16.0
Total liabilities	**1,050,160**	**1,113,232**	**–63,072**	**–5.7**
Total equity and liabilities	**1,536,851**	**1,705,594**	**–168,743**	**–9.9**

Equity ratio remains solid at 31.7%

Group equity fell to EUR 486.7 million in 2022 (previous year: EUR 592.4 million). The decrease is due to the negative result for the period of EUR –71.5 million and the dividend payment in 2022 in the amount of EUR 32.7 million. Due to the lower equity, the equity ratio came to 31.7% as against 34.7% at the end of 2021. Non-controlling minority interests of EUR 80.4 million were also reported in non-current liabilities and not under equity in accordance with IFRS, primarily due to the legal form of a partnership. The corresponding adjusted Group equity therefore totalled EUR 567.1 million or 36.9% of total equity and liabilities (31 December 2021: EUR 675.2 million or 39.6%).

Non-current liabilities amounted to EUR 996.0 million at the end of 2022 (31 December 2021: EUR 1,066.6 million) and current liabilities came to EUR 54.1 million (31 December 2021: EUR 46.7 million). This means that the total liabilities of the DEMIRE Group as at 31 December 2022 were down to EUR 1,050.2 million (31 December 2021: EUR 1,113.2 million).

Total financial liabilities of EUR 829.1 million (31 December 2021: EUR 890.5 million) include the EUR 600 million bond issued in 2019, which, following the buyback of a nominal amount of EUR 50 million in November 2022, is reported with a book value of EUR 546.4 as at the reporting date, and liabilities to credit institutes and third parties of approximately EUR 282.7 million (31 December 2021: EUR 296.5 million). The proportion of unsecured properties by value as at 31 December 2022 came to 47.5% (31 December 2021: 48.4%). There was one variable interest rate agreement for EUR 5.5 million as at the reporting date. The average nominal interest rate on financial liabilities was up slightly as at the reporting date of 31 December 2022, mainly due to the variable-rate loan in the reporting period, namely by one basis point to 1.67% p. a., compared with 1.66% p. a. at the end of 2021. The average remaining term of the liabilities fell from 3.0 years at the end of 2021 to 2.0 years at the end of 2022.

As at 31 December 2022, trade payables and other liabilities rose to EUR 22.0 million (31 December 2021: EUR 17.7 million).

Contingencies

As at the reporting date, the following contingent liabilities existed for matters for which DEMIRE AG or its subsidiaries have pledged guarantees in favour of third parties:

The contingent liabilities as at the end of the period under review consist of mortgages under Section 1191 BGB in the amount of EUR 346.9 million (previous year: EUR 346.9 million). The maximum liability for these properties is limited to the carrying amount as at the reporting date of EUR 346.9 million (previous year: EUR 346.9 million).

FINANCIAL POSITION

Financial management

The financial management of the DEMIRE Group ensures liquidity control and financing, and contributes to the optimisation of cash flows within the Group through central liquidity analysis. The primary objective is to secure liquidity for the entire Group and maintain financial independence. The focus is on maintaining a long-term, stable and cost-optimised financing mix that supports the development of the operating business in a positive and sustainable manner.

Providing regular information on the financial position to the Supervisory Board is an essential part of DEMIRE's risk management system. The principles and objectives of capital management and control are presented in the Notes to the consolidated financial statements. Cash and cash equivalents in the amount of EUR 57.4 million (previous year: EUR 139.6 million) include cash on hand and bank balances carried at their nominal value. Of this, cash and cash equivalents in the amount of EUR 4.9 million (previous year: EUR 3.2 million) were earmarked for maintenance costs as at 31 December 2022 or are subject to restrictions on disposal.

SELECTED DISCLOSURES FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS[1]

in EUR thousand	2022	2021	Change	in %
Cash flow from operating activities	48,002	65,217	–17,215	–26.4
Cash flow from investing activities	–26,265	–238	–26,027	10,933.7
Cash flow from financing activities	–103,940	–26,980	–76,960	285.3
Net change in cash and cash equivalents	**–82,204**	**37,999**	**–120,203**	**–316.3**
Cash and cash equivalents at the end of the period	**57,415**	**139,619**	**–82,204**	**–58.9**

[1] In the consolidated statement of cash flows, distributions to minority shareholders/dividends are now presented in cash flows from financing activities and the prior-year statement of cash flows has also been adjusted accordingly.

Liquidity headroom remains comfortable

Cash flow development in the 2022 financial year is negative overall. Whereas operating cash flow is positive, the statement of investment activities reflects the payments for modernisation investments. The cash flow from financing activities includes the bond buyback and dividend payments as its main items.

Cash flow from operating activities amounted to EUR 48.0 million at the end of the 2022 financial year (previous year: EUR 65.2 million).

Cash flow from investing activities amounted to EUR –26.3 million in 2022, compared to EUR –0.2 million in 2021. This includes payments for loans to companies accounted for using the equity method totalling EUR –0.6 million (previous year: EUR –29.1 million) and payments for modernisation measures (EUR –32.4 million (previous year EUR –24.7 million). This was offset by proceeds from loans to companies accounted for using the equity method of EUR 2.1 million (previous year: EUR 2.4 million) and sales revenue of EUR 4.5 million (previous year: EUR 103.1 million).

Cash flow from financing activities amounted to EUR –103.9 million (previous year: EUR –27.0 million). This mainly includes payments for the redemption of financial liabilities in the amount of EUR –51.2 million (previous year: EUR –10.6 million) and the dividend distributions of EUR –35.4 million (previous year: –67.8 million).

The net change in cash and cash equivalents amounted to EUR –82.2 million at the end of the 2022 financial year (previous year: EUR 38.0 million). Total cash and cash equivalents at the end of the period under review amounted to EUR 57.4 million (previous year: EUR 139.6 million).

The DEMIRE Group was able to meet its payment obligations in full at all times throughout the reporting period.

The detailed consolidated statement of cash flows precedes the Notes to the consolidated financial statements.

Slight increase in net loan-to-value ratio

The DEMIRE Group's net loan-to-value ratio (LTV) is defined as the ratio of net financial liabilities to total assets less goodwill and cash and cash equivalents. The net LTV as at the reporting date was as follows:

NET LOAN-TO VALUE (NET LTV)

in EUR thousand	31/12/2022	31/12/2021
Financial liabilities and lease liabilities	855,655	914,986
Cash and cash equivalents	57,415	139,619
Net financial debt	**798,240**	**775,367**
Total assets	1,536,851	1,705,594
Intangible assets	0	6,783
Cash and cash equivalents	–57,415	–139,619
Total assets less intangible assets and cash and cash equivalents	**1,479,436**	**1,698,811**
Net LTV (in %)	54.0	49.7

Net loan-to-value rose slightly to 54.0% compared with the prior-year figure of 49.7% due to lower assets. Following the completion of the sale of the LogPark property and the property in Ludwigsburg, the net loan-to-value ratio will decrease again once the cash funds have been received. Financial liabilities and lease liabilities fell year-on-year at the same time, by EUR 59.3 million to EUR 855.7 million.

The maturities of the existing loan agreements are concentrated, at EUR 715.8 million, in the 2024 financial year, while no follow-up financing is due in 2023 and only scheduled repayments will have to be made. The liquidity requirements for follow-up financing and repayments over the next few years are as follows:

MATURITIES

in EUR million	2023	2024	2025	2026	2027	from 2028
	25.7	737.1	56.8	20.4	1.8	18.7

Covenants for the corporate bond adhered to

Within the scope of issuing the 2019/2024 corporate bond, DEMIRE undertook to comply with and regularly report on various covenants. The definitions of the covenants to be reported on are listed in the offering prospectus for the 2019/2024 corporate bond.

BOND COVENANTS 31/12/2022

	NET LTV	NET SECURED LTV	ICR
Covenant	max. 60%	max. 40%	min. 2.00x
Value	54.0%	15.1%	4.68x

As at 31 December 2022, DEMIRE had complied with all covenants of the 2019/2024 corporate bond. The planning for the 2023 financial year and beyond assumes that all covenants will be complied with at all times.

Other financial obligations and contingent liabilities

The real estate purchase agreements concluded in the 2022 financial year that had still not been closed as at the reporting date resulted in no financial obligations as at 31 December 2022. There were no financial obligations arising from purchase agreements as at the reporting date in the previous year either.

Obligations for modification and expansion measures, as well as maintenance and modernisation work on the properties, totalled EUR 113.1 million (previous year: EUR 33.2 million). These obligations are fixed in terms of their scope. The purchase order commitment from commissioned maintenance amounted to EUR 5.3 million (previous year: EUR 12.0 million).

As at 31 December 2022, there are no unused credit lines (previous year: EUR 5.0 million) for general corporate financing, including for the financing of capex and reletting measures.

Economic development of DEMIRE AG

The section below explains the development of the Company. The basic statements on the market, strategy and management, as well as on the opportunities and risks of the business activities, presented in the group management report also apply equally to the Company.

The Company is the operational management unit of the DEMIRE Group and does not hold any of its own properties. In the 2022 financial year, it generated revenue from management services rendered for the project companies. The number of employees, excluding Executive Board members, remained unchanged with an average of 27 in the year under review (2021 financial year: 27 employees).

DEMIRE's financial statements as at 31 December 2022 were prepared in accordance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). Supplementary provisions from the Articles of Association did not arise.

Results of operations, net assets and financial position

In the financial year under review, the main drivers of the net loss for the year were the write-downs on financial assets due to lower market values and expenses from the assumption of losses as a result of sales. Other operating income from the bond buyback had the opposite effect, but was unable to offset it in full.

RESULTS OF OPERATIONS

STATEMENT OF INCOME (EXCERPT)

in EUR thousand	2022	2021	Change	in %
Revenue	3,940	4,206	–266	–6.3
Other operating income	16,414	1,049	15,365	>100
Personnel expenses	–5,354	–4,937	–417	8.5
Other operating expenses, depreciation und amortisation	–5,046	–5,320	275	–5.2
Income from long-term equity investments	4,049	3,872	177	4.6
Income from profit transfer agreements	3,630	35,039	–31,409	–89.6
Income from loans of financial assets	20,983	19,535	1,449	7.4
Other interest and similar income	56	512	–455	–89.0
Impairment of financial assets	–15,061	–650	–14,411	>100
Expenses from the assumption of losses	–30,070	–450	–29,620	>100
Interest and similar expenses	–13,998	–13,588	–411	3.0
Expenses from compensation payments to minority shareholders	–142	–142	0	0.0
Result from ordinary activities	**–20,599**	**39,126**	**–59,725**	**>100**
Income taxes	–5,365	–6,283	918	–14.6
Net loss (prev. year net profit)	**–25,964**	**32,843**	**–58,807**	**>100**
Profit carried forward	204	950	–746	–78.6
Withdrawal from the capital reserves and offsetting with shares acquired for redemption	0	880	–880	–100.0
Accumulated loss (prev. year accumulated profit)	**–25,761**	**31,912**	**–57,673**	**>100**

The Company's **revenue** results mainly from management fees related to the provision of internal Group services to the subsidiaries and sub-subsidiaries of DEMIRE. Since this group of subsidiaries and sub-subsidiaries has not materially changed, revenues generated by DEMIRE also fell only slightly by EUR 0.3 million to EUR 3.9 million.

Other operating income rose significantly by EUR 15.1 million from EUR 1.3 million in 2021 to EUR 16.4 million and mainly comprises income from the below-par repayment of parts of the 2019/2024 corporate bond in the amount of EUR 13.8 million (2021 financial year: EUR 0 million), the reversal of write-downs on receivables from affiliated companies in the amount of EUR 1.1 million (2021 financial year: EUR 0 million) and the reversal of provisions in the amount of EUR 0.9 million (2021 financial year: EUR 0.5 million).

Staff costs increased moderately to EUR 5.4 million (previous year: EUR 4.9 million).

Other operating expenses dipped slightly by EUR 0.3 million to EUR 5.0 million (previous year: EUR 5.3 million).

In the 2022 financial year, income totalling EUR 3.6 million was collected on the basis of the existing **control and profit transfer agreements** (2021 financial year. EUR 35.0 million). The high income in the 2021 financial year is due to the sale of a property in Regensburg at a price that was above the book value at a subsidiary, which led to a high annual result for this subsidiary.

Income from investments came to EUR 4.0 million as against EUR 3.9 million in the previous year.

Income from loans of financial fixed assets amounting to EUR 21.0 million (previous year: EUR 19.5 million) resulted primarily from loans granted to affiliated companies in order to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries of the Company.

Financial expenses in the 2022 financial year came to EUR –14.0 million (2021 financial year: EUR –13.6 million). Impairment on financial assets in the 2022 financial year amounted to EUR 15.1 million (2021 financial year: EUR 0.7 million) and related to loans to affiliated companies (2021 financial year: shares in affiliated companies). Expenses from compensation payments to minority shareholders amounted to EUR –0.1 million, as was the case the previous year.

The **result from ordinary activities** amounted to EUR –20.6 million in 2022, compared to EUR 39.1 million in 2021.

Earnings after taxes came to EUR –26.0 million in 2022 (2021 financial year: EUR 32.8 million). No amount was withdrawn from free capital reserves and transferred to the accumulated profit in 2022 (previous year: EUR 0.8 million). Consequently, the Company's accumulated loss amounted to EUR –25.8 million (previous year accumulated profit: EUR 32.0 million).

NET ASSETS

BALANCE SHEET – ASSETS (EXCERPT)

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Assets				
Fixed assets	812,776	878,129	–65,354	–7.4
Current assets/ prepaid assets	38,822	93,104	–54,281	–58.3
Total assets	**851,598**	**971,233**	**–119,635**	**–12.3**

BALANCE SHEET – EQUITY AND LIABILITIES (EXCERPT)

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Equity and liabilities				
Equity	239,632	298,306	–58,674	–19.7
Provisions	13,418	11,203	2,215	19.8
Liabilities	598,547	661,725	–63,178	–9.5
Total equity and liabilities	**851,598**	**971,233**	**–119,635**	**–12.3**

The Company's total assets as at the 31 December 2022 reporting date amounted to EUR 851.6 million. This represents a drop of 12.3% compared to the previous year's total of EUR 971.2 million.

Fixed assets decreased in the financial year under review compared to the previous year by EUR 65.4 million to EUR 812.8 million (previous year: EUR 878.1 million), due in particular to lower loans to affiliated companies. Current assets including prepaid expenses decreased by 58.3% to EUR 38.8 million compared to EUR 93.1 million on the previous year's reporting date. Cash and cash equivalents amounted to EUR 3.3 million (previous year: EUR 7.3 million).

On the liabilities side of the balance sheet, the Company's equity fell from EUR 298.3 million as at 31 December 2021, due to the dividend distribution on the one hand and the net loss for 2022 on the other, to EUR 239.6 million as at 31 December 2022.

The equity ratio decreased accordingly from 30.7% on 31 December 2021 to 28.1% as at 31 December 2022.

Provisions of EUR 13.4 million as at 31 December 2022 (31 December 2021: EUR 11.2 million) primarily relate to other staff costs, legal and consulting fees, as well as costs for the preparation and audit of the annual and consolidated financial statements.

The Company's liabilities fell, mainly as a result of the partial buyback of the 2019/2024 corporate bond, from EUR 661.7 million as at 31 December 2021 to EUR 598.5 million as at 31 December 2022.

FINANCIAL POSITION

The Company's financial management is carried out in accordance with the Rules of Procedure adopted by the Executive Board. The primary objectives are to ensure liquidity and maintain financial independence. The financial obligations and credit clauses (financial covenants) were upheld as at the reporting date.

Regularly providing information on the financial position to the Supervisory Board is an integral part of the risk management system of DEMIRE AG.

STATEMENT OF CASH FLOWS (EXCERPT)

in EUR thousand	2022	2021	Change	in %
Cash flow from operating activities	42,552	16,332	26,220	160.5
Cash flow from investing activities	50,365	–14,274	64,639	–452.8
Cash flow from financing activities	–96,909	–49,073	–47,836	97.5
Net change in cash and cash equivalents	**–3,992**	**–47,015**	**43,024**	**–91.5**
Cash and cash equivalents at the end of the period	**3,308**	**7,299**	**–3,992**	**–54.7**

Operating activities resulted in a cash inflow of EUR 42.6 million in 2022, after a cash inflow of EUR 16.3 million in the previous year.

Cash flow from investing activities amounted to EUR 50.4 million, compared to EUR –14.3 million in 2021.

DEMIRE AG's cash flow from financing activities amounted to EUR –96.9 million in the 2022 financial year, compared with EUR -49.1 million in 2021.

During the financial year, DEMIRE was able to meet all of its payment obligations at all times.

OUTLOOK

The annual result predicted for 2022 fell more sharply than expected and turned out to be negative due to higher impairment losses on financial assets at DEMIRE AG and subsidiaries with profit and loss transfer agreements. Looking ahead to the 2023 financial year, the annual result is expected to increase slightly year-on-year thanks to the expected proceeds from the sale of the LogPark property in Leipzig. The proceeds from the sale will flow to DEMIRE AG through the profit and loss transfer agreement.

SUBSEQUENT EVENTS

The Supervisory Board appointed Prof. Dr Alexander Goepfert as a new member of the Executive Board with effect from 1 January 2023 and at the same time appointed him as CEO. Prof. Dr Goepfert informed the Supervisory Board that he would resign from his position as Chairman of the Supervisory Board with effect from 31 December 2022 and leave the Supervisory Board.

The vacancy in the Supervisory Board resulting from Prof. Dr Goepfert's resignation as of 1 January 2023 was filled with effect from 1 January 2023 by the court replacement appointment of Mr Markus Hofmann. Mr Hofmann was elected as the new Chairman of the Supervisory Board on 25 January 2023.

In addition, the Supervisory Board appointed Mr Ralf Bongers as an additional member of the Executive Board with effect from 1 April 2023.

At the beginning of March 2023, there were indications that GKK was intending to terminate the lease for the property in Celle as part of the ongoing insolvency proceedings. There had previously been promising negotiations relating to an extension of the rental agreement, as a consensus had been reached on the relevant terms and conditions of the contracts. These had been approved by DEMIRE's internal bodies. The uncertainty resulting from the negotiations with regard to future rental income was taken into consideration as part of the real estate valuation at the end of the year, and the corresponding agreed conditions were applied. Due to the planned continuation of the rental agreement at lower conditions, the value of the property in Celle was written down by 57.2% compared to the previous year to EUR 7.9 million, and this figure was recognised in the balance sheet as at 31 December 2022. This valuation did not reflect the termination that was then submitted in March. As a result of the notice of termination that has now been given, the property is expected to temporarily generate no rental income from 1 July 2023. The Executive Board will review the further use and rental options over the next few months. Due to the uncertainty now arising regarding the future rental of the property in Celle, there will probably be further devaluations of the property going forward, depending on how quickly and on what terms a new tenant can be found for the property.

CONCLUDING STATEMENT TO THE DEPENDENCY REPORT PURSUANT TO SECTION 312 AKTG

In accordance with Section 312 AktG, the Executive Board issues the following concluding statement: "Our Company received appropriate consideration for each legal transaction according to the circumstances known to us at the time when the legal transactions were carried out. No measures by our Company as defined by Section 312 AktG were either taken or omitted in the year under review."

Dividend

In the reporting period, DEMIRE distributed a dividend of EUR 0.31 per share for the 2021 financial year. As there is no accumulated profit, no dividend will be distributed for the 2022 financial year.

FURTHER LEGAL INFORMATION

Disclosures pursuant to Section 289a/315a HGB

COMPOSITION OF SUBSCRIBED CAPITAL

a) As at 31 December 2022

As at 31 December 2022, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; DEMIRE AG itself held 2,264,728 of these shares as at the reporting date. DEMIRE shares have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

b) Development after 31 December 2022

There were no changes after the reporting date.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

There are no restrictions on voting rights or the transfer of shares.

DIRECT OR INDIRECT CAPITAL INTERESTS THAT EXCEED 3% OF THE VOTING RIGHTS

a) As at 31 December 2022

In 2022, the Company received a voting rights notification from BRH Holdings GP, Ltd., which is published on the English version of DEMIRE's website. There has been a reorganisation at Company level within the existing shareholder structure without changes to the shareholding, as notified by the Company on 7 January 2022. Accordingly, BRH Holding GP, Ltd. is no longer the holding company of AEPF III 15 S.á.r.l., but rather Apollo Global Management, Inc. is instead. As at 31 December 2022, the following shareholders held interests in the Company, representing more than 3%, 5% or 10% of the voting rights:

— AEPF III 15 S. à r. l. held a total of 58.61% of the shares.

— The Wecken Group, Basel, Switzerland held a total of 32.14% of the shares through various subsidiaries.

b) Development after 31 December 2022

The Company did not receive additional voting right notifications with regard to direct or indirect interests that exceeded 3%, 5% or 10% of the voting rights, up to the date of this Annual Report's publication.

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

TYPE OF VOTING RIGHT CONTROL WHEN EMPLOYEES HOLD AN INTEREST IN SHARE CAPITAL AND DO NOT EXERCISE THEIR CONTROL RIGHTS DIRECTLY

Such interests do not exist.

LEGAL REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPOINTMENT AND REPLACEMENT OF MEMBERS OF THE EXECUTIVE BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Appointment and replacement of Executive Board members

Pursuant to Section 84 AktG, Executive Board members are appointed by the Supervisory Board for a term of no more than five years. Repeat appointments are permissible. The Executive Board of the Company consists of one or more persons. The number of Executive Board members is stipulated by the Supervisory Board. The Supervisory Board decides on the appointment, revocation of appointment and the conclusion, modification and termination of employment contracts to be concluded with Executive Board members. The Supervisory Board is authorised to appoint chairpersons and vice chairpersons and deputy members to the Executive Board.

Amendments to the Articles of Association

Amendments to the Articles of Association require a resolution of the Annual General Meeting pursuant to Section 179 (1) AktG, which requires a majority of three-quarters of the capital represented in the voting pursuant to Section 179 (2) AktG, unless specified otherwise in the Articles of Association. However, where an amendment relates to a change in the purpose of the Company, the Articles of Association may only specify a larger majority. Section 20 (1) of DEMIRE's Articles of Association makes use of the option to deviate therefrom pursuant to Section 179 (2) AktG and provides that resolutions can generally be passed by a simple majority vote and, if a capital majority is required, by a simple capital majority, unless mandatory provisions require otherwise. The Supervisory Board is authorised to resolve amendments to the Articles of Association that relate to their wording only. The Supervisory Board is also authorised to amend the wording of Section 5 of the Articles of Association with respect to the amount and composition of the share capital in correspondence to the scope of capital increases from authorised capital.

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised Capital

a) As at 31 December 2022

By resolution of the Extraordinary General Meeting on 11 February 2019, the Authorised Capital I/2018 was cancelled and the Executive Board was authorised, with the consent of the Supervisory Board, to increase the share capital of the Company on one or more occasions on or before 10 February 2024 by up to a total of EUR 53,888,662.00 by issuing up to a total of 53,888,662 new no-par value bearer shares against cash contributions and/or contributions in kind (Authorised Capital I/2019). Shareholders are generally entitled to subscription rights. The new shares may also be underwritten by one or more credit institutes, or companies treated as such, in accordance with Section 186(5)(1) AktG, with the obligation to offer these to the shareholders for subscription. The Executive Board is, however, authorised, with the consent of the Supervisory Board, to exclude the subscription rights of shareholders for fractional amounts, cash capital increases of up to 10% of the share capital at an issue price that is not significantly lower than the stock market price, as well as to service option or conversion rights and in the case of capital increases against contributions in kind.

Authorised Capital I/2019 had not yet been utilised by 31 December 2022.

b) Development after 31 December 2022

There were no changes compared with 31 December 2022 up to the publication of this Annual Report.

Conditional Capital

a) As at 31 December 2022

By resolution of the ordinary Annual General Meeting of 22 September 2020, Conditional Capital I/2019 was cancelled and the Executive Board was authorised, with the consent of the Supervisory Board, to conditionally increase the share capital of the Company by up to EUR 53,328,662.00 by issuing up to 53,328,662 no-par value bearer shares (Conditional Capital I/2020). The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights or profit participation bonds (or combinations of these instruments) which were issued or will be issued (i) on the basis of the authorisation resolved by the Annual General Meeting on 11 February 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) and/or (ii) on the basis of the authorisation resolved by the Annual General Meeting on 11 February 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect subsidiaries and grant a conversion or option right to new no-par value bearer shares of the Company or establish a conversion or option obligation. The new shares shall be issued at the exercise or conversion price to be determined in each case in accordance with the respective authorisation resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with conversion or option obligations fulfil their conversion or option obligations, unless cash compensation is granted or treasury shares or shares created from Authorised Capital are used to service this obligation. The Executive Board is authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase.

Conditional Capital I/2020 had not yet been utilised by 31 December 2022.

b) Development after 31 December 2022
There were no changes compared with 31 December 2022 up to the publication of this Annual Report.

Authorisation to issue convertible bonds or bonds with warrants as at 31 December 2022
The authorisation granted by resolution of the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds with a total nominal value of up to EUR 125,000,000.00 was cancelled by resolution of the Annual General Meeting of 11 February 2019 and the Executive Board was authorised, with the consent of the Supervisory Board, to issue subordinated or non-subordinated bearer or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments; collectively "bonds") with or without a limited term to maturity in the total nominal amount of up to EUR 325,000,000.00 on one or more occasions up to 10 February 2024, and to grant or impose conversion or option rights and conversion or option obligations to holders or creditors of bonds for a total of up to 53,328,662 no-par value bearer shares of the Company with a notional interest in the share capital totalling up to EUR 53,328,662.00 in accordance with the more detailed provisions of the bond conditions.

The option and conversion rights can be serviced from existing or future conditional or authorised capital, from existing shares or treasury shares, or from the shares of a shareholder. The rights may be issued by Group companies or issued against contributions in kind. The shareholders have subscription rights that can be excluded for fractional amounts, in the case of an issue against cash, whose options or conversion rights do not exceed 10% of the share capital if the issue price is not significantly lower than the market value of the bonds, and to grant subscription rights to the holders of option or conversion rights, in the case of an issue against contribution in kind.

This authorisation had not been used by the reporting date.

Authorisation to purchase treasury shares
On the basis of the resolution of the Annual General Meeting of 28 April 2021, the Company is authorised until 27 April 2026 to acquire up to a total of 10% of the share capital existing at the time of the resolution or, if lower, the share capital existing at the time the authorisation is exercised. Together with other treasury shares acquired and owned by the Company or attributable to the Company, the treasury shares acquired on the basis of this authorisation may at no time exceed 10% of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. Acquisition for the purpose of trading in treasury shares is excluded. The authorisation may be exercised in whole or in part, once or several times, in pursuit of one or several objectives by the Company or its Group companies or by third parties for its or their account.

The shares may be acquired on the stock exchange or by way of a public repurchase offer or a public invitation to the Company's shareholders to submit offers for sale.

If the shares are acquired on the stock exchange, the consideration per share paid by the Company (in each case without consideration of ancillary acquisition costs) may not exceed the average closing price of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last three trading days prior to the acquisition by more than 10% or fall below this price by more than 10%. If the Company is listed on several stock exchanges, the respective last ten closing prices of the Company on the Frankfurt Stock Exchange are decisive.

At the Executive Board's discretion, Company shares may be acquired on the stock exchange or by means of a public purchase offer to all shareholders or public invitation to submit an offer to sell. If purchased on the stock exchange, the consideration paid per share (excluding ancillary acquisition costs) may not be more than 10% higher or 20% lower than the average closing price of the Company's shares of the same class in Xetra trading (or a comparable successor system) on the last five trading days of the Frankfurt Stock Exchange prior to entering into the obligation to purchase.

In the event of a public offer to buy or a public invitation to submit an offer to sell, the purchase price offered or the limits of the purchase price range per share (excluding incidental acquisition costs) may not be more than 10% higher or 20% lower than the average closing price of the Company's shares of the same class in Xetra trading (or a comparable successor system) on the last five trading days on the Frankfurt Stock Exchange before the date of publication of the offer or the public invitation to submit an offer to sell.

The volume of the offer or the invitation to submit offers may be limited. If the total acceptance of the offer or the offers made by shareholders in response to an invitation to submit offers exceeds this volume, the acquisition or acceptance must be effected in proportion to the shares offered, partially excluding any tender rights of shareholders. Preferential acquisition or preferential acceptance of smaller quantities of up to 100 shares of the Company offered for acquisition per shareholder of the Company may be provided for, to the extent that the shareholders' right to tender may be partially excluded.

In addition to selling the purchased shares of the Company on the stock exchange, the Executive Board is authorised to retire the acquired treasury shares of the Company and, reducing the share capital, to transfer them to third parties as consideration in business combinations or the acquisition of companies or equity interests, or to offer them to employees for purchase, use them to service option or conversion rights or to sell them in a way other than on the stock exchange, provided that the selling price is not significantly lower than the stock exchange price.

The purchase offer or the invitation to submit an offer to sell may stipulate further conditions. Use of the authorisation to purchase treasury shares was made in December 2020, with the repurchase completed in January 2021.

MATERIAL AGREEMENTS OF THE COMPANY THAT ARE CONDITIONAL UPON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID AND THE RESULTING EFFECTS

The majority of the existing debt financing agreements (including the 2019/2024 corporate bond) provide for an extraordinary termination right for the creditors of Group companies concerned in the event of a change of control.

COMPANY COMPENSATION AGREEMENTS WITH THE EXECUTIVE BOARD AND EMPLOYEES IN THE EVENT OF A TAKEOVER BID

None of the Executive Board members or employees have an extraordinary special right of termination in the event of the direct or indirect acquisition of control of the voting rights of the Company of at least 50% of the voting rights or a comparable situation that restricts the power of management of the Executive Board of the Company.

Corporate Governance Statement

On 17 February 2023, the Executive Board of the Company issued its Corporate Governance Statement in accordance with Sections 315d and 289f of the German Commercial Code (HGB) and made it generally and permanently accessible on the Company's website at www.demire.ag in the "Company" section under the heading "Corporate Governance".

Remuneration Report 2022

The Remuneration Report, pursuant to Section 162 of the German Stock Corporation Act (AktG), provides details regarding the individual remuneration of current and former Executive Board and Supervisory Board members of DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG") during the 2022 financial year.

The Remuneration Report contains detailed information on the remuneration system, which is necessary for providing clarity with regard to the disclosures, on the remuneration of benefits provided to members of the Executive Board and the remuneration paid to the members of the Supervisory Board, as well as details of how the remuneration promotes the long-term development of DEMIRE AG. Pursuant to Section 162 AktG, the Executive Board and Supervisory Board are responsible for preparing the Remuneration Report.

Overview of the 2022 financial year

RESOLUTION ON THE APPROVAL OF THE REMUNERATION REPORT FOR THE PREVIOUS FINANCIAL YEAR 2021

The Remuneration Report prepared by DEMIRE in accordance with the requirements of Section 162 AktG regarding the remuneration granted and owed to the current and former members of the Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG in the previous financial year 2021 was approved by the Annual General Meeting on 18 May 2022 with a majority of 98.87% of the capital represented pursuant to Section 120a (4) AktG. Due to the approval, there was therefore no reason to adjust the reporting.

REMUNERATION SYSTEM FOR THE EXECUTIVE BOARD MEMBERS IN THE 2022 FINANCIAL YEAR

At the Annual General Meeting held on 28 April 2021, approval was given for a new remuneration system ("**New remuneration system**") for the Executive Board members of DEMIRE AG. This was passed with a majority of 99.71% of the capital represented (www.demire.ag/en/annual-general-meeting).

The contracts of employment for the Executive Board members Ingo Hartlief and Tim Brückner were extended until 31 December 2024 by way of extension agreements concluded on 26 May 2021.

Given that the agreed changes to the remuneration of the Executive Board in accordance with the extension agreements dated 26 May 2021, as well as the agreements themselves, came into effect as of **1 January 2022**, the Executive Board members were granted remuneration as of the 2022 financial year in accordance with the requirements of the new remuneration system ("**New remuneration system**"). Accordingly, this "New remuneration system" is presented below.

In contrast, components of the remuneration that relate to the performance period prior to 1 January 2022 – such as the "Short-Term Incentive" earned in the 2021 financial year – are based on the previous remuneration system (referred to here as the **"Old remuneration system"**). The relevant, important key points of the "Old remuneration system" are therefore presented at the appropriate place in this Remuneration Report (see below).

The remuneration of the Executive Board is reviewed on a regular basis by the Supervisory Board.

In the 2022 financial year, the basic remuneration, the annual allocation amount of the LTI and the contractually defined target amount of the STI of the Executive Board members Ingo Hartlief and Tim Brückner were increased on the basis of the extension agreements of 26 May 2021. The basic remuneration of Mr Ingo Hartlief was increased from EUR 400,000.00 gross (in FY 2021) to EUR 420,000.00 gross (in FY 2022). The basic remuneration of Mr Tim Brückner was increased from EUR 240,000.00 gross (in FY 2021) to EUR 252,000.00 gross (in FY 2022). The annual allotment for the LTI was increased from EUR 310,000.00 gross (in FY 2021) to EUR 325,000.00 gross (in FY 2022) for Mr Ingo Hartlief at the beginning of 2022. An increase in the annual allocation for the LTI was also made for Mr Tim Brückner in FY 2022. The annual allocation for the LTI was increased for Mr Brückner at the beginning of 2022 from EUR 185,000.00 gross (in FY 2021) to EUR 192,000.00 gross (in FY 2022). There was also an increase in the contractual target amount for the STI for both Mr Hartlief and Mr Brückner in FY 2022 compared to FY 2021. However, as this Remuneration Report only refers to the bonus earned in the 2021 financial year and consequently paid out in the 2022 financial year, the corresponding presentation is reserved for the 2023 remuneration report.

Furthermore, the Supervisory Board laid down the performance criteria with regard to performance-related variable remuneration elements for the 2022 financial year. Details on the Executive Board members' bonuses which were vested in the 2022 financial year are reserved for the remuneration report for the 2023 financial year. They are therefore not presented in this remuneration report.

The Chairman of the Executive Board Mr Ingo Hartlief left the Company with effect from the end of 31 December 2022. More details on the amount of his severance payment are given below.

REMUNERATION SYSTEM OF THE SUPERVISORY BOARD MEMBERS IN THE 2022 FINANCIAL YEAR

The remuneration system for the Supervisory Board, as laid down in Section 16 of the Articles of Association, was also approved at the Annual General Meeting held on 28 April 2021. This was passed with a majority of 99.99% of the capital represented. A resolution was passed at the Annual General Meeting held on 28 April 2021 to increase the remuneration of Supervisory Board members from EUR 30,000 to EUR 40,000.00 for each regular Supervisory Board member, with effect from the start of the 2021 financial year. The Chairman of the Supervisory Board receives triple the aforementioned amount and the Vice Chairman receives double the aforementioned amount. Any VAT accruing on these amounts, where applicable, shall also be remunerated.

The remuneration system for the Supervisory Board – as laid down in Section 16 of the Articles of Association (version dated 22 September 2020) – was applied in full.

Detailed breakdown of Executive Board remuneration during the 2022 financial year

OVERVIEW OF "NEW REMUNERATION SYSTEM"

The "New remuneration system" for Executive Board members is aligned with the Company's sustainable corporate performance in the long term and is therefore set up as a relevant element for implementing DEMIRE AG's corporate strategy.

With this in mind, the new remuneration system is divided into variable and fixed remuneration elements. The remuneration for the Executive Board consists of the basic remuneration, pension expenses, fringe benefits, a one-year variable remuneration amount (short-term incentive [STI] = bonus) and a multi-year variable remuneration amount (long-term incentive [LTI] = virtual stock option programme).

The amount of variable remuneration is therefore based on the achievement of specific targets laid down in advance.

In order to provide better insight, there is a corresponding table on the right that summarises the key features of the "New remuneration system".

Key elements of the remuneration system from 1 January 2022 ("New remuneration system")

REMUNERATION ELEMENT

Fixed remuneration	Basis for calculation/parameter
Basic remuneration	Contractually agreed fixed remuneration paid in twelve monthly instalments.
Fringe benefits	Provision of a company car, continued cover under the existing directors' and officers' liability insurance policy (D&O insurance), taking out of accident and disability insurance within the framework of a Group accident insurance policy, and continued remuneration in the event of illness or accident and payment of death benefits.
Pension expenses	Payment of contributions to statutory or appropriate private health insurance and nursing care insurance schemes subject to corresponding application of Section 257 of Volume V of the German Social Code (SGB V) and Section 61 of Volume XI of the German Social Code (SGB XI).

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	Cap: Double the target amount
	Performance criteria: – 25%-50% Key performance indicators for the Company – 25%-50% Operational performance criteria – 10%-30% Non-financial performance criteria (Strategic targets for the Company, environmental, social and governance policy targets)
Bonus (short-term incentive)	Payment: At the end of the month in which the Company's annual financial statements for the previous year are adopted.
	Cap: Capped by way of an annual allotment defined in the contract. There is no provision for vesting of more than 100% of the granted PSUs. Regardless of the target achievement or number of vested PSUs, the maximum payment per PSU is capped at 250% of the price when granted. The maximum value and the threshold for the share price increase are determined in advance by the Supervisory Board. Likewise, the maximum value and the threshold for the Relative Total Shareholder Return performance are also defined in advance by the Supervisory Board.
	Performance criteria: – 50% Annual share price increase – 50% Relative Total Shareholder Return
Virtual stock option programme (Long-Term Incentive)	Payment: On 31 March of the year following vesting (vesting takes place four years after the grant date, depending on the achievement of pre-defined performance targets)

REMUNERATION ELEMENT

Other remuneration provisions	Basis for calculation/parameter
Maximum remuneration	Capping of total remuneration granted for a given financial year in accordance with Section 87a(1)(2) No. 1 AktG: – CEO: EUR 1,580,000.00 gross p.a. – Regular Executive Board members: EUR 960,000.00 gross p.a.
Severance payment cap	The severance payment must not exceed an amount equating to two years' annual salary and must not provide remuneration for more than the remaining term of the contract ("severance payment cap"). The severance payment cap is calculated based on the total remuneration for the past financial year and, where applicable, the expected total remuneration for the current financial year.
Malus and clawback provision	Possible to partially or fully reduce or claw back variable remuneration.
Remuneration for other mandates both within and external to the DEMIRE Group	Any remuneration benefits paid to undertake intra-Group Supervisory Board mandates are accounted for against the remuneration in accordance with this remuneration system. The same applies to the assumption of intra-Group Executive Board mandates. With regard to the assumption of Supervisory Board mandates external to the Group, the Supervisory Board is responsible for deciding whether and to what extent remuneration paid for these mandates is to be accounted for.

DETAILED BREAKDOWN OF FIXED REMUNERATION ELEMENTS IN THE 2022 FINANCIAL YEAR

Basic remuneration in 2022 financial year

The basic remuneration for the Executive Board members is paid in twelve equal partial amounts at the end of each calendar month, representing a fixed income for Executive Board members. The annual basic remuneration for 2022 amounted to EUR 420,000.00 gross p.a. for CEO Ingo Hartlief (in FY 2021 = EUR 400,000.00 gross p.a.) and EUR 252,000.00 gross p.a. for CFO Tim Brückner (in FY 2021 = EUR 240,000.00 gross p.a.).

Fringe benefits in 2022 financial year

In addition to the basic remuneration, Executive Board members are also entitled to fringe benefits. Notable items in this context are the provision of a company car, continued cover under the existing directors' and officers' liability insurance policy (D&O insurance), accident and disability insurance within the framework of a Group accident insurance policy, continued remuneration in the event of illness or accident and payment of death benefits.

The D&O insurance includes the minimum deductible, as stipulated by law, of 10% of the loss up to the annual amount of one-and-a-half times the fixed annual remuneration pursuant to Section 93(2)(3) AktG.

The Company also has an accident insurance policy in place as part of a Group accident insurance policy, including payment of insured benefits in the amount of EUR 500,000 in the event of death and EUR 500,000 in the event of disability. The insurance premiums are paid by the Company. In the event of death, the insured benefits under the terms and conditions of insurance shall be due to a person nominated by the Executive Board or to the heirs.

In addition, the Company made a contractual commitment to Executive Board member Tim Brückner for costs of a private pension plan up to the value of the maximum voluntary monthly contribution to the statutory pension insurance scheme. Furthermore, Executive Board member Tim Brückner was granted the right to waive the provision of a company car and instead receive a car allowance as an additional salary component totalling EUR 1,500 gross per month. This salary component also covers all travel expenses of the Executive Board member (e.g. business trips with a private car, taxi rides, trips with a rental car or on public transport) to the extent that a company car would have been used, had it been provided.

In more detailed formulation of the regulations of the remuneration system, it is regulated in the Executive Board employment contracts that in the case of a temporary incapacity to work owing to illness, accident or other reason for which the Executive Board member is not responsible, the fixed annual salary shall continue to be paid for a period of up to six months from the date said incapacity to work commenced, but not beyond the termination of the Executive Board employment contract in question. The Executive Board member must offset any sickness allowance, daily sickness allowance or pensions they received from health insurance funds, pension funds or other insurers or pension funds against these payments, unless the benefits are based exclusively on the contributions made by the Executive Board member in question.

If the Executive Board member dies during the term of the Executive Board employment contract, their spouse or civil partner within the meaning of Section 1 of the German Act on Registered Life Partnerships (Lebenspartnerschaftsgesetz, LPartG), or dependent children as joint creditors, shall be entitled to receive the full fixed annual salary for the month in which the Executive Board members dies and for the following three months, though no longer than until the end of the regular term of the Executive Board employment contract.

Pension expenses in 2022 financial year

Pension expenses consist of payment of contributions to voluntary statutory or private health insurance and nursing care insurance schemes subject to corresponding application of Section 257 of Volume V of the German Social Code (SGB V) and Section 61 of Volume XI of the German Social Code (SGB XI).

DETAILED BREAKDOWN OF VARIABLE REMUNERATION ELEMENTS IN THE 2022 FINANCIAL YEAR

The variable remuneration is composed of a one-year performance-based bonus (short-term incentive) and a multi-year performance-based bonus (long-term incentive).

One-year performance-based remuneration paid out in the 2022 financial year (2021 bonus in accordance with the "Old remuneration system")

Basic structure ("Old remuneration system" to be applied here)

The bonus (short-term incentive) is used as a variable remuneration element with an incentivising effect in the short term. The term is therefore limited to one year. As stated above, this Remuneration Report focuses exclusively on the bonus vested in the 2021 financial year, which was paid out in the 2022 financial year. As the performance period from 1 January 2021 to 31 December 2021 still relates to a period for which the "Old remuneration system" applies, the following presentations refer to the "Old remuneration system".

Accordingly, the contractually agreed target bonus, i.e. the bonus for 100% target achievement, was EUR 190,000 gross for Mr Hartlief and EUR 115,000 gross for Mr Brückner. If the target is exceeded or not reached, the bonus increases or decreases accordingly. It is capped at 200% of the target value. The targets are set by the Supervisory Board at its reasonable discretion for the current financial year.

Performance criteria

The announcement of a bonus, linked to the targets laid down for the respective financial year, aims to foster sustainable corporate performance in the long term.

These are in line with the interests of DEMIRE AG stakeholders. In order to promote sustainable, long-term corporate performance, the Company set itself targets that were both financial and non-financial in nature. The performance criteria for the variable remuneration are selected on the basis of the Company's strategic objectives.

For the Executive Board member Ingo Hartlief, a gross payment amount of EUR 285,000.00 was determined in the 2022 financial year for the 2021 performance period. For the Executive Board member Ingo Hartlief, a gross payment amount of EUR 172,000.00 was determined in the 2022 financial year for the 2021 performance period.

The bonus vested in the 2021 financial year was paid to the Executive Board members at the end of the month in which the Company's annual financial statements for the 2021 financial year were adopted, i.e. at the end of March 2022. This payment must therefore be attributed to remuneration granted for the 2022 financial year pursuant to Section 162(1) AktG.

The 2021 bonus is based on the Old remuneration system. The following performance criteria and other criteria were used in the 2021 financial year to assess the achievement of targets:

FOR MR TIM BRÜCKNER:

1. Qualitative targets

The qualitative objectives related in particular to internal and external reporting, compliance and risk management, the ESG system and the sustainability report, the service provider structure and the shareholder structures of the subsidiaries, as well as the improvement of the activities of the fund participations.

2. Quantitative targets

The quantitative targets related to the achievement of the corporate goals communicated to the capital market, the level of rental income and funds from operations (FFO) and dividend payments.

FOR MR INGO HARTLIEF:

1. Qualitative targets

The qualitative targets included, in particular, targets related to COVID-19 crisis management, the ESG system and the sustainability report, service provider relations, cost management, as well as targets related to repositioning certain real estate properties.

2. Quantitative targets

The quantitative targets related to dividend payments, FFO, optimisation of the real estate portfolio and new lettings.

In terms of target achievement for Mr Hartlief, the Supervisory Board came to the unanimous conclusion that the qualitative targets were fully achieved, in fact in some cases there was even a slight over-achievement, particularly with regard to cost management. In terms of quantitative targets, the Supervisory Board was of the opinion that there was a significant and pleasing increase compared to the agreed targets, particularly with regard to letting performance and FFO, although difficult market conditions continued to be observed due to the pandemic situation. In the opinion of the Supervisory Board, all this justified granting Mr Hartlief a bonus of 150% of the basic bonus.

With regard to Mr Brückner, the Supervisory Board unanimously came to the conclusion that the targets had been partly achieved, but also partly clearly exceeded. This relates in particular to the optimisation of the service structures as well as the company structures in the subsidiaries. A considerable reduction in complexities was achieved here, which is also reflected in a corresponding reduction in administrative expenses. The quantitative targets were also exceeded to a not inconsiderable extent, leading the Supervisory Board to conclude that Mr Tim Brückner should be granted a bonus amounting to 150% of the basic bonus.

The bonus granted corresponds to the applicable “Old remuneration system”, which provides both short-term and long-term incentives for the Executive Board. The mix of financial targets as well as targets related to structural issues helps to promote the long-term development of the Company, generating growth, improving operational and financial key figures and increasing the Company’s value over the long term.

VIRTUAL STOCK OPTION PROGRAMME (LONG-TERM INCENTIVE) IN THE 2022 FINANCIAL YEAR

Basic structure (2022/2026 tranche)

Executive Board members of DEMIRE AG are to be granted annual virtual stock options (otherwise known as “performance share units” or “PSUs”) as part of a long-term, share-based variable remuneration package in the form of a virtual stock plan (performance share plan). Provision is made here for the tranches of the virtual stock options to be granted on 1 January of a given year. The number of PSUs granted each year is calculated using an annual allotment contractually agreed in advance that is divided by the average share price of DEMIRE AG 60 trading days prior to 1 January of a given year **(“grant date”).**

The number of granted PSUs is shared by the Supervisory Board in a grant letter written to the Executive Board members within four weeks of the grant date.

The granted PSUs are also vested after a performance period of four years after the grant date ("**date of any vesting**", also referred to as **"vesting"**), depending on the achievement of performance targets laid down in advance. As a result, the number of PSUs originally granted may fit within a range of between 0% and 100% depending on the performance level achieved. If the performance level is below a defined threshold in the respective targets as described, 0% of the granted PSUs will be vested. Upon reaching the respective threshold, 50–100% of the granted PSUs will then be vested.

The vested PSUs are paid out in cash in euro on 31 March of the year after vesting. The payment amount is calculated by multiplying the number of vested PSUs by the average share price of DEMIRE AG 60 trading days prior to vesting. This long-term variable remuneration in the form of the performance share plan aims to align the interests of the Executive Board members and the shareholders even more closely with each other so as to achieve sustainable growth in the Company's value. The performance share plan also ensures that the Executive Board is committed to the Company in the long term and increases its motivation level.

Performance criteria for performance share plan for the 2022/2026 tranche
The performance targets for the virtual stock option programme comprise 50% for the annual share price increase and 50% for the relative total shareholder return (relative TSR), each measured over the four-year performance period.

Once the four-year performance period has ended, the Supervisory Board shall then review the extent to which the targets have been achieved. The individual target achievement is then measured in terms of whether and indeed how many virtual shares were actually vested. The maximum possible number of PSUs (100% of granted PSUs) are vested if the maximum value of the share price increase target and the maximum value of the relative TSR target, as defined in advance by the Supervisory Board for each tranche, are achieved. At least 50% of granted PSUs are vested if the share price increase threshold and the relative TSR threshold, as defined in advance by the Supervisory Board for each tranche, are achieved.

Each plan tranche is subject to a performance period of four years. The annual share price increase is calculated as a compound annual growth rate over the four-year performance period. The relative TSR compares the development of DEMIRE's total shareholder return with the performance of the return of the EPRA/NAREIT Developed Europe ex UK Index over the four-year period.

At the start of a given year, i.e. the grant date (see above), the maximum value and the threshold for the annual DEMIRE AG share price increase are defined by the Supervisory Board. With regard to the 2022 tranche, the maximum value is 14% per annum and the corresponding threshold is 7% per annum.

Likewise, the maximum value and the threshold for the relative TSR performance are also defined in advance by the Supervisory Board. With regard to the 2022 tranche, the maximum value for the relative TSR is 10 percentage points and the corresponding threshold is minus 10 percentage points.

Achievement of the maximum value of both the share price increase target and the TSR target will result in 100% of the granted PSUs being vested. Achievement of the threshold for both the share price increase target and the TSR target will result in 50% of the granted PSUs being vested.

Within the range between the threshold and maximum value within the respective target, 50–100% of the granted PSUs will be vested in a linear manner. If the performance level falls below the threshold in the respective targets, the respective granted PSUs will lapse.

There is no provision for vesting of more than 100% of the granted PSUs.

Regardless of the target achievement or number of vested PSUs, the maximum payment per PSU is capped at 250% of the price when granted.

In the more detailed formulation of the LTI regulation, the Supervisory Board has included explanations on dilution protection in the LTI programme. Accordingly, if, during the LTI term, DEMIRE AG undertakes corporate actions that impact the value of its real shares, the Executive Board member shall be treated in the same way as the owner of real shares in relation to the PSUs granted to them. If shares are split or consolidated during the LTI term, the number of PSUs shall be increased or reduced in accordance with the respective rules for the share split or share consolidation. If, during the LTI term, shareholders are granted shares out of the Company's own funds ("bonus shares"), the number of PSUs shall be increased in accordance with the acquisition rules for the real bonus shares.

The inclusion of a remuneration element linked to the share price harmonises the goals and interests of senior management and shareholders.

The incentive given here to Executive Board members to increase the Company's value in a robust and sustainable way, including in their own interests, will therefore benefit everyone.

In addition, use of the relative total shareholder return ensures greater objectivity as this performance criterion is linked to the capital markets and also allows comparisons to be made with peers.

PSUs granted in the 2022 financial year (2022/2026 tranche)
In total, **120,513** (75,758 + 44,755) PSUs were provisionally granted to the Executive Board members in the 2022 financial year [contractually agreed annual allotment divided by the average share price 60 trading days prior to the grant date (for more information see the explanation of "grant date" above)]:

DETAILED BREAKDOWN OF PSUS GRANTED

	Contractually agreed annual allotment	Allotment price (Average DEMIRE share price 60 trading days prior to the grant date)	Number of provisionally allotted PSUs
Ingo Hartlief	EUR 325,000 gross	EUR 4.29	75,758
Tim Brückner	EUR 185,000 gross	EUR 4.29	44,755

Certain circumstances surrounding an individual's departure may result in the forfeiture of PSUs whose performance period has not yet concluded ("bad leaver").

OTHER REMUNERATION PROVISIONS IN THE 2022 FINANCIAL YEAR

Details regarding the defined maximum remuneration amounts for Executive Board members and compliance with said amounts in the 2022 financial year
The remuneration for Executive Board members is capped by value. The variable remuneration elements are subject to upper limits.

A maximum limit of 200% of the target amount is therefore stipulated for the short-term incentive (bonus).

The LTI (virtual stock option programme) also stipulates various capping provisions.

With regard to the 2019/2023 tranche, a cap is in place by way of an annual allotment stipulated in the contract. Furthermore, the actual payment amount depends on the long-term performance of the Company's share price and is capped at a maximum amount determined on an individual basis for the respective Executive Board member (a maximum amount of EUR 220,000 gross for Mr Ingo Hartlief and a maximum amount of EUR 75,000 gross for Mr Tim Brückner).

With regard to the 2022/2026 tranche, it is not just the allotment that is capped by way of an annual amount stipulated in the contract. There is also no provision for vesting of more than 100% of the granted PSUs. Thirdly, the maximum payment per PSU is capped at 250% of the share price as at the grant date, regardless of the target achievement or number of vested PSUs.

The following illustration shows that these maximum limits were all complied with in relation to the variable remuneration granted and owed in the 2022 financial year:

Compliance with the specified maximum amounts with respect to the variable remuneration components in the 2022 financial year

INGO HARTLIEF – CHAIRMAN OF THE EXECUTIVE BOARD FROM 20 DECEMBER 2018 UNTIL 31 DECEMBER 2022

in EUR (gross)		Target (for the financial year 2021) remuneration	Maximum (for the financial year 2021)	Payment (of STI for the financial year 2021)
One-year variable remuneration	Bonus for 2022 (short-term incentive)	190,000	380,000	285,000 (STI for FY 2021, see above)
	LTI (2022/2026 tranche)			
Multi-year variable remuneration	Value of granted PSUs (2022/2026 tranche) = 325,000	325,000	812,500 (Cap of 2.5x upon payment)	–1

TIM BRÜCKNER – CHIEF FINANCIAL OFFICER SINCE 1 FEBRUARY 2019

in EUR (gross)		Target (for financial year 2021) remuneration	Maximum (for financial year 2021)	Payment (of STI for the financial year 2021)
One-year variable remuneration	Bonus for 2022 (short-term incentive)	115,000	230,000	172,000 (STI for FY 2021, see above)
	LTI (2022/2026 tranche)			
Multi-year variable remuneration	Value of granted PSUs (2022/2026 tranche) = 192,000	192,000	480,000 (Cap of 2.5x upon payment)	–

Secondly, the Supervisory Board has set a maximum remuneration in accordance with Section 87a(1)(2) No. 1 AktG. The maximum remuneration (sum of basic remuneration, fringe benefits, including pension expenses, as well as short-term and long-term variables) is as follows:

— CEO: EUR 1,580,000.00 gross p.a.
— Regular Executive Board members: EUR 960,000.00 gross p.a.

The maximum remuneration refers to the sum of all payments resulting from the remuneration regulations in a financial year. This maximum remuneration can only be reviewed retrospectively when the payment from the LTI tranche issued for the respective financial year has been determined.

As no LTI tranche ended in the 2022 financial year, no definitive report on compliance with the maximum remuneration can be provided in this Remuneration Report.

REMUNERATION UPON TERMINATION OF CONTRACT IN THE 2022 FINANCIAL YEAR

Severance payment provisions

In the event that the appointment of an individual as an Executive Board member is effectively revoked pursuant to Section 84(3) AktG without there being a compelling reason for the Company to effect extraordinary termination within the meaning of Section 626(1) of the German Civil Code (BGB) or without such revocation being based on a gross dereliction of duties or inability to properly manage the Company's affairs within the meaning of Section 84(3) AktG, the employment contracts of the Executive Board member may provide for a severance payment to compensate for the residual remuneration claims for the period up to the regular end of the respective employment contract of the Executive Board member. A maximum remaining contractual term of two years shall be considered for this purpose. The severance payment must not exceed an amount equating to two years' annual salary and must not provide remuneration for more than the remaining term ("severance payment cap"). The severance payment cap is calculated based on the total remuneration for the past financial year and, where applicable, the expected total remuneration for the current financial year. Only the following elements are taken into account for the calculation here:

> The fixed annual basic salary

> 100% of the bonus (STI)

> 100% of the allotment for the virtual stock option programme (LTI).

If the respective Executive Board member has resigned for "good cause", has not received an extension of their Executive Board employment contract or ends their activity as an Executive Board member owing to disability (invalidity), retirement or death (also known as a "good leaver"), the performance share plan will differ as follows:

In the event of disability (invalidity) or death, all granted and vested PSUs shall be paid out immediately at the DEMIRE AG share price valid at that time, regardless of the extent of any target achievement. In all other instances constituting a good leaver, provision is in place for an accelerated pro-rata vesting of outstanding and/or granted PSUs. No further amounts shall be granted from other tranches. Payment shall be made at the date originally specified and regardless of the extent of any target achievement. The Supervisory Board may deviate from these provisions in justified individual circumstances.

The CEO Ingo Hartlief left the company with effect from the end of 31 December 2022. In this context, Mr Hartlief was promised a severance payment in the amount of EUR 1,080,000.00 gross. This severance payment was due to be paid with the usual salary payment in January 2023. In addition, it was agreed that Mr Hartlief would receive a bonus for the past 2022 financial year in the amount of EUR 270,000 gross, which was due with the usual salary payment in January 2023. The agreement on a specific amount for the bonus was made in the interest of an overall settlement and mutual legal certainty. In addition, the severance payment covers all currently existing and/or future claims, including any claims from the LTI. The specifications of the "severance payment cap" described above were complied with accordingly. The severance payment does not exceed two years' remuneration (total remuneration for the past financial year and, if applicable, the expected total remuneration for the current financial year).

Compliance with the specified maximum amounts with regard to the severance payment

INGO HARTLIEF – CEO FROM 20 DECEMBER 2018 TO 31 DECEMBER 2022

in EUR (gross)	Basic remuneration	STI	LTI	Total
"Severance payment cap"	840,000 (420,000 x 2)	430,000 (215,000[1] x 2)	650,000 (325,000[2] x 2)	1,920,000
Agreed severance payment				1,080,000

[1] Target amount for the STI as at 1 January 2022
[2] Annual allocation for the LTI as at 1 January 2022

Post-contractual non-competition clause

There are no post-contractual non-competition clauses. As a result, there is no provision in place in the remuneration system for payment of compensation for restrictions on competition.

Change of control

In the event of (a) the direct or indirect acquisition of control of at least 50% of the voting rights of the Company or (b) a comparable situation that would similarly restrict the Executive Board's managerial authority over the Company, the Supervisory Board may decide to continue or bring about early termination of the virtual stock plan and settle any such early termination at its own discretion. If the Supervisory Board decides in favour of paying out the PSUs early as part of a change of control, this must be completed, where possible, either immediately or, at the very latest, three months after notification of the change of control or comparable situation is received. If, within twelve months of a change of control and in the case of the continuation of the virtual stock plan, the managerial authority of an Executive Board member is restricted or the benefits contractually assured to the Executive Board member are reduced, the Executive Board member in question will be treated as a good leaver in the event of termination within twelve months of the change of control with regard to the severance payment for instruments already granted and yet to be vested (for more information see Severance payment provisions).

There is no provision in place for additional assurances of benefits arising from the early termination of the employment contract by the Executive Board member as a result of a change of control.

Malus/clawback

The Supervisory Board has the option under Section 87(2) AktG to reduce the payments or other benefits.

Furthermore, according to the "New remuneration system", the Supervisory Board may exert its reasonable discretion (Section 315 BGB) in the event of a clear and unequivocal gross breach by the Executive Board member. In such cases, it may reduce the bonus granted for the financial year in which the breach occurred and the PSUs granted for the financial year in question, either in part or in full to zero.

The employment contracts of the Executive Board in the version of these valid until 31 December 2021 provided for a corresponding regulation, but relating to clear and unequivocal gross breaches of essential obligations. Within the framework of extending the Executive Board employment contracts, the previous regulations have been retained. This tightening of the wording of the remuneration system was necessary in order to increase the likelihood that the corresponding clauses would withstand a review of their content according to the standard of Section 305 et seqq. BGB and thus actually be enforceable in the event of a dispute.

In further detailing the malus/clawback provision of the "New remuneration system", the Supervisory Board has made additional provisions within the scope of the Executive Board employment contracts regarding its discretionary decision. Accordingly, the decision to be made at the Supervisory Board's discretion must take into account the severity of the breach, its consequences for the Company (including in particular financial and reputation damage) and the degree of fault on the part of the Executive Board member. The Supervisory Board must also ensure it observes the principle of proportionality in making its discretionary decision. Furthermore, the Supervisory Board must also consult the Executive Board member prior to a corresponding decision being taken and give him or her the opportunity to give their opinion subject to granting a reasonable deadline (hearing period). The variable remuneration may only be reduced by more than 50% if the Executive Board member acts with gross intent or a substantial loss is incurred. The Supervisory Board may only make a decision on reducing remuneration within three months of the date on which the Chairman of the Supervisory Board becomes aware of the facts relevant to making the decision on reducing remuneration (the start date of the period is similarly in accordance with Section 626(2)(2) BGB). However, a decision may not be taken any later than three years after the gross breach occurs. In the case of ongoing breaches, the start date of said breaches must be taken into account. The periods laid down in the aforementioned are suspended during the hearing period (similar to Section 209 BGB).

If the bonus or the PSUs had already been paid out by the date the decision on reducing remuneration was taken, the Executive Board member must return any overpayments that they received. This repayment obligation is limited to the net amount paid to the Executive Board member.

The Company is also entitled in such cases to offset these amounts against the Executive Board member's other remuneration claims. A plea of impoverishment within the meaning of Section 818(3) BGB is excluded in this regard.

In further detailing the malus/clawback provision of the remuneration system, the Supervisory Board clarified within the scope of the Executive Board employment contracts that any claims for damages by the Company against the Executive Board member, in particular under Section 93(2) AktG, as well as the Company's right to give notice of termination for cause within the meaning of Section 626(1) BGB, shall remain unaffected by the corresponding provisions.

In 2022, the Supervisory Board was not aware of any case that would have given cause to make use of the clawback options. Therefore, no reclaim has been made.

In the event that the Executive Board member is unable to work for more than 90 calendar days in total in the respective financial year ("threshold"), the bonus and PSUs for the respective financial year shall be reduced by 1/365th for each day of the respective financial year that the inability to work continues beyond the threshold or increases. If the employment contract was not in force for the entire financial year, the 90-day threshold will be reduced accordingly on a pro-rata basis.

Third-party benefits

During the 2022 financial year, no Executive Board member was promised or granted benefits from a third party regarding their activity as an Executive Board member.

Remuneration for Executive Board and/or Supervisory Board mandates both within and external to the DEMIRE Group

Any remuneration benefits paid to undertake intra-Group Supervisory Board mandates are accounted for against the remuneration in accordance with the remuneration system. The same applies to the assumption of intra-Group Executive Board mandates.

Mr Tim Brückner was appointed CEO of Fair Value REIT-AG on 20 May 2019.

Mr Ingo Hartlief acted as Deputy Chairman of the Supervisory Board of Fair Value REIT-AG from 20 May 2019 until 31 December 2022.

As part of a reclassification agreement with Fair Value REIT-AG, it was agreed that salary expenses (fixed remuneration) for Mr Tim Brückner, including incidental personnel expenses and additional remuneration such as a company car, are to be passed on to Fair Value REIT-AG on a pro-rata basis. A reallocation was charged at a ratio of 30%. Executive Board member Tim Brückner did not receive separate remuneration for his activities as a member of the Executive Board of Fair Value REIT-AG.

In accordance with the remuneration system, Mr Hartlief did not receive separate remuneration for his position as Vice Chairman of the Supervisory Board of Fair Value-REIT-AG.

Mr Ingo Hartlief and Mr Tim Brückner did not observe any Executive Board and/or Supervisory Board mandates external to the Group during the 2022 financial year.

Detailed breakdown of Executive Board member remuneration during the 2022 financial year

Illustration of remuneration (including respective relative proportion) granted or owed to Executive Board members Ingo Hartlief and Tim Brückner for the 2022 financial year pursuant to Section 162 AktG

The tables below show the fixed and variable remuneration elements granted and owed to the Executive Board members Ingo Hartlief and Tim Brückner for the 2022 financial year. This illustration also includes the respective relevant proportion pursuant to Section 162 AktG. This includes the basic remuneration paid during the financial year, the fringe benefits incurred, the pension expenses paid out and the bonus paid out in the 2022 financial year, which was vested in the 2021 financial year.

The virtual stock option programme is also shown for the sake of completeness. However, given that the four-year period has yet to finish, none of the relevant amounts were granted or owed in the 2022 financial year.

REMUNERATION GRANTED AND OWED PURSUANT TO SECTION 162 AKTG FOR THE 2022 FINANCIAL YEAR

Ingo Hartlief – Chairman of the Executive Board from 20 December 2018 until 31 December 2022

		in EUR (gross)	in %
Fixed remuneration components			
	Basic remuneration 2022	420,000.00	59.0
	Fringe benefits 2022	4,622.04	0.6
Fixed remuneration	Pension expenses 2022	4,997.28	0.7
Total		**429,619.32**	**60.0**
Variable remuneration components			
One-year variable remuneration	2021 bonus (payment in March 2022)	285,000.00	40.0
	LTI 2019/2023	–	–
	LTI 2020/2024	–	–
	LTI 2021/2025	–	–
Multi-year variable remuneration	LTI 2022/2026	–	–
Total		**285,000.00**	**40.0**
Total			
Total remuneration		**714,619.32**	**100.0**

REMUNERATION GRANTED AND OWED PURSUANT TO SECTION 162 AKTG FOR THE 2022 FINANCIAL YEAR

Tim Brückner – Chief Financial Officer since 1 February 2019

		in EUR (gross)	in %
Fixed remuneration components			
	Basic remuneration 2022	252,000.00	53.0
	Fringe benefits 2022	18,000.00	4.0
Fixed remuneration	Pension expenses 2022	31,406.88	7.0
Total		**301,406.88**	**64.0**
Variable remuneration components			
One-year variable remuneration	2021 bonus (payment in March 2022)	172,000.00	36.0
	LTI 2019/2023	–	–
	LTI 2020/2024	–	–
Multi-year variable remuneration	LTI 2021/2025	–	–
	LTI 2022/2026	–	–
Total		**172,000.00**	**36.0**
Total			
Total remuneration		**473,406.88**	**100.0**

Remuneration granted and owed to former Executive Board members during the 2022 financial year

At the present time, a long-term incentive remains in place for the former Executive Board member Andreas Steyer in the form of a stock option plan. The long-term incentive arising from the 2015 stock option plan is owed to Mr Steyer. In the 2015 financial year, share-based payments were issued for this purpose in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG and to a selected group of persons within the DEMIRE Group. The stock option programme is an option plan that is settled with equity instruments (equity-settled stock option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2. The exercise of subscription rights is subject to the Company's share price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) being at least 10% higher than the basic price on the trading day preceding the exercise of the subscription rights. 400,000 stock options were issued to Mr Steyer. The fair value of each option from the first tranche was EUR 2.74. In the period under review, there were no changes in the number of shares issued in comparison to the previous period. The option term is nine years from the issue date. The first four years constitute a vesting period. In the reporting period, no further expenses arose from this stock option programme. This was also the case the previous year.

Virtual stock option programmes were set up for the Executive Board member Ralf Kind back in 2017 and 2018. A provision was formed for the amount of the potential outstanding compensation. This is because the parties were still in litigious discussions about this. An agreement was made between the parties in the 2022 financial year. Payment of an amount of EUR 1,700,000 gross aims to settle all of the Executive Board member's remuneration claims which are the subject matter of the dispute as well as other remuneration claims. This amount was paid out to the former member of the Executive Board, Mr Ralf Kind, in the 2022 financial year (for more information, see the table below "Comparative presentation pursuant to Section 162(1) No. 2 AktG"). A differentiation between the performance-related and non-performance-related remuneration components of the lump-sum settlement amount is not possible; a presentation of the relative shares cannot therefore be made here.

SUPERVISORY BOARD REMUNERATION FOR THE 2022 FINANCIAL YEAR

Basic structure of the Supervisory Board remuneration

The remuneration system for the Supervisory Board is laid down in Section 16 of the Articles of Association. This ensures that the remuneration for Supervisory Board members is always in line with the remuneration system approved at the Annual General Meeting. Pursuant to Section 16 of the Articles of Association, Supervisory Board members are entitled either to a fixed remuneration element or an attendance fee. A remuneration amount payable annually may be stipulated for Supervisory Board members. The value of said remuneration is to be decided at the Annual General Meeting. The most recently resolved remuneration will remain valid until the Annual General Meeting resolves on amended remuneration. In the case of committee members, an attendance fee may be stipulated alongside the remuneration amount payable annually. The value of said attendance fee is to be decided at the Annual General Meeting. The Chairman receives triple the remuneration amount payable annually to a regular Supervisory Board member, while the Vice Chairman receives double said remuneration. Supervisory Board members who were only part of the Supervisory Board for a portion of a given financial year shall receive their remuneration on a pro-rata basis.

The remuneration is payable within one month of the end of the respective financial year. Supervisory Board members also receive compensation for all expenses they incur as a result of exercising their official duties, along with compensation for any VAT to be paid on their remuneration and expenses. Where such a policy exists, Supervisory Board members are covered by a directors' and officers' liability insurance policy taken out by the Company in its own interest, and featuring appropriate cover for members of executive bodies. The premiums for this policy are paid by the Company. A resolution was passed at the Annual General Meeting held on 28 April 2021 to increase the Supervisory Board remuneration from EUR 30,000.00 to EUR 40,000.00 for each regular Supervisory Board member, with effect from the start of the 2021 financial year, as a result of the significantly increased workload of the Supervisory Board members, due in particular to the complex regulatory requirements and the large amount of time associated with this. The Chairman of the Supervisory Board shall receive triple the aforementioned amount and the Deputy Chairman shall receive double the aforementioned amount. Any VAT accruing on these amounts, where applicable, shall also be paid.

Details regarding the specific Supervisory Board remuneration for the 2022 financial year

The table below shows the remuneration granted to the current Supervisory Board members for the 2022 financial year, including the respective relative proportion pursuant to Section 162 AktG. Former Supervisory Board members are not included as they did not receive any remuneration for the 2022 financial year. Pursuant to Section 16(3) of the Company's Articles of Association, the Supervisory Board remuneration is due within one month of the end of the financial year in question. The presentation below includes the fixed annual remuneration for Supervisory Board activities during the 2021 financial year, which was paid out in the 2022 financial year. The payment of an attendance fee in line with the remuneration alternative selected herein is provided solely for committee members. No attendance fees were accrued in either the 2021 financial year or the 2022 financial year.

REMUNERATION GRANTED TO SUPERVISORY BOARD MEMBER IN THE 2022 FINANCIAL YEAR

	Fixed remuneration		Total remuneration	
	in EUR	in %	in EUR	in %
Supervisory Board members (2022)				
Prof. Dr Alexander Goepfert	120,000	100	120,000	100
Frank Hölzle	80,000	100	80,000	100
Prof. Dr Kerstin Hennig	40,000	100	40,000	100
Total	**240,000**	**100**	**240,000**	**100**

Comparative presentation pursuant to Section 162(1) No. 2 AktG

The following table illustrates the annual change in remuneration granted and owed to current and former Executive Board and Supervisory Board members, the Company's earnings performance and the remuneration of employees on a full-time equivalent basis, whereby the latter is based on the average wages and salaries earned by employees of DEMIRE AG in the respective financial year, namely including any benefits in kind, bonuses, cars, statutory pension scheme contributions, maternity allowances, housing allowances and so on. For comparative purposes, an average salary was calculated from the salaries of all DEMIRE AG employees (excluding the members of the Executive Board).

COMPARATIVE ILLUSTRATION PURSUANT TO SECTION 162 (1) NO. 2 AKTG FOR EXECUTIVE BOARD MEMBERS

	Remuneration granted and owed for 2022	Remuneration granted and owed for 2021	Change in 2022 compared to 2021		Change in 2021 compared to 2020		Change in 2020 compared to 2019		Change in 2019 compared to 2018	
	in EUR	in EUR	in EUR	in %	in EUR	in %	in EUR	in %	in EUR	in %
Current Executive Board members										
Ingo Hartlief	714,619	789,599	–74,971	–9	–314,622	–28	770,027	230	323,727	–
Tim Brückner	473,407	518,905	–45,498	–9	179,762	53	111,213	49	227,930	–[1]
Former Executive Board members										
Ralf Kind	1,700,000	0	1,700,000	–[2]	–	–	–3,418	–100	–667,208	–99
Employees										
Employee average	95,480	106,703	–11,223	–11	11,046	12	–10,662	–10	5,629	6
Development of earnings										
Net loss (prev. year net income) for the financial year – DEMIRE Group (in EUR thousand)	–71,502	61,587	–133,089	–216	52,420	572	–70,571	–89	10,685	15
Net loss (prev. year net income) for the financial year – DEMIRE AG (in EUR thousand)	–25,964	32,843	–58,807	–179	3,675	13	26,472	982	–90,630	–97

[1] As no remuneration was paid in the 2018 financial year, the percentage change cannot be shown arithmetically. Therefore, it was not presented in the previous remuneration report. For the sake of completeness, this is now included in the presentation.
[2] Since no remuneration was paid in the 2021 financial year, the percentage change cannot be represented arithmetically.

COMPARATIVE ILLUSTRATION PURSUANT TO SECTION 162 (1) NO. 2 AKTG FOR SUPERVISORY BOARD MEMBERS

	Remuneration granted and owed for 2022	Remuneration granted and owed for 2021	Change in 2022 compared to 2021		Change in 2021 compared to 2020		Change in 2020 compared to 2019		Change in 2019 compared to 2018	
	in EUR	in EUR	in EUR	in %	in EUR	in %	in EUR	in %	in EUR	in %
Current Supervisory Board members										
Alexander Goepfert	120,000	90,000	30,000	33	0	0	45,000 [1]	100	45,000	– [2]
Frank Hölzle	80,000	60,000	20,000	33	0	0	0	0	0	0
Kerstin Hennig	40,000	30,000	10,000	33	12,500 [3]	71	17,500	– [4]	–	–
Former Supervisory Board member										
Hermann Wagner	–	–	–	–	–	–	–	–	–90,000	–100 [5]
Thomas Wetzel	–	–	–	–	–	–	–30,000	–100 [6]	0	0
Employees										
Employee average	95,480	106,703	–11,223	–11	11,046	12	–10,662	–10	5,629	6
Development of earnings										
Net loss (prev. year net income) for the financial year – DEMIRE Group (in EUR thousand)	–71,502	61,587	–133,089	–216	52,420	572	–70,571	–89	10,685	15
Net loss (prev. year net income) for the financial year – DEMIRE AG (in EUR thousand)	–25,964	32,843	–58,807	–179	3,675	13	26,472	982	–90,630	–97

[1] In the previous remuneration report, the change was not presented, as the Chairman of the Supervisory Board was owed remuneration of EUR 90,000 p.a. for his activities in both the 2018 and 2019 financial years. The deviation results solely from the prorated payment of the amount for 2018, as the Supervisory Board member was not appointed for the entire financial year.

[2] As no remuneration was paid in the 2018 financial year, the percentage change cannot be shown arithmetically. Therefore, it was not presented in the previous remuneration report. For the sake of completeness, this is now included in the presentation.

[3] In the previous remuneration report, the change was not presented, as the Supervisory Board member was owed remuneration of EUR 30,000 p.a. for her activities in both the 2019 and 2020 financial years. The deviation results solely from the prorated payment of the amount for 2019, as the Supervisory Board member was not appointed for the entire financial year.

[4] As no remuneration was paid in the 2019 financial year, the percentage change cannot be shown arithmetically. Therefore, it was not presented in the previous remuneration report. For the sake of completeness, this is now included in the presentation.

[5] In the previous remuneration report, the change was not presented because there was no actual change in the amount of remuneration owed until the time of the former Chairman of the Supervisory Board's departure (in the 2018 financial year). It would therefore only be possible to present a deviation due to prorated payment because of resignation during the year. However, the former Supervisory Board member did not claim pro rata remuneration for the 2018 financial year in 2019. The remuneration paid in 2018 related to the 2017 financial year. As shown, there was no change in the amount of remuneration in the period from 2017 to 2019. For the sake of completeness, the reduction in remuneration to EUR 0.00 in the 2019 financial year due to the resignation is now included in the presentation.

[6] In the previous remuneration report, the change was not presented because there was no actual change in the amount of remuneration owed until the time of the Supervisory Board member's departure (in the 2019 financial year). It would therefore only be possible to present a deviation due to a prorated payment because the member left the Supervisory Board during the year. However, the former Supervisory Board member did not claim pro rata remuneration for the 2019 financial year in 2020. The remuneration paid in 2019 related to the 2018 financial year. As shown, there was no change in the amount of remuneration from 2017 to 2019. For the sake of completeness, the reduction of the remuneration to EUR 0.00 in the 2020 financial year due to the resignation is now included in the presentation.

OPPORTUNITIES AND RISKS

Risk report

Basic principles of DEMIRE risk management

DEMIRE's risk policy principally involves striking an appropriate balance between growth ambitions and increasing the value of the Company while taking into account the associated risk. The intention is to avoid inappropriate risks. DEMIRE's risk management system (RMS) is an integral part of the corporate strategy, with the risk policy being set by the Executive Board.

Risk management system

The objectives of DEMIRE's RMS are primarily to ensure the lasting viability of the Company, to recognise risks at an early stage, to monitor compliance with the risk strategy derived from the corporate strategy, to control risks through appropriate actions, and to monitor and optimise the performance-risk ratio. Risk management covers all organisational rules and activities and the periodic and Group-wide implementation of the risk strategy. The Group-wide RMS covers all of the DEMIRE Group's affiliated companies included in the consolidated financial statements, in particular Fair Value REIT-AG.

EARLY RISK WARNING SYSTEM

DEMIRE AG's early risk warning system is intended to detect all relevant risks and their causes, as well as to quantify and communicate them, thereby ensuring that any necessary countermeasures can be initiated at an early stage. The early risk warning system is audited and assessed annually by the auditor as part of the audit of the annual financial statements with regard to its compliance with the requirements set forth in the German Stock Corporation Act in accordance with Section 317(4) HGB. In addition, an internal audit was carried out for the first time in 2020 and 2021 with the help of an external service provider; this is scheduled again for 2023.

The early risk warning system is being developed on an ongoing basis. In 2020, these developments were conducted in collaboration with a renowned auditor. They were also continued in 2021. In this project, the risk assessment methodology in particular was completely revised initially in order to improve the comprehensibility and quality of the risk quantification. The focus in 2021 was on implementing the new requirements of the latest version of IDW PS 340 (new version). As part of this work, the action management system was revised and a process to determine the risk-bearing capacity was implemented based on the existing quantified risks. In 2022, no fundamental extensions were made. The aim rather was to verify whether the implemented system proved to be appropriately efficient. This was the case. Individual targeted enhancements are planned for 2023.

RISK IDENTIFICATION AND EVALUATION

Risk identification forms the basis for the appropriate and effective handling of risks. Our employees are called upon to consciously and responsibly deal with risks and opportunities within their scope of responsibility. The risks are assigned to the respective business areas according to responsibility. They are assessed in terms of their percentage probability of occurring and evaluated in terms of the potential extent of loss. The best, most likely and worst-case scenarios are reported on a gross basis to begin with, and then on a net basis – after the risk management process is completed.

RISK MANAGEMENT

The risk officers determine the appropriate risk management approach by developing suitable control measures and monitoring them regularly. If necessary, this can also be carried out together with the Executive Board. As mentioned above, the action management system was revised in 2021, ensuring that all control measures are now reported individually and saved with a review date.

Risk-bearing capacity

Based on the identified and assessed risks, the risk-bearing capacity is determined. The Monte Carlo method is used for risk aggregation. This means extremely detailed results regarding the actual risk-bearing capacity of the Company can now be obtained, including in extreme scenarios.

RISK REPORTING

The reports of the risk officers are aggregated centrally in order to be able to assess the overall risk position of the DEMIRE Group. The Executive Board is provided with quarterly information, i.e. also on the balance sheet date, and, if necessary, on an ad hoc basis. This is how DEMIRE ensures that all information on material risks is communicated in full and in a timely manner.

The Supervisory Board is regularly informed in detail of the development of the business, the performance of investments and the status and further development of the risk management system. New risks that pose a major risk or any sharply negative changes in existing risks are reported to the Supervisory Board on an ad hoc basis.

Internal control and risk management system

IT SYSTEMS

At DEMIRE AG, the IT systems are controlled and monitored centrally. To guarantee high availability of all necessary systems and components at all times, the programs and interfaces we use are monitored regularly to ensure they are operating correctly. The results of this monitoring are utilised for the ongoing optimisation of the processes. DEMIRE's entire IT system is secured against unauthorised access and malicious programs, such as viruses and Trojan horses, based on a multi-level concept. The DEMIRE Group's internal network is protected from outside access using firewalls.

KEY FEATURES OF THE ACCOUNTING-RELATED ICS

The overarching objective of DEMIRE's accounting-related ICS is to ensure the accuracy of financial reporting.

The internal control and risk management system used in the financial reporting and consolidation processes represents one of the cornerstones of the Group's risk management. This system comprises all accounting-related processes and all risks and controls with respect to accounting.

The financial reporting processes are structured to achieve the following objectives:

- Safeguarding the efficiency of operations and protecting assets
- Guaranteeing the accuracy and reliability of internal and external accounting
- Ensuring compliance with applicable legal provisions, in particular the compliance of the annual financial statements, the consolidated financial statements and the combined management report with current standards

The (interim) consolidated financial statements are prepared in accordance with the statutory requirements (in accordance with the one-entity principle pursuant to Section 297 (3) HGB), the main features of which are the consolidation of expenses and income, the consolidation of debt and capital and, if necessary, the elimination of intercompany results.

As the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG also prepares the consolidated financial statements. Impairment tests carried out centrally, particularly the market valuation of all properties by independent external experts, ensure the uniform and standardised application of the valuation criteria. The aggregation and preparation of required data for the Notes to the consolidated financial statements and the combined management report are also carried out at the Group level. These processes are preceded by the bookkeeping, the preparation of the annual financial statements and the gathering of additional information from the Group companies included in the consolidated financial statements in accordance with uniform requirements, partly by external property management and partly, via agency agreements, by the employees of DEMIRE AG.

The required reports and the preparation of the quarterly, interim and annual financial statements are fully and promptly communicated and internally monitored. For risk management purposes, the plausibility, accuracy and completeness of postings are monitored and reviewed by the Group's own employees. The employees involved in this process meet the qualitative requirements and are trained regularly. The two-man rule is an important control instrument in this process.

Other essential tools include:

- The clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process
- The use of external specialists to the extent necessary to provide an expert opinion, e.g. on the market value of real estate

Together with our external consultants and service providers, new laws, accounting standards and other official pronouncements are continuously analysed for their relevance and their impact on the annual and consolidated financial statements and the combined management report. The Group makes adjustments to Group accounting policies when necessary.

The following measures and controls are regularly implemented, evaluated and further developed in a structured process with our service providers to ensure the appropriateness of the accounting and the correct overall presentation of the consolidated and annual financial statements and the combined management report:

- Identification and analysis of the main risk areas and control areas
- Monitoring and plausibility checks to monitor processes and their results at the level of the Executive Board and operating units
- Preventive control measures in finance and accounting as well as in the operational corporate processes essential for accounting
- Measures to ensure the proper, complete and timely computer-aided processing of accounting-related facts and data
- Measures to monitor the accounting-related internal control and risk management system and measures

The Executive Board assesses the adequacy and effectiveness of the ICS at the end of each financial year. As at 31 December 2022, there are no indications that DEMIRE's ICS in its entirety was inadequate or ineffective.[1]

[1] This paragraph has not been audited.

General risk situation

In the 2022 financial year, DEMIRE achieved good operating performance despite the COVID-19 pandemic, the war in Ukraine, inflation and the sharp rise in interest rates due to what was largely a stable real estate rental market in Germany. This, together with the measures initiated by the Company's Executive Board, contributed significantly to the improvement in the financial and operating figures. Successful letting stabilised the Group's rental income in spite of the property sales that were completed. Consistent cost management at a property and Company level with further significant reductions in administrative costs also contributed to an improvement in the key figures. In addition to the continued stable financing costs, this led to a solid earnings situation.

The good letting performance and rising rents led to a real estate valuation result in 2022 that partly compensates for the changed market conditions, especially the increased interest rates. Nevertheless, the macroeconomic environment has left its mark on the Group's key financial and operating figures, meaning that average financing costs are likely to rise in the future.

Individual risks

The following gives an overview of the major risks for the DEMIRE Group. For the quantification of risk, particularly with respect to the impact of changes in interest rates, please see the sensitivity analysis contained in the Notes to the consolidated financial statements under the section "Investment property".

The individual risks are assessed on the basis of the amount of loss ("very low" = EUR 0.2 to 1 million, "low" = EUR 1 to 2.5 million, "medium" = EUR 2.5 to 5 million, "high" = EUR 5 to 10 million, "very high" = over EUR 10 million) and the probability of occurrence ("very unlikely" = 0% to 5%, "unlikely" = 5% to 25%, "possible" = 25% to 50%, "likely" = 50% to 75%, "very likely" = 75% to 100%). The following allocation of the risk category reports the net risk whilst taking into account the probability of occurrence (i.e. the net expected loss).

The observation period for the risk assessment is five years from the reporting date.

MACROECONOMIC, MARKET-RELATED AND SECTOR RISKS

Macroeconomic changes can have positive or negative effects on our net assets, financial position and results of operations. In 2022, the COVID-19 pandemic, the war in Ukraine, inflation and the sharp rise in interest rates made for a more difficult operating environment. In spite of this, the annual targets were achieved and, in some cases, exceeded. For 2023, the economic experts are giving a cautious forecast. Due to the high level of uncertainty, statements on demand for space in the office, retail and hotel sectors are difficult and fraught with uncertainty.

DEMIRE's economic performance is directly related to the development of the German real estate market. The future development of rental income represents a risk that may also indirectly affect the valuation of the portfolio. In addition, there is strong competition in the commercial real estate sector, which entails the risk of the Company not being able to assert itself sufficiently.

Risks of macroeconomic changes and those from negative development of the real estate market and other environmental and industry risks with indirect effects on the net assets, financial position and results of operations are currently classified as **medium** on average, an increase from the classification of "low" in the previous year due to the developments described.

FINANCIAL RISKS

Financing and liquidity risks

Liquidity management serves the purpose of ensuring the Group's solvency at all times. Under conservative assumptions, the funds required for the operational management of the Group in particular are budgeted and scheduled at the level of the Group companies and the Company. Liquidity is derived from current income from properties, minus management, administrative and financing costs at the respective property holding level and at the level of the Company, as well as from inflows from Group companies in the form of dividends, profit distributions, profit transfers and withdrawals.

In principle, there is the risk that the Company may not have sufficient liquidity at all times during the year to meet its current obligations. There is also a risk that follow-up financing of expiring financial liabilities may not be obtained or may only be obtained at less favourable conditions than planned. Additional liquidity requirements from events beyond DEMIRE's control may also result, first and foremost, from the operating and other risks listed below.

The funds available at the reporting date and the planned cash flows in 2023 are sufficient for the current needs of the operating activities. Furthermore, no financial liabilities are due to mature in 2023. The company is proactively addressing the final maturities of financial liabilities in 2024 and has been pushing to build up its liquidity position since the summer of 2022. Property sales with a total volume of around EUR 130 million were successfully registered in 2022. As part of active liquidity management, a nominal amount of EUR 50 million of the 2019/2024 corporate bond was also repurchased at an average market value of 72%. The Company continues to implement the strategy it has embarked upon as a top priority. The changes in the overall conditions for financing are reflected in the corporate planning. The Executive Board currently considers the refinancing risk beyond this to be classified as **medium**.

Risks from covenant obligations

There is a risk of a decline in the income and market values of real estate. This could cause a deterioration in the ratio of financial liabilities to market value (loan-to-value ratio – LTV), the debt service coverage ratio (DSCR), the interest service coverage rate (ISCR) or the ability to service debt, which could ultimately result in a violation of the covenant obligations arising from debt financing. As a result, DEMIRE may be obliged to provide further collateral, make additional redemption payments or increase deposits in pledged deposit accounts to provide more collateral or, ultimately, be confronted with the extraordinary termination of individual financing arrangements or an increase in extraordinary terminations. This could lead to a significant negative effect on DEMIRE's liquidity.

As at the reporting date, the LTVs of all of the Group's financial liabilities were below the levels stipulated in the respective financing agreements. The 2019/2024 corporate bond stipulates the following covenants: LTV (net loan-to-value ratio) based on financial and leasing liabilities minus cash and cash equivalents as a ratio to total assets minus goodwill and cash or cash equivalents; ICR (interest-coverage ratio) based on Group EBITDA as a ratio to net cash interest (interest expenses to third parties minus interest income from third parties, net of one-time financing costs and early repayment penalties). Please refer to page 69 for the individual covenants, as well as the status as at 31 December 2022 for the corporate bond. The international rating agency Moody's lowered the rating for the corporate bond to B1 in July 2022 and then again in November 2022 to B2 with a negative outlook. This was done in particular in view of the upcoming refinancing of the corporate bond in October 2024 and rising interest rates as well as a generally weaker economic environment. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies. Compliance with the relevant covenants and rating conditions is monitored and reported to the Executive Board on an ongoing basis. The Executive Board estimates the risk from the deterioration of the covenants and the rating and the resulting effects on net assets, financial position and results of operations to be **very low**.

Interest rate risk

The DEMIRE Group uses outside capital to finance German commercial real estate. These are largely fixed rate loans (a smaller loan, which was rolled over in 2022 and has a variable interest rate), bank financing secured by real estate and tradable instruments, and the corporate bond described above. The interest rate policy is evaluated at regular intervals in close coordination with the Supervisory Board. Due to the fixed interest rate agreements, no derivatives are used. The interest rate level also has an impact on the purchase prices of newly acquired properties. Rising interest rates are to be expected for future financing, and inflation, as well as the current/probable interest rate trend, are reflected in the corporate planning. The Executive Board classifies the interest rate risk beyond this as **medium**.

OPERATING RISK

Commercial properties in particular demonstrate the classic risks associated with letting. In view of the current market situation in Germany, there are also valuation risks.

Rental and property management risks

When renting and managing real estate, there is the risk of rent reductions, loss of rent or vacant space. Index-related rent increases may not always be implemented in full, immediately or at all. In addition to loss of income, letting-related costs (e.g. broker's fees or tenant incentives, such as expansion costs, assumption of relocation costs or rent-free periods) may arise. Generally, we strive to secure long-term rental agreements and take early action to ensure follow-up rentals and new rentals. Should DEMIRE not succeed in letting its properties under attractive conditions, or should rental agreements be deficient in form and therefore unenforceable, this may have a negative effect on the Company's net assets, financial position and results of operations.

There is the risk that unexpected costs for maintenance and repair measures or for adapting the properties to modern requirements may also be incurred as a result of delays in implementation, such as a later issue of the building permit, which could result in a corresponding change in the rental date and, in turn, the inflow of rental income and profitability.

Based on the Group's tenant structure, at the time of this report's preparation there was no significant rental risk that would have a direct impact on the Group's earnings situation. Default risks from rent receivables are taken into account by recognising impairments. We also generally try to avoid depending on large tenants. In the 2022 financial year, the ten largest tenants accounted for 40.4% (31 December 2021: 40.0%; 31 December 2020: 39.05%) of contractual leases. These are reputable tenants, especially from the public sector, telecommunications and retail. However, there is a dependency on a few tenants who account for a significant share of rental income. The largest tenant, with a cumulative share of 14.2% (31 December 2021: 14.5%; 31 December 2020: 15.3%) of total contractual rents in the real estate portfolio across several leases and real estate locations, is Deutsche Telekom (GMG Generalmietgesellschaft GmbH), although the dependence on this major tenant has been more than halved in recent years. Should it not be possible to find subsequent tenants for this property or other key tenants from the ten largest tenants after the end of the contract or extraordinary termination of the contract, this would lead to a considerable decline in rental income and, consequently, to a material negative effect on the Company's net assets, financial position, and results of operations. Thanks to our own well-executed asset and portfolio management, we are positioned close to our tenants and maintain long-term tenant loyalty. Through the change from single-tenant properties for Telekom to multi-tenant properties, we have been able to significantly reduce our dependence on our main tenant. Subsequent lettings were mainly to tenants from the public sector.

The Executive Board therefore estimates the rental and property management risk and the resulting effects on the net assets, financial position and results of operations to be **medium** on average.

Valuation risks

In the subsequent valuation, the investment properties in the consolidated financial statements are carried at fair value in accordance with IFRS 13. The fair values are based on appraisals that are prepared at least once a year by independent appraisers. Various factors play a role here, for example circumstances such as the development of the rental period, rent level and vacancies. Qualitative factors such as the location and condition of the property are also parameters that influence the valuation.

In the course of the subsequent measurement of investment properties in the quarterly, half-year or annual financial statements, negative changes in the fair value of the respective properties may occur due to a possible change in the internal and external parameters included in the valuation reports. This then leads to impairments, which may also have a significant negative impact on consolidated earnings under certain circumstances. This would not, however, have a direct impact on the Group's funds from operations (FFO) or liquidity.

The current market development also has an impact on the valuation of real estate, resulting in the risk of devaluations. DEMIRE has so far been able to partly avoid this development through good operating results.

In the previous year, the Executive Board considered the risk from the valuation and the resulting effects on the net assets, financial position and results of operations to be low. Due to market developments in the recent past, the Executive Board now classifies the valuation risk as **very high**.

COVID-19 pandemic

The COVID-19 pandemic hit Germany in early 2020, resulting in numerous lockdowns in 2020 and 2021. By government order, a large number of shops, hotels, leisure facilities etc. were required to close. Tenants either did not pay their rent or paid it late. Thanks to the only small number of new daily infections now and the opening up of the main economies worldwide, the economy has recovered and is once again operating on the whole relatively smoothly.

Overall, the Executive Board estimates the risk from the coronavirus pandemic to be **very low**.

Sales risks

We are using property sales from the core portfolio to reduce cluster risk in the sectoral and regional portfolio structure, achieve profit and reduce debt, thereby lowering financial risks, in particular refinancing risks. Following the sale of properties, the buyer could assert warranty claims if the properties do not have the features promised, e.g. state of modernisation, free from contamination, occupancy rate. These could have a negative impact on the Company's net assets, financial position and results of operations.

The Executive Board estimates sales risks and the resulting effects on net assets, financial position and results of operations to be **low**.

Legal risks

Concerning DEMIRE's business model, risks can arise from changes in the legal framework and regulations in particular. DEMIRE may also need to pay for contaminated sites, environmental pollution and harmful building substances that are currently unrecognised, or be held liable for non-compliance with building law requirements in accordance with the applicable legal situation.

Other legal risks can generally result from various types of disputes, for example in rental or personnel matters. Rental disputes are part of the unavoidable everyday business of real estate companies and are handled accordingly. Due to newly introduced legislation as well as a change in case law, the coronavirus pandemic may lead to landlords having to accept a rent reduction, particularly during periods of an officially ordered closure. However, the ruling by the German Federal Court of Justice (BGH) in January 2022 (XII ZR 8/21) clarifies the fact that a rent reduction may be considered owing to "disruption to the basis of a business", but that tenants must provide evidence of the respective specific loss in each individual case by taking into account all of the economically relevant facts. There are currently no pending or foreseeable major legal disputes that could pose a significant risk. Adequate provisions have been made for current legal disputes.

Overall, the Executive Board estimates the legal risk and the financial effect on the Company's net assets, financial position and results of operations to be **low**.

Compliance risks

Responsible and sustainable management is part of DEMIRE's corporate culture and everyday business. We are therefore continuing to develop our Compliance Programme with the aim of supporting employees in complying with relevant legal regulations and standards of conduct. DEMIRE's Compliance Programme includes a code of conduct as well as regular staff training, among other things. In 2020, DEMIRE successfully underwent an external audit and was registered as a certified company of the Institute for Corporate Governance (Institut für Corporate Governance in der deutschen Immobilienwirtschaft e.V.). Another audit in 2021 was also successful.

A Compliance Officer is the contact person for questions regarding compliance and for information on non-compliance. However, our existing compliance processes and controls may not be sufficient to prevent deliberate unlawful conduct by DEMIRE Group employees, which could damage DEMIRE's reputation and the trust in our business. In addition, if DEMIRE is unable to detect illegal conduct and take appropriate organisational and disciplinary action, it could face sanctions and fines that could adversely affect the Company's business, financial position and results of operations.

The Executive Board considers the risk from compliance risks and the resulting effects on the net assets, financial position and results of operations to be **low** on average.

Tax risks

DEMIRE's tax structure is complex because of the different taxable entities (tax groups and taxation at the level of individual companies) and various legal forms existing within the Group. In addition, changes in the tax regulations, particularly the (intragroup) use of losses carried forward, could lead to higher tax expenses and payments. In the Company's opinion, there are currently no significant tax risks that would need to be taken into account by provisions other than those recognised. However, tax risks may arise in connection with external tax audits and routine changes to the existing portfolio or in connection with the portfolio's expansion primarily through the acquisition of shares in the companies holding the properties.

The Executive Board estimates tax risk and the resulting effects on net assets, financial position and results of operations to be **medium**.

Risks related to the REIT status of Fair Value REIT-AG

In its capacity as a German real estate investment trust corporation (REIT), Fair Value REIT-AG must fulfil certain statutory requirements in order to benefit from exemptions from corporate income and trade tax. If it fails to fulfil the requirements, it could be subject to penalties and – if repeated several times – the loss of its tax exemption and withdrawal of its status as a German REIT. This could result in additional tax payments and a substantial outflow of liquidity under certain circumstances, and in the event that Fair Value REIT-AG loses its REIT status, this could also result in Fair Value REIT-AG's shareholders possibly having claims for compensation. These events could have a material negative impact on the Company's net assets, financial position and results of operations.

The Executive Board estimates the tax risk and the resulting effects on net assets, financial position and results of operations as **low**.

Personnel risks

Competent, committed and motivated employees are an essential prerequisite for DEMIRE's successful development. The DEMIRE Group may lose members of the Executive Board or other key personnel, or may not be able to replace them in a timely manner, nor with sufficiently qualified personnel. The Executive Board is convinced that the current personnel structure also means that the positions will be filled on a longer-term basis. DEMIRE was able to successfully compensate for unavoidable personnel changes in the 2022 financial year.

Although the demand for well-qualified personnel is very high, the Executive Board nevertheless considers the risk associated with the loss of employees and the resulting effects on the net assets, financial position and results of operations to be **very low**, based on its experiences gained in the past few years.

IT risks

The IT systems of DEMIRE, its subsidiaries and its service providers could irretrievably lose important data or experience unauthorised access to data from outside. Both could cause disruptions in business operations and costs and ultimately lead to financial losses. DEMIRE has protected itself against IT risks with its own network, modern hardware and software solutions and measures against external attacks; data will continue to be additionally secured. Detailed access rights regulations ensure that employees only have access to the systems and documents necessary for their work.

The Executive Board considers the risk from IT risks and the resulting effects on the net assets, financial position and results of operations to be **low**.

Risks arising from the sale of shares by Apollo and Wecken & Cie.

In addition to the risks as stated above, Apollo and Wecken & Cie.'s strategic review of its stake in DEMIRE, which was initiated in November 2021, also represents additional risks. Specific risks could perhaps arise in the aforementioned areas of financing and liquidity risks, interest rate risks, tax risks, risks in conjunction with the REIT status of Fair Value-REIT AG and personnel risks.

Given the backdrop that the Company is in a strong position overall, the Executive Board considers the risks and the potential resulting effects on the net assets, financial position and results of operations to be **low**.

Overall assessment of the risk situation

The risk situation of the DEMIRE Group and the Company deteriorated during the reporting period due to the COVID-19 pandemic, the war in Ukraine, inflation and the sharp rise in interest rates. The operational successes, the sustained improvement in corresponding key figures, and the refinancing of the past years are contributing to DEMIRE being better equipped to withstand external shocks than in the past. This is clearly shown by the earnings of the 2022 financial year. The Executive Board also monitors the risks as described on an individual and combined basis and regularly assesses the resulting probability of occurrence. The process for determining the risk-bearing capacity also supports the Executive Board in conducting a comprehensive assessment of DEMIRE's risk situation.

Based on the current assessment, the Executive Board is not aware of any risks which, either individually or collectively, could endanger the Company's existence. The Company is convinced that it will be able to continue to take advantage of the opportunities and challenges that arise in future without having to subject itself to unjustifiably high risk.

The Executive Board assesses the adequacy and effectiveness of the risk management system at the end of each financial year. As at 31 December 2022, there are no indications that DEMIRE's risk management system in its entirety was inadequate or ineffective.[2]

Description of major individual opportunities

Risks can also present opportunities at the same time. Accordingly, DEMIRE derives opportunities for the Company from the risk inventory as at the balance sheet date, among other things. It also examines the business plan and the operating areas for any opportunities that may arise as at the balance sheet date. As in the risk report, the observation period is five years from the reporting date. In our opinion, the opportunities described below could be derived in particular.

Opportunities arising from the current market situation

MACROECONOMIC AND SECTOR OPPORTUNITIES

DEMIRE considers the macroeconomic and sector-specific environment to be slightly negative for the upcoming 2023 financial year after arriving at a generally positive assessment in the previous year. Following supply chain problems caused by the pandemic and the war in Ukraine as well as inflationary tendencies, the German economy is expected to experience a recessionary phase at the beginning of 2023 according to the German Council of Economic Experts. DEMIRE will not be able to completely escape the weakened demand for office and retail space that is expected as a result. Historically, however, DEMIRE's rental markets in secondary markets have proven to be comparatively resilient in phases of economic downturn compared to primary markets. Opportunities could arise from a positive development of rental demand contrary to expectations.

[2] This paragraph has not been audited.

With regard to the German real estate market, opportunities are expected to arise in terms of both purchases and sales. The DEMIRE Group intends to use this environment in particular to gradually build up an adequate liquidity reserve through property sales in light of the upcoming refinancing of a large portion of the liabilities in 2024. Opportunities could arise here from sales proceeds that exceed the book values of the properties and thus create additional liquidity.

In addition, the successful active property management of the existing portfolio will be continued. As evidenced by the macroeconomic slowdown in the previous year 2022, DEMIRE is able to achieve operational success even in a difficult environment.

DEMIRE also expects to see continued stable demand for sound properties in good locations, including outside of the top seven locations.

As in the previous year, DEMIRE is therefore cautiously optimistic as it looks ahead to 2023. The strategy and structure proved their worth again in 2022, even under the continuing special conditions.

Business opportunities

During the reporting period, the insourcing of Group functions and the associated harmonisation of processes and IT structures were largely completed. Furthermore, the internal asset and portfolio management was strengthened in terms of expertise and personnel. Property and facility management, which was largely outsourced to a renowned service provider at the end of 2018, also contributes to greater efficiency and economic benefits; this is reflected in the renewed reduction in property-specific costs and ongoing administrative costs. The further internalisation of fund and asset management for partial portfolios of the Fair Value REIT AG Group also contributes to improved earnings. DEMIRE now expects to achieve only minor further savings in 2023. It is, however, expected that the professional and committed support that the Company provides will result in longer lease terms and better chances of follow-on lettings, while tenant fluctuation and vacancy rates could improve compared to the level as at the reporting date.

FINANCIAL OPPORTUNITIES

There are no scheduled final maturities of liabilities in 2023. In view of the maturities of a large portion of the liabilities in 2024, DEMIRE will intensify the existing regular exchange with lenders and take advantage of possible refinancing opportunities that are not yet apparent at the time of reporting. Despite rising financing costs, a large number of financing options for real estate continue to be available and will, in the Company's view, remain available for the foreseeable future.

Overall assessment of DEMIRE's opportunities

Since 2019, DEMIRE has laid the essential foundations for its long-term success as a portfolio holder of German commercial real estate with a balanced risk-reward profile and an attractive cash flow. As a result, DEMIRE intends to offer its shareholders not only the prospect of an increase in value in the medium term, but also regular dividend distributions. The Executive Board believes that DEMIRE has a good chance of increasing its portfolio size and earnings power from 2024 onwards, following refinancing, through planned growth and optimisation of the property management platform, and of achieving the Group's medium-term targets under the REALize Potential strategy.

FORECAST

Expected development of the overall environment and sector

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

According to forecasts by the German Council of Economic Experts, the sharp rise in energy prices and high inflation as well as weak export demand will place a considerable burden on the German economy in 2023. The anticipated economic growth is expected to be negative compared to the previous year and the gross domestic product is expected to fall by 0.2%. In the course of 2023, however, exports and corporate investment should gradually pick up and revive the economy by the end of the year.

The industry association BAUINDUSTRIE expects revenue in the construction sector to fall by around 6.0%. CUSHMAN & WAKEFIELD sees the office property market as surprisingly robust against the backdrop of multiple crises (coronavirus pandemic, inflation, war in Ukraine, energy supply). It anticipates neither a growth impulse nor a decline, meaning that space turnover for the full year 2023 is expected to remain at the level of 2022.

Anticipated development of the overall environment

Macroeconomic environment

The German Council of Economic Experts expects there to be a decline in overall economic activity in the first quarter of 2023 due to weakness in construction and private consumer spending. A stronger upward trend is not expected until the second half of 2023. Overall, the Council of Economic Experts expects GDP to decline by 0.2% in 2023.

Anticipated development of the sector

Transaction market for commercial real estate

CBRE expects a transaction volume of a good EUR 40 billion (previous year: EUR 52 billion) for the commercial real estate market in 2023. Savills expects turnover to be below EUR 50 billion (previous year: EUR 51 billion). For 2023, JLL sees selective entry opportunities for investors in real estate investments in the first half of the year as yields continue to rise, followed by a possible return to yield compression in the second half of 2023. Savills expects transaction activity to increase from spring 2023 onwards. CBRE considers the continuing high level of global liquidity to be a stimulating factor for real estate investments in Germany in particular in the course of 2023.

Rental market

In view of the great resilience of the German office markets, as demonstrated during the COVID years and also in 2022, BNP PARIBAS REAL ESTATE is cautiously optimistic about 2023. In the wake of the expected economic recovery, a significant increase in market momentum and a rise in rental levels are expected in the course of the year.

Expected development of the Group

Overall assessment

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

DEMIRE expects a weaker demand for space in the 2023 financial year compared to the previous year due to the challenging economic conditions at the beginning of the year. The rise in interest rates, which is expected to continue, is likely to increase the Company's financing costs significantly, at least in the medium term.

Expected development in operating business

In light of high inflation with rising costs and signs of declining margins, profitability is expected to decline, although DEMIRE will continue to focus on the positive development of key operating figures. The real estate portfolio will continue to be optimised through active property management, the reduction of vacancies and the realisation of value creation potential. At the same time, DEMIRE plans to sell further properties in order to build up a liquidity reserve in view of the 2019/2024 corporate bond maturing in 2024. Overall, DEMIRE is expecting a declining earnings base in 2023 due to the completed and planned sales.

Anticipated development of the key economic indicators

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

Against the backdrop of the emerging decline in profitability in property management and the completed and planned property sales, the Company expects to see rental income of between EUR 71.0 and 73.0 million and FFO I (after taxes, before minorities) of between EUR 30.0 and 32.0 million for 2023. The values are thus expected to be significantly below the level of the previous year.

With regard to non-financial performance indicators, DEMIRE's primary objectives are to keep staff turnover stable at a low level, to reduce vacancy rates by engaging in targeted network maintenance activities and to keep outstanding rents at a low level. DEMIRE is also intending to expand its sustainability strategy and reduce its own emissions.

FORECAST

in EUR million	Forecast 17/03/2022	Result for 2022	Forecast for 2023
Rental income	78.0–80.0	81.1	71.0–73.0
FFO I (after taxes, before minority interests)	38.5–40.5	41.8	30.0–32.0

Frankfurt am Main, 15 March 2023
Demire Deutsche Mittelstand Real Estate AG

Prof. Dr Alexander Goepfert
(CEO)

Tim Brückner
(CFO)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

For the financial year 1 January 2022 to 31 December 2022

In EUR thousand	NOTE	2022	2021
Rental income		81,079	82,325
Income from utility and service charges		28,065	20,206
Operating expenses to generate rental income [1]		–46,832	–34,959
Profit/loss from the rental of real estate [1]	**D 1**	**62,312**	**67,572**
Income from the sale of real estate and real estate companies		12,743	104,106
Expenses related to the sale of real estate and real estate companies		–20,907	–102,665
Profit/loss from the sale of real estate and real estate companies	**D 2**	**–8,164**	**1,441**
Profit/loss from fair value adjustments of investment properties	D 3	–61,228	46,996
Profit/loss from fair value adjustments of non-current assets held for sale	D3	–37,650	1,781
Impairment of receivables	D 4	–1,501	–3,475
Other operating income [1]	D 5	800	797
General and administrative expenses [1]	D 6	–10,699	–11,410
Other operating expenses [1]	D 7	–16,793	–1,836
Earnings before interest and taxes		**–72,925**	**101,866**
Financial income		18,411	3,167
Financial expenses		–19,296	–18,331
Profit/loss from companies accounted for using the equity method		–266	1,084
Minority interests		770	–6,972
Financial result	**D 8**	**–381**	**–21,052**
Earnings before taxes		**–73,306**	**80,814**
Current income taxes	D 9	–6,841	–6,663
Deferred taxes	D 9	8,644	–12,564
Net profit/loss for the period		**–71,502**	**61,587**
of which attributable to:			
Non-controlling interests		**–5,758**	**3,089**
Parent company shareholders		**–65,745**	**58,499**
Basic earnings per share (in EUR)	D 10	–0.62	0.55
Diluted earnings per share (in EUR)	D 10	–0.62	0.55

[1] * The previous year's figures were adjusted based on reporting changes during the period under review (for more information, see Section A.1 "Adjustment of previous year's figures").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year 1 January 2022 to 31 December 2022

In EUR thousand	2022	2021
Net profit/loss for the period	**–71,502**	**61,587**
Other comprehensive income	**0**	**0**
Total comprehensive income	**–71,502**	**61,587**
thereof attributable to:		
Non-controlling interests	**–5,758**	**3,089**
Parent company shareholders	**–65,745**	**58,499**

CONSOLIDATED BALANCE SHEET

as at 31 December 2022

ASSETS

In EUR thousand	NOTE	31/12/2022	31/12/2021
Assets			
Non-current assets			
Intangible assets	E 1.1	0	6,783
Property, plant and equipment	E 1.2	164	228
Investment propert	E 1.3	1,231,072	1,433,096
Shares in companies accounted for using the equity method	E 1.4	385	1,025
Loans to companies accounted for using the equity method	E 1.5	24,752	26,505
Loans and financial assets	E 1.6	62,750	64,264
Other assets	E 1.7	6,685	11,917
Total non-current assets		**1,325,808**	**1,543,819**
Current assets			
Trade accounts receivable	E 2.1	13,845	8,671
Financial assets	E 2.2	9,584	3,925
Other assets	E 2.1	2,658	3,191
Tax refund claims	E 2.3	6,541	6,369
Cash and cash equivalents	E 2.4	57,415	139,619
Total current assets		**90,043**	**161,775**
Non-current assets held for sale	**E 3**	**121,000**	**0**
Total assets		**1,536,851**	**1,705,594**

CONSOLIDATED BALANCE SHEET

as at 31 December 2022

EQUITY AND LIABILITIES

In EUR thousand	NOTE	31/12/2022	31/12/2021
Equity and liabilities			
Equity			
Subscribed capital		105,513	105,513
Reserves		344,713	443,510
Equity attributable to parent company shareholders		**450,226**	**549,023**
Non-controlling interests		36,465	43,339
Total equity	**E 4**	**486,691**	**592,362**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	E 5.1	76,047	84,692
Minority interests	E 5.2	80,364	82,882
Financial liabilities	E 5.3	813,429	874,417
Lease liabilities	E 7.2	26,209	24,285
Other liabilities	E 5.4	0	305
Total non-current liabilities		**996,049**	**1,066,581**
Current liabilities			
Provisions	E 6.1	3,011	4,012
Trade payables	E 6.2	16,611	10,571
Other liabilities	E 6.2	5,356	7,114
Tax liabilities	E 6.3	13,116	8,670
Financial liabilities	E 5.3	15,626	16,097
Lease liabilities	E 7.2	391	187
Total current liabilities		**54,111**	**46,651**
Total liabilities		**1,050,160**	**1,113,232**
Total equity and liabilities		**1,536,851**	**1,705,594**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2022 to 31 December 2022

In EUR thousand	NOTE	2022	2021
Earnings before taxes		**–73,306**	**80,814**
Financial expenses	D 8	19,296	18,331
Financial income	D 8	–18,655	–4,251
Minority interests	D 8	–770	6,972
Change in trade accounts receivable		–6,675	–4,800
Change in other receivables and other assets		4,377	14,352
Change in provisions		–1,001	1,017
Change in trade payables and other liabilities		4,892	–4,261
Profit/loss from fair value adjustments of investment properties	D 3	98,878	–48,777
Profit/loss from the sale of real estate and real estate companies	D 2	8,164	–1,441
Interest proceeds from loans and receivables		3,799	2,897
Interest received from loans to companies accounted for using the equity method		1,061	464
Income tax payments		–2,568	–926
Change in reserves		0	–38
Depreciation and amortisation and impairment		10,271	4,056
Distributions from companies accounted for using the equity method		90	666
Other non-cash items		147	142
Cash flow from operating activities [1]		**48,001**	**65,217**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2022 to 31 December 2022

In EUR thousand	NOTE	2022	2021
Payments for the acquisition of/investments in investment properties, incl. prepayments, refurbishment measures and prepayments for property, plant and equipment		–32,350	–24,724
Payments for the acquisition of interests in fully consolidated companies, less net cash equivalents acquired		0	0
Payments for investments in/loans to companies accounted for using the equity method	E 1.5	–600	–29,146
Proceeds from loans to companies accounted for using the equity method		2,142	2,442
Disbursements from the granting of loans to third parties		0	–60,000
Proceeds from the repayment of a purchase price receivable for an investment accounted for using the equity method		0	8,069
Proceeds from the sale of real estate		4,543	103,121
Cash flow from investing activities		**–26,265**	**–238**
Payments for borrowing costs		0	–671
Proceeds from borrowings	E 5.3	0	69,700
Distributions to minority shareholders/dividends [1]		–35,437	–67,658
Interest paid on financial liabilities		–17,026	–15,922
Payments for the purchase of additional shares in a subsidiary		–67	–355
Sale of shares in a subsidiary		0	3
Payments for the redemption of financial liabilities	E 5.3	–51,224	–10,575
Buyback of treasury shares	E 4	0	–1,178
Payment for the redemption of lease liabilities	E 5.3	–186	–324
Cash flow from financing activities [1]		**–103,940**	**–26,980**
Net change in cash and cash equivalents		**–82,204**	**37,999**
Cash and cash equivalents at the start of the period	E 2.4	139,619	101,620
Cash and cash equivalents at the end of the period	**E 2.4**	**57,415**	**139,619**

[1] * The previous year's figures were adjusted based on reporting changes during the period under review (for more information, see Section A.1 “Adjustment of previous year's figures”).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year 1 January 2022 to 31 December 2022

	Share capital	Reserves				
In EUR thousand	Subscribed capital	Capital reserves	Retained earnings incl. Group profit/loss	Equity attributable to parent company shareholders	Non-controlling interests	Total equity
01/01/2022	**105,513**	**88,366**	**355,144**	**549,023**	**43,339**	**592,362**
Net profit/loss for the period			–65,745	–65,745	–5,758	–71,502
Other comprehensive income			0	0	0	0
Total comprehensive income	**0**	**0**	**–65,745**	**–65,745**	**–5,758**	**–71,502**
Dividend payments/distributions	0	0	–32,709	–32,709	–830	–33,539
Acquisition of treasury shares	0	0	0	0	0	0
Other changes	0	0	–343	–343	–285	–628
31/12/2022	**105,513**	**88,366**	**256,347**	**450,226**	**36,465**	**486,691**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year 1 January 2021 to 31 December 2021

	Share capital	Reserves				
In EUR thousand	Subscribed capital	Capital reserves	Retained earnings incl. Group profit/loss	Equity attributable to parent company shareholders	Non-controlling interests	Total equity
01/01/2021	**105,772**	**88,404**	**363,780**	**557,956**	**40,085**	**598,041**
Net profit/loss for the period			58,498	58,498	3,089	61,587
Other comprehensive income			0	0	0	0
Total comprehensive income	**0**	**0**	**58,498**	**58,498**	**3,089**	**61,587**
Dividend payments/distributions	0	0	–65,418	–65,418	–628	–66,046
Acquisition of treasury shares	–260	–38	–880	–1,178	0	–1,178
Other changes	0	0	–836	–836	793	–43
31/12/2021	**105,513**	**88,366**	**355,144**	**549,023**	**43,339**	**592,362**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year 1 January 2022 to 31 December 2022

A. General information

1. Basis of preparation

DEMIRE Deutsche Mittelstand Real Estate AG (hereafter "DEMIRE AG") is recorded in the commercial register in Frankfurt am Main, Germany, the location of the Company's headquarters, under the number HRB 89041. As at 31 December 2022, the Company's scope of consolidation pursuant to Section 313 (2) HGB includes DEMIRE AG as the parent company and the companies listed in the schedule of shareholdings ("DEMIRE" or "the DEMIRE Group"). The Company's registered office is located in Frankfurt am Main, Germany, and the Company's business address is Robert-Bosch-Straße 11, Langen, Germany. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

DEMIRE AG itself has not carried out any investments in real estate or real estate projects to date. Investments are generally processed through real estate companies. Interests in these real estate companies are held by DEMIRE AG either directly or indirectly (through intermediate holding companies). DEMIRE focuses on the German commercial real estate market where it is an active investor and portfolio manager. DEMIRE itself carries out the acquisition, management and leasing of commercial properties. Value appreciation is to be achieved through active real estate management. This may also include the targeted sale of properties when they are no longer a strategic fit or have exhausted their potential for value appreciation. Other fundamental Company data can be found in Appendix 4.

The euro (EUR) is the reporting currency of DEMIRE AG's consolidated financial statements. Unless otherwise stated, all amounts are expressed in thousands of euros (EUR thousand). For computational reasons, rounding differences of ± one unit (EUR, %, etc.) may occur in the information presented in these financial statements. The financial year corresponds to the normal calendar year. The consolidated statement of income has been prepared according to the cost-of-sales method.

ADJUSTMENT OF PREVIOUS YEAR'S FIGURES

For better comparability with the reporting period, the following changes have been made to the presentation of the previous year's figures:

Income from insurance compensation is now presented under operating expenses to generate rental income and no longer under other operating income. As a result, an amount of EUR 391 thousand has been reclassified in the previous year's figures.

Furthermore, the following expenses were reallocated from other operating expenses to administrative costs: further education and trade literature EUR 84 thousand, membership fees EUR 48 thousand and facility management expenses EUR 34 thousand.

The explanatory notes/tables and the segment reporting in the notes to the consolidated financial statements have also been adjusted accordingly.

In the consolidated statement of cash flows, the distributions to minority shareholders/dividends are now shown in the cash flow from financing activities and the statement of cash flows of the previous year has been adjusted accordingly.

The consolidated financial statements of DEMIRE AG for the financial year ending 31 December 2022 were prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the European Union (EU), pursuant to Section 315e of the German Commercial Code (HGB). All International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations of the IFRS Interpretations Committee (IFRS IC) – formerly the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) – that were mandatory for the 2022 financial year have been taken into consideration. Furthermore, all statutory disclosure and explanation requirements of the German Commercial Code (HGB) that are in addition to the provisions of the IASB have been fulfilled, particularly those for the preparation of a group management report, which is contained with the management report of the separate financial statements.

These consolidated financial statements were prepared by the Executive Board and were approved on 15 March 2023 by the Supervisory Board.

2. New and amended standards and interpretations

2.1 FIRST-TIME APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN THE 2022 FINANCIAL YEAR

The accounting policies applied to the consolidated financial statements are the same as those applied in the 2021 financial year except for the changes mentioned below. The following new and amended standards and interpretations were applied for the first time in the 2022 financial year.

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS IN THE 2022 FINANCIAL YEAR

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IFRS 3	Reference to the Conceptual Framework	28 June 2021	1 January 2022	No effect
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	28 June 2021	1 January 2022	No effect
Amendments to IAS 37	Onerous Contracts – Costs of Fulfilling a Contract	28 June 2021	1 January 2022	No effect
Annual improvements	Annual improvements 2018 – 2020	28 June 2021	1 January 2022	No effect

Amendments to IAS 16 now explicitly prohibit the deduction of any net income earned from the sale of items produced during the period in which the asset was brought to its location in a condition ready for use. The amendments have no impact on the consolidated financial statements as the Group does not have any property, plant and equipment in which goods are produced within the scope of test runs.

The amendments have updated IFRS 3 such that references now refer to the current framework. Furthermore, IFRS 3 has been supplemented by the requirement that an acquirer must apply the provisions of IAS 37 or IFRIC 21 instead of the framework approach for obligations that fall within the scope of IAS 37 or IFRIC 21. IFRS 3 has also been supplemented to include an explicit prohibition on the recognition of acquired contingent assets. The amendments have no effect on the consolidated financial statements of DEMIRE.

The amendment to IAS 37 clarifies that all costs directly attributable to a contract must be included in the cost of fulfilling the contract, i.e. both the incremental costs of fulfilling the contract as well as an offsetting of other costs directly attributable to fulfilling the contract (e.g. proportional depreciation of the property, plant and equipment used to fulfil the contract). These amendments do not have any effect on the consolidated financial statements.

Annual improvements to IFRS (2018-2020 cycle) also have no impact on DEMIRE's consolidated financial statements.

2.2 STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

The following IASB standards have been endorsed by the EU but are only mandatory after 31 December 2022:

STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IAS 1	Disclosure of Accounting Policies	2 March 2022	1 January 2023	No effect
Amendments to IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	2 March 2022	1 January 2023	No material effect
Amendments to IAS 12	Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	11 August 2022	1 January 2023	No material effect
IFRS 17	Insurance Contracts	19 November 2021	1 January 2023	No effect
Amendments to IFRS 17 and IFRS 9	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	8 September 2022	1 January 2023	No effect

The amendments to IAS 12, IAS 8, IAS 1, IFRS 17 and IFRS 9 will not have any significant effect on the consolidated financial statements of DEMIRE.

DEMIRE has not made use of the early application option.

The EU has not yet transposed the following pronouncements adopted by the IASB or IFRS IC into European law:

STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current (issued on 23 January 2020, 15 July 2020 and 31 October 2022)	Pending	1 January 2024	No material effect
Amendments to IFRS 16	Lease Liabilities with a Sale and Leaseback Transaction (issued on 22 September 2022)	Pending	1 January 2024	No effect
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate/joint venture	Pending	Date of first-time application postponed indefinitely	No effect

DEMIRE plans to apply the new standards mentioned above when they take effect in the EU. The IASB and IFRS IC standards will be adopted into European law through their endorsement by the EU. Early adoption is impossible due to the pending endorsement. Based on our current knowledge, there is likely to be only a minor effect on the presentation of DEMIRE's net assets, financial position and results of operations from the standards not yet adopted into European law.

3. Key discretionary decisions, judgements and assumptions

In DEMIRE AG's consolidated financial statements, estimates, discretionary decisions and assumptions were made that affect the amount and recognition of the assets and liabilities, income and expenses and contingent liabilities. The estimation of future business development takes into account the future economic environment deemed as realistic in the sectors and regions in which DEMIRE AG and its subsidiaries operate at the time of preparing the consolidated financial statements. All knowledge currently available is taken into account. The estimates are based on past experience and other assumptions that are considered appropriate for the circumstances. The estimates, discretionary decisions and assumptions made by DEMIRE AG are reviewed on an ongoing basis but may differ from the actual amounts.

When applying the accounting and valuation methods, the Company's management must make discretionary decisions. This applies to the following matters in particular:

When it comes to the valuation of investment properties, key valuation indicators include, in particular, the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. Valuation is performed using the discounted cash flow method, in which future cash flows are discounted back to the reporting date. Estimates contain assumptions about the future. The valuation parameters used in the valuation model reflect normal market expectations and represent forecasts based on analysed market information and past values of the properties to be valued or comparable properties.

For the purposes of the valuation of the included optionalities in connection with the company JV Theodor Heuss Allee Cielo, fair value is measured using the established valuation model, taking into account observable market data (Monte Carlo method). The valuation is subject to discretionary scope, in particular due to the choice of input factors. The input factors used here include the risk-free interest rate, the volatility of the base value and ultimately the value of the base value itself. The base value is, however, influenced by the market value of the property. This itself is subject to a discretionary or assumption-based valuation model. Key valuation indicators are the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. Valuation is performed using the discounted cash flow method, in which future cash flows are discounted back to the reporting date. Estimates contain assumptions about the future. The valuation parameters used in the valuation model (Monte Carlo method) reflect normal market expectations and represent forecasts based on analysed market information and past values of the factors used.

The inclusion method for the company JV Theodor-Heuss Allee GmbH takes into account future risks and the associated fluctuations in the value of the investment. It is necessary for DEMIRE to make regular assumptions regarding the type of inclusion (equity consolidation/full consolidation). Insofar as the rights from a purchase option of the land within the JV are considered insubstantial and thus an exercise of the land purchase option as well as the subsequent acquisition of the minority interests by DEMIRE is always to be assumed, there are no further relevant activities within the meaning of IFRS 10. Since DEMIRE is exposed to variable returns as defined by IFRS 10.7(b) and can also influence these by exercising its control as defined by IFRS 10.7(c), DEMIRE would therefore exercise control over the JV as defined by IFRS 10.

However, DEMIRE estimates the rights to be substantial as at 31 December 2022. The decision to exercise the land purchase option constitutes a relevant activity. This is also jointly managed. Accordingly, this constitutes a joint arrangement within the meaning of IFRS 11.3 f. and therefore the company JV Theodor Heuss Allee GmbH is included in the consolidated financial statements as a joint venture. For more information, see Section B (IFRS 12 Disclosures).

If DEMIRE AG obtains direct or indirect control over an acquired entity or acquires assets, it must be determined whether the transaction should be classified as a business combination according to IFRS 3, or an acquisition of a group of assets or net assets (aggregated assets). This involves carrying out a concentration test that evaluates whether the full fair value of the acquired gross assets is concentrated in one asset or in a group of similar assets. If this is the case, they do not constitute business operations and are thus not deemed a business combination as defined by IFRS 3. If a business operation defined as an integrated group of activities is acquired in addition to assets and liabilities, this constitutes a business combination that must be accounted for according to IFRS 3. Business processes in the areas of property management, credit management and accounting, for example, would be defined as an integrated group of activities. Additionally, the fact that staff is employed at the acquired real estate company is another indication that a business operation has been acquired.

The fair value of financial instruments that are not traded in active markets is determined based on valuation methods. The Group makes discretionary decisions when selecting numerous methods and assumptions, which are primarily based on the market conditions existing at the end of each period under review.

When accounting for leases in accordance with IFRS 16, the assessment of the exercise or non-exercise of unilaterally granted termination or renewal options as well as the determination of the interest rate underlying the lease may involve discretionary judgement. Generally speaking, lease payments are discounted using the implicit interest rate in the lease, if determinable. Otherwise they are discounted using the marginal borrowing rate.

The need to include information concerning the future in the valuation of expected defaults (expected credit loss) results in discretionary decisions regarding the impact that changes in economic factors will have on the expected defaults.

An explanation of the estimates and assumptions made with respect to individual items in the consolidated balance sheet, consolidated statement of income or consolidated statement of comprehensive income is given in the items that follow in the Notes to the consolidated financial statements together with the respective relevant Note disclosures.

Income taxes	Note D. 9
Goodwill impairment test	Note E. 1.1.1
Investment property	Note E. 1.3
Impairment of receivables	Note C/D.4
Deferred tax assets and liabilities	Note E. 5.1
Accounting using the equity method/call option	Note E.1.4
Leases	Note E.7

B. Scope and principles of consolidation

The consolidated financial statements include DEMIRE AG and all its controlled subsidiaries. The scope of consolidation can be found in the 'Shareholdings' section.

As in the previous year, Panacea Property GmbH, Berlin, was not included in the consolidated financial statements due to its insignificance for the Group.

As at the reporting date, the consolidated financial statements comprise the subgroup DEMIRE and the subsidiaries of the subgroup Fair Value REIT. The subgroup DEMIRE comprises the consolidated financial statements of DEMIRE AG and its subsidiaries as at the acquisition date, i.e. from the date on which control was acquired. The Fair Value REIT subgroup comprises the consolidated financial statements of Fair Value REIT-AG and its subsidiaries. Fair Value REIT AG is the parent company of the subgroup Fair Value REIT and a subsidiary of the subgroup DEMIRE.

The financial statements of DEMIRE AG's subsidiaries are prepared using uniform accounting and valuation methods on the same reporting date as the parent company's financial statements.

DEMIRE AG's direct and indirect interests in the subsidiaries also correspond to the share of voting rights. The contributions of the non-consolidated companies to the Group's revenue, net income and total assets were not considered to be significant. These companies were therefore not included in the consolidated financial statements.

DEMIRE only controls an investee when all of the following characteristics have been met:

- the power of control over the investee (i.e. based on its existing rights, DEMIRE has the option of controlling those activities of the investee that have a material influence on the investee's return),
- risk exposure from or rights to variable returns from its involvement with the investee, and
- the ability to use its power of control over the investee to influence the return on the investee.

Generally, the ownership of a majority of the voting rights is assumed to result in control. If DEMIRE does not hold a majority of the voting rights or comparable rights in an investee, then all facts and circumstances are taken into account when assessing whether DEMIRE has the power of control over this investee. Factors to consider include:

- contractual agreements with others exercising voting rights,
- rights resulting from other contractual agreements, and
- voting rights and potential voting rights of the Group.

The consolidation of a subsidiary begins on the day on which DEMIRE acquires control over the subsidiary. It ends when DEMIRE loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or sold during the period under review are recognised in the consolidated financial statements as at the date on which DEMIRE acquires control over the subsidiary until the date on which control ceases.

In the case of company acquisitions, DEMIRE assesses whether a business combination according to IFRS 3 or acquisition of a group of assets and liabilities exists as aggregated assets. This involves carrying out a concentration test that evaluates whether the full fair value of the acquired gross assets is concentrated in one asset or in a group of similar assets. If this is the case, they do not constitute business operations and are thus not deemed a business combination as defined by IFRS 3.

Business combinations are accounted for using the acquisition method when the Group obtains control. In the course of the necessary revaluation, all hidden reserves and liabilities of the acquired company are released. Any positive difference remaining after the release of hidden reserves and liabilities is capitalised as goodwill on the balance sheet. The consideration transferred upon acquisition and the identifiable net assets acquired are generally measured at fair value. Transaction costs are recognised as an expense immediately, unless they are costs for raising capital or issuing liabilities.

Acquisitions of real estate companies that do not constitute business operations as defined by IFRS 3 are recognised as the direct purchase of properties. The acquisition cost of the property company is allocated to individually identifiable assets and liabilities based on their relative fair values.

Interests in the net assets of subsidiaries that are not partnerships and not attributable to DEMIRE (non-controlling interests) are recorded under the item "Non-controlling interests" within the Group's equity, but separately from the parent company shareholders' equity.

Interests in the net assets of subsidiaries that are in the legal form of a partnership and not attributable to DEMIRE are recorded in the Group's liabilities, since the minority shareholders have the right to terminate their investments. In accordance with IAS 32, the interests of these minority shareholders are assessed as potential compensation claims and reported as liabilities. Upon initial recognition, they are measured at fair value, which corresponds to the minority shareholders' interests in the net assets of the respective company. The liability reported corresponds to the notional share of minority shareholders in the net assets of the respective subsidiary at their carrying amounts.

DEMIRE's interests in associates are measured and accounted for using the equity method in accordance with IAS 28. Associates are all companies over which the Group exercises significant influence but not control or joint control. This is generally the case when the Group holds between 20% and 50% of the voting rights.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised on a straight-line basis nor subject to a separate impairment test. The financial statements of the associate or joint venture are prepared subject to the same accounting rules as the Group. The reporting dates also match those applicable for the DEMIRE Group.

CHANGES TO THE SCOPE OF CONSOLIDATION AND STRUCTURAL CHANGES IN THE PERIOD UNDER REVIEW

In the period under review an accrual of the company BBV 6 Geschäftsführungs-GmbH & Co. KG, Langen (Hesse), "FV06" took place to Fair Value REIT-AG, Frankfurt am Main. There were no material effects from this.

CHANGES TO THE SCOPE OF CONSOLIDATION IN THE PREVIOUS YEAR

During the previous year, the joint venture JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, Germany, was formed. The subsidiary Demire Holding XIII GmbH and the third party RFR Immobilien 4 GmbH (RFR), Frankfurt am Main, each hold 49.5% of the joint venture, and Supervisory Board Chair Prof. Dr Goepfert (Supervisory Board Chair until 31 December 2022 and CEO as of 1 January 2023) holds the remaining 1%. The joint venture is jointly managed by the two main shareholders. JV Theodor-Heuss-Allee GmbH serves as the real estate holding company for the Cielo office building. As part of the Cielo transaction, JV Theodor-Heuss-Allee GmbH obtained from the subsidiary Objekt Frankfurt THA 100 GmbH & Co. KG, the owner of the land, a heritable building right to the land Theodor-Heuss-Allee 100 (the Cielo property). After 57 months, JV Theodor-Heuss-Allee GmbH has the right to purchase the land. In the event of non-exercise, the minority shareholder Prof. Dr Goepfert or subsequently RFR Immobilien 4 GmbH has the right to purchase the land.

The exercise or non-exercise of the land purchase option will result in further options to acquire or sell the shares in the joint venture arising. For more information, see the section IFRS 12 Disclosures and Section A.3 (Key discretionary decisions, judgements and assumptions).

Cielo BVO GmbH, Frankfurt am Main, in which the Group is the sole shareholder, was also acquired for EUR 249 thousand. This company has since been fully consolidated in the (interim) consolidated financial statements. This did not have any significant effects on the net assets, financial position and results of operations. No goodwill incurred.

There was also a merger of DEMIRE Unterschleißheim Ohmstraße 1 GmbH into DEMIRE Frankfurt Gutleutstraße 85 GmbH, as well as the absorption of shares in BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG "BBV 14", IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG "IC 15" and IC Fonds & Co. SchmidtBank-Passage KG "IC 12" into Fair Value REIT-AG.

This also had no significant effects on the net assets, financial position and results of operations in the previous year.

Disclosures according to IFRS 12

A) DISCLOSURES RELATING TO FULLY CONSOLIDATED SUBSIDIARIES

Fair Value REIT-AG, Frankfurt am Main and its subsidiaries were fully consolidated for the first time in DEMIRE AG's consolidated financial statements as at 31 December 2015, as the Fair Value REIT subgroup. In the period under review, dividend distributions of EUR 830 thousand were allocated to the non-controlling shareholders of Fair Value REIT-AG (previous year: EUR 574 thousand).

The carrying amount of the non-controlling interests of Fair Value REIT-AG minority interests, which are reported within DEMIRE's equity, amounted to EUR 20,593 thousand as at 31 December 2022 (previous year: EUR 23,914). In addition, DEMIRE recognises the minority interests within the Fair Value REIT AG subgroup - the minority interests in the funds (subsidiaries of FVR) – under the item non-current financial liabilities (in accordance with IAS 32). These amounted to EUR 80,364 thousand (previous year: EUR 82,882 thousand) as at the reporting date. A share in the Group loss for the period in the amount of EUR –1,884 thousand was attributable to non-controlling shareholders for the 2022 financial year pursuant to the IFRS consolidated financial statements (previous year: profit of EUR 2,111 thousand).

Information on Fair Value REIT's financial ratios can be found in the table below.

FAIR VALUE REIT-AG SUBGROUP FINANCIAL STATEMENTS

in EUR thousand	31/12/2022	31/12/2021
Non-current assets	287,804	300,125
Current assets	26,634	35,394
Of which cash and cash equivalents	23,095	30,005
Non-current borrowing	151,188	158,765
Of which non-controlling interests	80,364	82,882
Current borrowing	5,843	7,112
Of which financial liabilities	2,560	2,749
Net assets	**157,407**	**169,642**
Statement of income		
Revenue	23,466	22,719
Financial income	27	0
Financial expenses	–1,224	–1,147
Net profit/loss for the period/ total comprehensive income	**-6.474/-6.474**	**13.489/13.489**
Cash flow information		
Cash flow from operating activities	**9,448**	**10,170**
Cash flow from investing activities	**–3,719**	**5,765**
Cash flow from financing activities	**–12,641**	**–5,944**
Net change in cash and cash equivalents	**–6,910**	**9,991**
Cash and cash equivalents at the end of the period	**23,095**	**30,005**

Through REIT's status, Fair Value REIT-AG is exempt from corporate income and trade tax. The prerequisite for this tax exemption is compliance with specific requirements relating to capital and company law. The majority of these requirements are stipulated in the REIT Act (Real Estate Investment Trust Act). The REIT Act stipulates standardised specifications in terms of free float, asset requirements, income requirements, distribution to shareholders (dividend), exclusion of real estate trading and minimum equity. The regulations aim to achieve the sustainable management of a predominantly commercial real estate portfolio and to facilitate ongoing dividend payments to the shareholders.

Please refer to the schedule of shareholdings for more information on the fully consolidated subsidiaries.

B) DISCLOSURES ON ASSOCIATES AND JOINT VENTURES

Joint venture:

During the previous year, the joint venture JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, Germany, was formed with share capital of EUR 25 thousand. The Group holds a 49.5% stake in the joint venture and reports this interest using the equity method. JV Theodor-Heuss-Allee GmbH was first included using the equity method in DEMIRE AG's consolidated financial statements on 1 July 2021.

Information on JV Theodor-Heuss-Allee GmbH's financial ratios can be found in the table below:

ANNUAL FINANCIAL STATEMENTS OF JV THEODOR-HEUSS-ALLEE GMBH

in EUR thousand	31/12/2022	31/12/2021
Non-current assets	265,392	283,213
Current assets	3,251	3,214
Cash and cash equivalents	2,975	1,825
Current liabilities	2,231	2,520
Current financial liabilities included under current liabilities	1,955	2,124
Non-current liabilities	279,290	282,878
Non-current financial liabilities included under non-current liabilities	159,570	163,034
Revenue	12,726	6,056
Net profit/loss for the period	**–13,959**	**2,004**
Other comprehensive income	**0**	**0**
Total comprehensive income	**–13,959**	**2,004**
Interest income	0	7,830
Interest expenses	–6,805	–2,699
Income tax expenditure or revenue	–460	–414
Dividends received	0	0
Reconciliation of carrying amount of investment		
Equity of JV Theodor-Heuss-Allee GmbH	–12,878	1,029
of which 49.5%	–6,375	509
Carrying amount of investment in the DEMIRE Group	–6,375	509

The company JV Theodor-Heuss-Allee GmbH is accounted for using the equity method due to the fact that DEMIRE exercises joint control with RFR over the joint venture. The shareholders' agreement includes purchase options on both the land and the remaining shares in the joint venture, which may have an impact on the accounting method. However, further regulations are laid down in the shareholders' agreement that allow both parties different courses of action, which in turn also have an impact on the accounting method chosen. The management's assessment of whether the accounting method applied to the shares is appropriate is made at each reporting date with reference to any possible cases. The following three cases are to be assumed, which are primarily related to the determination of the market value of the joint venture's property and are briefly described below:

Options and assumptions for action in the event of a high increase in the market value of the property

In the event of a high increase in the market value of the property or land, DEMIRE has an incentive to exercise both the purchase option on the land and the purchase option on the remaining shares in the joint venture. It is necessary, however, to obtain the consent of the equal co-partner of the joint venture in order to exercise the option to purchase the land. However, the latter may have an incentive to disagree under certain circumstances. In this case, it is contractually regulated that DEMIRE has a put option and RFR a call option for the land or shares in the joint venture. The purchase price for the DEMIRE shares is calculated in both cases from DEMIRE's capital contributions (incl. shareholder loans) and a penalty for RFR in the amount of EUR 45,000 thousand. Furthermore, RFR Immobilien 5 GmbH (RFR 5) must pay back the loan granted to it. For more information, see Section 1.6 (Loans and financial assets). If RFR is unable or unwilling to raise the purchase price (including the loan), DEMIRE has the option to acquire the remaining shares in the joint venture for EUR 1 and subsequently exercise the land option. When calculating the purchase price for the land, the loan including interest and penalties must be offset. From the point of view of RFR, a concrete threshold for the property that would lead RFR to oppose the exercise would be the amount exceeding the penalty. That would be an increase in value of at least EUR 45,000 thousand.

Furthermore, the management must check at the time of exercise whether RFR would be economically able to pay the penalty, otherwise RFR's right would become insubstantial. Conversely, however, DEMIRE also has financing requirements for the exercise of the option. If this does not materialise, DEMIRE would have to waive this option, i.e. DEMIRE and RFR jointly decide against exercising the land purchase option. Consequently, there would be no direct options on the shares and the joint venture would continue in its current constellation and DEMIRE would retain its current accounting using the equity method.

Options and assumptions for action in the event of a strong decline in the market value of the property

In the event of a strong decline in the market value of the property, DEMIRE has no incentive to exercise the purchase option. If the land option is not exercised because DEMIRE does not consent to this, RFR receives a call option and DEMIRE receives a put option. The purchase price for the DEMIRE shares is calculated in both cases from DEMIRE's capital contributions (incl. shareholder loans) less a penalty for DEMIRE in the amount of EUR 43,500 thousand. In addition, the loan previously granted by DEMIRE to RFR 5 must be repaid. DEMIRE thus bears the risk of a strong decline in the market value of the property, limited to EUR 43,500 thousand.

Options and assumptions for action in the event of moderate development in the market value of the property

This case occurs if there is no or only a moderate change in the value of the property in 2022 compared to 2026 – within the penalties. In this constellation, the land purchase option of the joint venture is exercised at an exercise price of EUR 122,813 thousand after a unanimous resolution by the shareholders of DEMIRE and RFR. If the property's value develops within the scope of the aforementioned penalties, it can be assumed that the purchase option will be exercised by both parties.

Upon the joint venture exercising the land purchase option (purchase of the land), DEMIRE acquires the right to purchase RFR's shares in the joint venture. The purchase price for RFR's shares is EUR 5,000 thousand.

In the unlikely event that DEMIRE waives this option, the minority shareholder acquires the rights to the call option of DEMIRE and can subsequently acquire the remaining shares in the joint venture under the predetermined conditions. However, if the latter also assigns its right, DEMIRE is obliged to acquire RFR's shares under the conditions stated.

Assessment regarding consolidation

The assessment as to whether full consolidation or accounting using the equity method is to be carried out is subject to various discretionary powers and estimates on the part of the Company. Although moderate development in the market value is currently the most probable scenario in the option price models, the other scenarios are also still substantial in light of the remaining term of 3.5 years until the decision regarding the purchase option for the property. Due to the substantial value of the call option, which results from the relatively long term until the possible exercise date of approximately 3.5 years, the Company accounts for the joint venture using the equity method as at the reporting date. There is relatively high volatility in the commercial property market, especially given the current market risks. For more information, see the section on the "Economic environment" in the management report. Furthermore, follow-up financing cannot be assumed. DEMIRE regularly reviews these assumptions.

The key basic assumptions for the calculation of this purchase option and the sensitivity analysis versus the assumptions made

Fair value is measured using the established valuation model, taking into account observable market data (Monte Carlo method). The valuation factors for this purpose are the basic price and volatility, the risk-free interest rate and the remaining term. Cash flows arising from the rental of offices are a key valuation factor for the base price (shares in JV Theodor-Heuss-Allee GmbH). Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. As at the reporting date, the value of the call option is currently not favourable, as the value is a negative amount. A 10% increase in cash flow would result in a positive value of EUR 3,924 thousand as at 31 December 2022. A corresponding decrease in cash flow would not result in a positive value. The impact of other valuation factors is immaterial as at the reporting date.

Associates

In addition to the interests in joint ventures listed above, the Group holds interests in several individually immaterial associates accounted for using the equity method. These include DEMIRE Assekuranzmakler GmbH & Co. KG, based in Düsseldorf, and G+Q Effizienz GmbH, based in Berlin.

The table below provides an aggregated breakdown of the carrying amount and share of profit and other comprehensive income of these associates.

in EUR thousand	31/12/2022	31/12/2021
Total carrying amounts of individually immaterial associates	385	516
Total Group share in:		
Profit or loss from continuing operations	108	123
Profit or loss after taxes from discontinued operations	0	0
Other comprehensive income	0	0
Total comprehensive income	**108**	**123**

C. Accounting policies

The consolidated financial statements were prepared based on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue business activities.

Assets and liabilities are presented according to their terms (due in more than/up to one year). Deferred taxes are generally reported as non-current.

Assets are generally measured at amortised acquisition or production costs, except for the fair value measurement of investment properties pursuant to IAS 40. According to IFRS 5.5(d), real estate held for sale is carried at fair value. The fair value in this case is the agreed selling price.

Assets, equity and debt instruments, excluding share-based payments under IFRS 2, that are measured at fair value based on other standards are valued uniformly according to the provisions of IFRS 13.

If fair value is determined using a valuation method, the fair value should be assigned to one of the following three levels of the fair value hierarchy, depending on the available observable parameters and the respective importance of these parameters for the overall measurement.

Level 1: Input factors are quoted prices in active markets for identical assets or liabilities that are available as at the valuation date.

Level 2: Other input factors than the quoted prices in Level 1 and factors which are either directly observable or can be indirectly derived for the asset or liability.

Level 3: Input factors for the asset or liability are not observable.

The following table shows the measurement hierarchy, measurement methods and significant input factors for determining the fair values of the various measurement categories of financial assets and liabilities. A special feature results from the fact that the fair value of the 2019/2024 corporate bond was determined on the basis of the stock exchange price on 31 December 2022 and was thus determined using the Level 1 measurement method.

Type	Hierarchy	Measurement methods and significant input factors
Financial receivables and other financial assets	Level 3	Discounted cash flows based on risk-free interest rates observable on the market at the valuation date, risk premiums of counterparties not observable on the market
Non-current financial liabilities	Level 3	Discounted cash flows based on risk-free interest rates observable on the market at the valuation date, DEMIRE-specific risk premium

No transfers between the different levels of the measurement hierarchy took place during the period under review or comparative periods.

Financial assets and financial liabilities are classified and recognised in accordance with the categories of IFRS 9. Accordingly, financial assets are classified in the categories at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. As at the reporting date, the Company only holds financial instruments in the categories "at amortised cost" and "at fair value" (through profit or loss). Financial instruments are classified as at amortised cost if they are held as part of a business model and the objective is to hold them to collect the contractual cash flows, and if the contractual terms and conditions of the financial asset result in cash flows at specified dates, which represent exclusively principal and interest payments on the outstanding principal. Financial instruments classified as measured at fair value relate to derivative financial instruments. These are measured at fair value both when accounted for initially as well as during subsequent periods. The measurement of fair value is based on established valuation models that take into account observable market data, such as the Black Scholes model or the Monte Carlo simulation. The valuation factors for this purpose are the basic price and its volatility, the risk-free interest rate and the remaining term.

Financial assets and financial liabilities are recognised in the consolidated balance sheet for the first time when a Group company becomes a party to a financial instrument. The initial recognition of a financial instrument is at fair value including any transaction costs. The maximum default risk is reflected by the amortised carrying amounts of the receivables and other financial assets recognised in the balance sheet. Credit risk and default risk are the risk that counterparties – essentially the tenants of the properties held by DEMIRE – will not be able to meet their contractual payment obligations, which could result in a loss for the Company. In order to mitigate and manage default risks as much as possible, DEMIRE reviews the creditworthiness of tenants for new lettings. Default risks exist for all classes of financial instruments, but especially for trade accounts receivable and purchase price receivables. There is no significant default risk for other financial instruments.

DEMIRE mainly has receivables from letting and purchase price receivables from properties located in Germany, as well as loans to third parties and companies accounted for using the equity method. The credit risk is classified at the level of each counterparty, as some of them have different default rates and require different methods for determining the need for impairment.

Impairment of trade accounts receivable, contractual assets and lease payments receivable according to the simplified model

DEMIRE states valuation allowances for expected credit losses ("ECL") for financial assets measured at amortised cost. The impairment provisions of IFRS 9 also apply to financial assets that are recognised at fair value without recycling. However, this measurement category is not relevant for DEMIRE.

DEMIRE generally measures impairment in accordance with the general impairment model of IFRS 9 on the basis of the expected 12-month credit loss, provided that the default risk (e.g. the credit default risk over the expected term) has not increased significantly since initial recognition. This includes loans to third parties and to companies accounted for using the equity method, cash and cash equivalents and other financial assets. Impairment losses for the above-mentioned items are always recognised if they are material. These are assigned to Stages 1 to 3 on a case-by-case basis.

The Group applies the simplified approach according to IFRS 9.5.5.15. to determine impairment losses on trade receivables. The credit loss is measured at the amount of the expected credit loss over the term.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers appropriate and reliable information that is relevant and available without undue time and cost. This includes both quantitative and qualitative information and analyses based on the Group's past experience and sound judgements, including forward-looking information. DEMIRE's trade receivables are almost entirely lease receivables and receivables from operating costs.

DEMIRE assumes that the default risk of a financial asset which is not a trade receivable and which is measured at the amount of the expected credit loss over the term, using the simplified approach, has increased significantly if it is more than 30 days past due. In the case of trade receivables, the number of days overdue can be significantly higher, as the tenant will generally carry out checks on the items in ancillary costs statements, which regularly results in a delay that DEMIRE accepts until consent is obtained. The same applies to rent receivables that are not paid by tenants at the time due to other disputes in connection with the tenancy.

Financial assets with impaired credit ratings
The Group assesses at each reporting date whether financial assets at amortised cost are credit-impaired. A financial asset is credit-impaired if one or more events occur that have an adverse effect on the expected future cash flows of the financial asset:

Indicators that a financial asset is credit impaired include the following observable data:

— significant financial difficulties of the issuer or borrower
— a breach of contract, such as a payment default or overdue payment
— it is likely that the borrower will enter bankruptcy or other restructuring process

Measurement of expected credit losses
Expected credit losses are the probability-weighted estimates of credit losses. Credit losses are measured as the present value of payment defaults (i.e. the difference between the payments owed to an entity under the contract and the payments the entity expects to collect). DEMIRE uses a commission matrix to measure expected credit losses on trade receivables. For the exact structure and/or the parameters used, see Section E.2.1.

Presentation of impairment for expected credit losses in the balance sheet
Impairment losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Amortisation
The gross carrying amount of a financial asset is amortised if the Group does not have a reasonable expectation that the financial asset will be recovered in full or in part. In the case of tenants, the Group makes an individual assessment of the timing and amount of the amortisation based on whether there is a reasonable expectation of recovery.

In cases involving a write-off, the Group does not expect any significant recovery of the amortised amount. Amortised financial assets may nevertheless be subject to enforcement actions to recover overdue receivables.

Impairments of loans to third parties and companies accounted for using the equity method and other financial assets according to the three-stage model
With regard to impairments of loans to third parties and companies accounted for using the equity method, the three-stage model of expected credit losses is applied in accordance with the requirements laid down by IFRS 9.5. The basic principle behind this model is to map progress of the deterioration or improvement in the credit quality of financial instruments, whereby losses that are already expected are taken into account. The approach used in IFRS 9 includes the following measurement levels:

Stage 1: Twelve-month credit defaults, applicable to all items (since initial recognition) provided the credit quality has not deteriorated significantly. The future expected credit loss is determined by taking into account any prospective information regarding the probability of default and the loss ratio. Given there is no rating information at a counterparty level, the probabilities of default and loss ratios are derived from the statistical data from unsecured bonds with an adequate default risk so as to measure expected credit losses. The corresponding (historical) recovery rates are also taken into account. From the Group's perspective, a financial asset poses a low default risk if its credit risk rating is "Investment Grade", based on the global definition. The Group considers this to be the case for a BBB rating or higher from Moody's Corporation, New York, USA.

Stage 2: Credit defaults over the lifetime: to be applied if the credit risk for individual financial instruments or a group of financial instruments has increased significantly. A transfer from Stage 1 to Stage 2 is made if the contractual payments are more than 30 days past due. If an item has been past due for more than 90 days, there is a rebuttable presumption that there is objective evidence of a credit default and the financial instrument must therefore be transferred to Stage 3.

Stage 3: Credit losses over the lifetime (when considered on an individual basis): Where there is objective evidence (e.g. past-due contractual payments, signs of insolvency, etc.) that an asset would be impaired when considered on an individual basis, consideration of the lifetime of the financial instrument is decisive here.

Environmental, social and governance
In addition to the relevant standards, environmental, social and governance (ESG) issues are playing an increasingly important role in considerations regarding accounting and valuation principles. DEMIRE is constantly monitoring developments in this area and examining the effects on IFRS reporting. In order to estimate future effects, DEMIRE is currently taking stock of its ESG activities. We are also in the process of defining steps to help us make progress in this area in the coming years. Furthermore, we are currently working hard to collect environmental inventory data.

Other accounting policies for the individual balance sheet items and items in the statement of income are presented in the Notes to the consolidated statement of income (Section D) and the consolidated balance sheet (Section E).

D. Notes to the consolidated statement of income

DEMIRE has entered into commercial property lease agreements for its investment properties. These agreements stipulate that DEMIRE shall retain all the significant risks and opportunities connected with the ownership of properties rented and therefore classifies these lease contracts as operating leases. The income from these contracts is recognised as rental income and is generally free from seasonality. However, the sale and/or acquisition of one or several properties can have a significant influence on the net rental income. Revenue from ancillary rental costs is allocable ancillary costs that are passed on to tenants.

Revenues include rental income, income from ancillary rental costs and revenue from the sale of real estate and real estate companies. Pure rental income is accounted for according to IFRS 16, with income from utility and service charges and the sale of real estate accounted for according to IFRS 15.

DEMIRE generates revenue both based on a point in time and over a period of time in the following areas:

in EUR thousand	Income from utility and service charges	Revenue from sale of IAS 40 real estate
Point in time	0	12,743
Period	28,065	0
Total	**28,065**	**12,743**

in EUR thousand	Income from utility and service charges	Revenue from sale of IAS 40 real estate
Point in time	0	104,106
Period	20,206	0
Total	**20,206**	**104,106**

When real estate companies and real estate are sold, income is realised when

- the risks and rewards (ownership, benefits and encumbrances) associated with ownership have been transferred to the buyer;
- DEMIRE does not retain any right of disposal or effective power of disposal over the object of sale;
- the amount of revenue and the costs incurred or to be incurred in connection with the sale can be measured reliably;
- it is sufficiently probable that an economic benefit will flow to DEMIRE from the sale.

1. Profit/loss from the rental of real estate

Rental income is generated in connection with leases classified as operating leases and is recognised as rental income over time. The average monthly rent per square metre at the reporting date was EUR 9.78 (previous year: EUR 8.22). This figure is calculated by dividing the monthly net rent, excluding service charges, by the floor space. Properties and project developments already registered as being for sale are not included in this calculation. The property taxes and insurance settled as part of service charges do not constitute a separate performance obligation and are allocated to the rents accordingly. They are accounted for as other lease components in accordance with IFRS 16. In the case of other costs (gas, electricity, water, etc.), the Company has come to the conclusion that it is acting in the role as principal and continues to bear significant risks. Accordingly, revenues and related costs continue to be presented on a gross basis. Revenue and other operating costs are accounted for according to IFRS 15. Under this standard, prepayments made by tenants for allocable operating costs are recognised as income from utility and service charges in the year in which they are incurred and in the amount that is included in the allocable operating costs.

The profit/loss from the rental of real estate in the amount of EUR 62,312 thousand (previous year: EUR 67,572 thousand) consists of the following:

in EUR thousand	2022	2021
Net rent	81,079	82,325
Income from utility and service charges	28,065	20,206
Rental revenue from real estate	**109,144**	**102,531**
Allocable operating expenses to generate rental income	–35,636	–28,235
Non-allocable operating expenses to generate rental income	–11,196	–7,115
Operating expenses to generate rental income	**–46,832**	**–34,959**
Profit/loss from the rental of real estate	**62,312**	**67,572**

The decrease in the result from the rental of real estate to EUR 62,312 thousand (previous year: EUR 67,572 thousand) is the result of both lower rental income in the amount of EUR 81,079 thousand (previous year: EUR 82,325 thousand) due to properties sold in the prior reporting period in Cologne, Ansbach, Regensburg, Garbsen, Barmstedt, Bad Bramstedt and Potsdam, and an increase in non-allocable operating expenses in the amount of EUR 11,196 thousand (previous year: EUR 7,115 thousand). The increase in non-allocable operating expenses is due to one-time expenses associated with the conclusion of a rental agreement in the property in Essen in the amount of EUR 2,514 thousand, higher maintenance expenses in the amount of EUR –4,429 thousand (previous year: EUR –3,353 thousand) and higher ongoing depreciation on rental incentives in the amount of EUR 1,247 thousand (previous year: EUR 440 thousand).

Of the operating expenses, an amount of EUR –34,959 thousand (previous year: EUR –28,235 thousand) is generally allocable and can be charged to tenants. The significant increase is mainly due to the sharp rise in energy costs. The increase in non-allocable expenses is also shown in the increase in income from the allocation of service charges.

The previous year's figures were adjusted based on reporting changes during the period under review (for more information, see Section A.1 "Adjustment of previous year's figures").

Assets and liabilities from contracts with customers were as follows:

ASSETS AND LIABILITIES FROM CONTRACTS WITH CUSTOMERS

in EUR thousand	31/12/2022	31/12/2021
Current contract assets from operating costs	6,468	2,582
Total contract assets	**6,468**	**2,582**
Current contract liabilities from operating costs	505	1,361
Total contract liabilities	**505**	**1,361**

Contract assets include service charge payments by the DEMIRE Group to tenant, while contract liabilities include payments already made by the tenant for outstanding service charges. The increase in current contract assets from operating costs is due, in particular, to the drastic increase in energy costs in the reporting period, while tenant prepayments on service charges initially remained unchanged. This will be balanced out as part of the service cost settlement process for the 2022 settlement period.

Impairment losses of EUR 0 thousand (previous year: EUR 237 thousand) were recognised for operating costs in the period under review

2. Profit/loss from the sale of real estate and real estate companies

In the financial year, the Group generated profit/loss of EUR –8,164 thousand (previous year: EUR 1,441 thousand) from the sale of real estate. The negative result is mainly due to the sale of the property in Leipzig (logistics park) in the amount of EUR –6,839 thousand. This expense results primarily from the Company's obligations resulting from purchase agreements for the implementation of ongoing construction measures, in particular expenses in connection with the new Amazon building, which will not be constructed until 2023.

Please refer to Sections E.1.3 and E 3 for more information about the properties which were sold.

3. Result from the fair value adjustment of investment properties and assets held for sale

The profit/loss from the fair value adjustment of investment properties (Core Portfolio) amounted to EUR –61,228 thousand as at 31 December 2022 (previous year: EUR 46,996 thousand).

The fall in the valuation result for assets held for sale of EUR –37,650 thousand (previous year: EUR 1,781 thousand) is due to the sale of the Leipzig logistics park.

The devaluation of the core portfolio in the 2022 reporting year mainly due to the value adjustments of the four Galeria Karstadt Kaufhof properties held in the portfolio and the property in Neuss. This is counteracted by the leasing successes achieved in numerous properties, in particular by the conclusion of a contract with the State of North Rhine-Westphalia – Essen Police Headquarters, in the Essen property.

Through the conclusion of a 20-year lease agreement and an associated increase in value of 8.7%, the asset will become the highest-value property in the portfolio (Logistikpark Leipzig as an asset held for sale is not taken into account here). The property will be modernised to the EG55 standard and thus developed to create a sustainable product. Furthermore, the tenancy agreement will serve to reduce vacancies, increase the rent level and lead to a higher WALT. The current market environment is generally conducive to positive, value-influencing rent indexations. In general, successful letting leads to an increase in actual rents, a reduction in vacancies and stabilisation of the cash flows of the valuation properties.

The real estate markets have largely recovered from the outbreak of the pandemic in 2020, but these are now impacted by the higher interest rates and weaker economic development. In the 2022 reporting year, the considerably higher interest rates in particular led to a significant reduction in transaction volumes on the real estate markets. The risks resulting from the aforementioned situation, such as devaluations of tenant credit ratings and reductions in rental applications, have already been taken into account in the valuation. This was counteracted across the portfolio by letting to government institutions and proactively retaining existing tenants. At the same time, the office letting markets were dynamic in the reporting year compared to the transaction markets, such that the negative external circumstances were not reflected in the properties in the portfolio.

The changed market environment continues to affect global economies and real estate markets. Still, there is sufficient data and information available as at the valuation date to produce valid appraisals that reflect the ordinary course of business according to the legal circumstances and actual characteristics.

The fair value of real estate is based on the valuation report of the external independent expert Savills Advisory Services Germany GmbH & Co. KG, a company with its registered office based in Frankfurt am Main. Please refer to Section E.1.3 for details on the valuation method applied.

4. Impairment of trade accounts receivable and loans

Impairment of trade accounts receivable and loans amounted to EUR 1,501 thousand in the period under review (previous year: EUR 3,475 thousand).

EUR 330 thousand is attributable to the tenant Galeria Karstadt Kaufhof, which is in what is known as protective shield proceedings, i.e. insolvency proceedings under its own management.

In addition, impairments of loans in accordance with IFRS 9.5 were taken into account in the reporting year for the expected credit loss according to the three-stage model in the amount of EUR 821 thousand (previous year: EUR 632 thousand), and are assigned to risk level 1. Please refer to Section C "Accounting policies" for more information on accounting principles and the expected credit loss model.

In the previous year, deferred interest for a purchase price receivable in the amount of EUR 1,127 thousand was written down in particular.

5. Other operating income

in EUR thousand	2022	2021
Derecognition of liabilities	352	234
Deconsolidation effects	86	–
Income from agency agreements with companies accounted for using the equity method	75	37
Other non-period income	58	103
Refund of expenses	37	26
Benefits in kind	33	38
Compensation and indemnity payments	–	180
Other	159	178
Total [1]	**800**	**797**

[1] * The previous year's figures were adjusted based on reporting changes during the period under review (for more information, see Section A.1 "Adjustment of previous year's figures").

Liabilities in the amount of EUR 352 thousand were written off in the year under review, primarily owing to the fact they were time-barred (previous year: EUR 234 thousand).

Income from agency agreements in the amount of EUR 75 thousand (previous year: EUR 37 thousand) relates to JV Theodor-Heuss-Allee-GmbH.

Indemnity payments in the previous year include, among other things, a major effect in the amount of EUR 150 thousand, resulting from the settlement of a legal dispute with a former lessee.

6. General administrative expenses

in EUR thousand	2022	2021
Staff costs	–4,764	–5,247
Legal and consulting fees	–1,578	–1,711
Accounting and audit costs	–1,163	–1,745
IT costs	–391	–283
Non-deductible input taxes	–352	–22
Fees and incidental costs from monetary transactions	–304	–254
Supervisory Board remuneration	–276	–248
Custodial compensation	–246	–225
Fund administration costs	–179	–418
Recruitment costs	–179	–39
Advertising and travel expenses	–177	–229
Investor relations expenses	–172	–90
Insurance	–160	–85
Expenses for real estate expert opinions	–153	–106
Annual General Meeting and shareholder advisory expenses	–140	–107
Amortisation of rights-of-use	–38	–87
Further education, trade literature	–35	–84
Cost of premises	–33	–53
Facility management expenses	–27	–34
Membership fees	–26	–47
Other	–306	–295
Total [1]	**–10,699**	**–11,410**

[1] * The previous year's figures were adjusted based on reporting changes during the period under review (for more information, see Section A.1 “Adjustment of previous year's figures”).

Staff costs for the staff employed at the level of the ultimate parent company and Fair Value REIT-AG are included in general and administrative expenses only. The decrease in personnel costs is mainly due to the release of provisions for the stock option programme for the Executive Board. Further details can be found in the remuneration report.

The decrease in costs for the preparation of financial statements and auditing as well as fund administration costs results from further internalisation, in particular the preparation of financial statements (at the level of the subsidiary FVR AG) as well as from one-off auditing costs in the previous year.

Legal and consulting fees mainly relate to tax consulting fees, consulting fees for financing and transactions, as well as other legal and consulting fees.

7. Other operating expenses

in EUR thousand	2022	2021
Amortization of rent incentives/ rent-free periods / FFE grants.	–8,471	–
Amortization of Goodwill FVR	–6,783	
Other non-perriod expenses	–795	–701
Write-off of receivables	–379	–31
Addition to provision for legal disputes	–122	–452
Depreciation/amortisation	–62	–52
Fines	–	–298
Deconsolidation effects	–	–17
Other	–183	–284
Total	**–16,793**	**–1,836**

[1] * The previous year's figures were adjusted based on reporting changes during the period under review (for more information, see Section A.1 "Adjustment of previous year's figures").

The annual goodwill impairment test at the level of the parent company resulted in a need to devalue goodwill in accordance with IAS 36. This was seen as a triggering event prompting an impairment test of the cash-generating units (CGU) of the FVR subgroup. Details on the impairment test can be found in Section E 1.1.1. As a result of this impairment test, goodwill in the amount of EUR 6,783 thousand and deferred items pursuant to IFRS 16 (rental incentives, rent-free periods and FFE grants) in the amount of EUR 8,471 thousand were written off, as the recoverable amount of these assets was zero.

The derecognition of receivables mainly relates to tax receivables that are not considered recoverable and/or justified and largely relate to the former foreign companies. The registered office of these companies was relocated to Germany and the foreign tax receivables and liabilities, which then ceased to exist, were derecognised in the process.

8. Financial result

in EUR thousand	2022	2021
Financial income	18,411	3,167
Financial expenses	–19,296	–18,331
Profit/loss from companies accounted for using the equity method	–266	1,084
Minority interests	770	–6,972
Financial result	**–381**	**–21,052**

Financial income of EUR 18,411 thousand (previous year: EUR 3,167 thousand) increased mainly due to the partial repurchase of the corporate bond below its nominal value, resulting in an income of EUR 13,846 thousand.

The losses from companies accounted for using the equity method in the amount of EUR -266 thousand (previous year profit: EUR 1,084 thousand) relate to the investment gains in the financial year in DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf, G + Q Effizienz GmbH, Berlin, and the losses of JV Theodor-Heuss-Allee GmbH, Frankfurt am Main. The loss mainly results from the devalued investment in JV Theodor-Heuss-Allee GmbH in the 2022 reporting period.

Financial expenses include a nominal interest expense of EUR 16,102 thousand (previous year: EUR 15,936 thousand). The effective interest method resulted in expenses of EUR 3,194 thousand (previous year: EUR 2,394 thousand).

The profit shares of minority shareholders in the amount of EUR 770 thousand (previous year: EUR –6,972 thousand) relate to profit shares of the minority shareholders of the subsidiaries of Fair Value REIT-AG, which are recognised as debt according to IAS 32. The decrease in profit shares compared to the same period of the previous year is mainly due to valuation losses of the properties as well as depreciation of rental incentives of these subsidiaries.

9. Income taxes

The reported income tax expense (-) and income (+) can be broken down as follows:

in EUR thousand	2022	2021
Actual income taxes	–6,841	–6,663
Deferred tax expense (tax income)	8,644	–12,564
Total income taxes	**1,803**	**–19,227**

Actual income taxes of EUR –6,841 thousand (previous year: EUR –6,663 thousand) include corporate taxes and trade taxes and arose entirely in Germany.

Deferred tax benefits of EUR 8,644 thousand (previous year: EUR –12,564 thousand) comprise deferred tax expenses of EUR –2,265 thousand (previous year: EUR –15,128 thousand) and deferred tax benefits of EUR 10,909 thousand (previous year: EUR 2,564 thousand). Deferred tax expenses result primarily from temporary differences in connection with the valuation of investment properties pursuant to IAS 40 and IFRS 13. The income from deferred taxes is mainly due to the lower value of the properties and the change in deferred taxes that cannot be taken into account due to the initial recognition of assets outside profit or loss in the past (initial difference).

As at the reporting date, there were total unused corporate income tax loss carryforwards of EUR 60,133 thousand (previous year: EUR 61,234 thousand) for the companies included in the consolidated financial statements. In the DEMIRE Group, deferred taxes on loss carryforwards were capitalised only at the level of the same taxable entities to the extent that deferred tax liabilities existed.

TAX RECONCILIATION

The tax reconciliation between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 29.13% (previous year: 29.13%). The Group tax rate includes the 15% corporate tax rate, 5.5% solidarity surcharge and 13.30% trade tax (municipal rate for Langen: 380%; basic federal rate 3.5%). The calculation of the deferred taxes of domestic real estate companies is based on a tax rate of 15.83%. These companies generate income exclusively from managing their own real estate. Only the corporate tax rate and the solidarity surcharge apply to these companies because of the option to deduct the profit from the management of own real estate from the profit under trade tax law.

in EUR thousand	2022	2021
Earnings before taxes	**–73,306**	**80,814**
Group tax rate (in %)	**29.13**	**29.13**
Expected income taxes	**–21,350**	**23,537**
Trade tax effects	11,739	–7,483
Tax effects from non-deductible operating expenses and similar items	4,527	123
Initial difference	0	8,821
Tax effects from the value change of loss carry forwards	2,114	–2,304
Tax effects of tax-free income	0	–1,926
Deferred tax in the previous year	0	–799
Current tax in the previous year	0	–999
Other	1,167	257
Current tax expense (+)/tax income (–)	**–1,803**	**19,227**

According to IAS 12, deferred tax liabilities are also to be recognised on the difference between the proportionate share in equity of a subsidiary in the consolidated statement of income and the carrying amount of the subsidiary in the parent company's balance sheet under tax law ("outside basis differences") if realisation is to be expected. These differences mainly resulted from retained earnings from foreign and domestic subsidiaries.

DEMIRE did not recognise deferred tax liabilities for the accumulated results of subsidiaries amounting to EUR 11,741 thousand (previous year: EUR 14,943 thousand), since these profits are intended to be reinvested indefinitely.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects must be reported at the time profits originate, even if a distribution of profits to the parent company and the corresponding taxation of the parent company will occur only in future periods. The Company may determine for itself the timing of distributions from subsidiaries or reinvestments, with the exception of JV Theodor-Heuss-Allee GmbH, Frankfurt am Main. Except for the mandatory distributions from Fair Value REIT-AG, dividend distributions from subsidiaries are neither planned nor foreseeable. Therefore, deferred taxes on outside basis differences are not recognised, with the exception of Fair Value REIT, JV Theodor-Heuss-Allee GmbH, Frankfurt am Main, and G+Q Effizienz GmbH, Berlin. The recognition of deferred taxes for outside basis differences at the level of Fair Value REIT amounted to EUR 19,919 thousand as at 31 December 2022 (previous year: EUR 21,136 thousand).

For other disclosures relating to deferred tax assets and liabilities, please refer to Section E.5.1.

10. Earnings per share

EARNINGS PER SHARE

Basic earnings per share are computed by dividing the net profit/loss for the period attributable to DEMIRE AG shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share are computed by adjusting net profit/loss for the period and the number of shares outstanding based on the assumption that convertible instruments are converted, and options in connection with share-based payments are exercised.

in EUR thousand	2022	2021
Net profit/loss for the period (in EUR thousand)	**–71,502**	**61,587**
Profit/loss for the period less non-controlling interests	–65,745	58,499
Number of shares (in thousands)		
Number of shares outstanding as at the reporting date	105,513	105,513
Weighted average number of shares outstanding	105,513	105,513
Impact of conversion of convertible bonds and exercise under the 2015 Stock Option Programme	510	510
Weighted average number of shares (diluted)	106,023	106,023
Earnings per share (in EUR)		
Basic earnings per share	–0.62	0.55
Diluted earnings per share	–0.62	0.55

In January 2021, a total of 259,729 shares were bought back as part of a public share buy-back offer.

Participants in the 2015 Stock Option Programme are entitled to subscribe to 510,000 shares (previous year: 510,000 shares).

Earnings per share decreased compared to the previous year, mainly due to the fair value adjustment of investment properties.

11. Staff costs

in EUR thousand	2022	2021
Salaries	–4,328	–4,746
Statutory social expenses	–436	–501
Total	**–4,764**	**–5,247**

Staff costs of EUR 4,764 thousand (previous year: EUR 5,247 thousand) are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EUR 4,564 thousand; previous year: EUR 4,960 thousand) and FVR AG (EUR 200 thousand; previous year: EUR 287 thousand). Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance.

Income (from the reversal of provisions) from the 2019 Virtual Stock Option Programme in the amount of EUR 526 thousand (previous year: expenses of EUR 401 thousand) are also included under staff costs. More information about the stock option programmes can be found in Section G 3.B.

E. Notes to the consolidated balance sheet

1. Non-current assets

The development of the individual items can be found in the schedule of non-current assets (Appendix 3).

1.1 INTANGIBLE ASSETS

Upon initial recognition, individually acquired intangible assets are measured at their acquisition cost. Subsequently, intangible assets with a limited period of use are amortised on a straight-line basis usually over a period of three to five years based on their estimated useful economic life and are tested for possible impairment when there are any relevant indications thereof. Impairment of intangible assets is recognised in profit or loss.

Intangible assets with an indefinite useful life are not amortised. These assets are tested for impairment at least once a year either on the basis of the individual asset or at the level of the cash-generating unit. An impairment test is also carried out when events have occurred that impair the asset.

Intangible assets are tested for impairment if circumstances or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised through profit or loss. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount that could be achieved by selling an asset or a cash-generating unit in a transaction at market conditions between knowledgeable parties willing to contract less costs to sell.

Impairment losses are reversed once the reason for the previously recognised impairment ceases. This excludes goodwill for which there is a general prohibition of reversal of impairment under IFRS.

1.1.1 Goodwill

Upon first-time recognition, goodwill is measured at acquisition cost, which is calculated as the excess of the sum of the consideration transferred, the amount of non-controlling interests and any previously held interests over the acquired identifiable assets and assumed liabilities. After first-time recognition, goodwill is measured at acquisition cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in the context of a business combination is allocated as at the purchase date to the Group's cash-generating units (CGUs) that are expected to benefit from the merger.

Goodwill is regularly tested for impairment at least once a year. The determination of the recoverable amount requires assumptions and estimates regarding the future development of earnings and the sustainable growth rate of the cash-generating unit or group of cash-generating units to which goodwill has been allocated.

Goodwill of EUR 6,783 thousand arising from the first-time consolidation of Fair Value REIT-AG as at 31 December 2015 was allocated to the cash-generating unit (CGU) Fair Value REIT.

The Group carried out the annual impairment test as at 31 December 2022. The recoverable amount of Fair Value REIT was calculated on the basis of the calculation of value in use using cash flow forecasts based on financial plans approved by the management for a period of five years. The management's plans are based on past experience and the best possible estimates of future developments. The discount rate (WACC) used for cash flow forecasts was 5.34% (previous year: 3.13%). The projections for cash flows after the five-year detailed planning period are based on the average amount from the last three detailed planning periods 2025 to 2027. The interest rate used to determine the growth rate is 1.5% (previous year: 0.4%). The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, all of the goodwill was written off as at 31 December 2022. This is mainly due to the sharp increase in the WACC.

The key basic assumptions for the calculation of the value in use:

Rental cash flows – The CGU Fair Value REIT focuses on the acquisition and management of commercial real estate in Germany. Fair Value REIT invests directly in real estate as well as indirectly through the participation in real estate partnerships. Accordingly, cash flows for direct ownership and the subsidiaries were planned. Rental income and rental costs were derived from contracted leases or based on assumptions for the probability of contract prolongations and vacancies for specific rental areas. The planned maintenance expenditures are largely based on concrete planned measures, or on a flat rate based on past experience. The operating costs of the properties have been indexed and extrapolated based on the previous year's figures. Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. Moreover, a reduction in the real estate portfolio could lead to a decline in cash flows.

Discount rate – A weighted, average costs of capital rate is used to discount free cash flow that reflects the returns expected by the capital market for the transfer of debt and equity to property companies that manage their own portfolio, determined using a group of comparable companies as a basis. The sector-specific risk was determined by applying individual beta factors. The beta factors were determined on the basis of publicly available market data.

The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, all of the goodwill was written off as of 31 December 2022. This was seen as a triggering event prompting an impairment test of the FVR Group CGU. The assumptions used for the impairment test at the level of Demire were also applied to the impairment test of the FVR CGU.

As a result of this impairment test, goodwill in the amount of EUR 6,783 thousand and deferred items pursuant to IFRS 16 (rental incentives, rent-free periods and FFE grants) in the amount of EUR 8,471 thousand were written off (both in the statement of income under "other operating expenses"), as the recoverable amount of these assets was zero. This means that all such items had been written off as at 31 December 2022. The EUR 15,254 thousand written off is entirely attributable to the Fair Value REIT segment.

1.1.2 Other intangible assets

Other intangible assets in the amount of EUR 6,783 thousand were established in the year under review (previous year: EUR 97 thousand). This depreciation is reported in the consolidated statement of income under other operating expenses and relates to the goodwill of the Fair Value REIT Group CGU (Section 1.1.1.). Depreciation from the previous year in the amount of EUR 97 thousand related primarily to computer software, which came about as part of the PPA with FVR AG and are no longer up to date.

1.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include office and operating equipment. These are carried at historical acquisition cost less depreciation. Historical acquisition cost includes expenses that can be directly allocated to the acquisition of operating and office equipment. Straight-line depreciation is based on a useful life of 3 to 15 years. The depreciation figures in the amount of EUR 62 thousand (previous year: EUR 139 thousand) are reported in the income statement as depreciation of rights-of-use, as well as under other operating expenses.

1.3 INVESTMENT PROPERTIES

The Group's investment properties include those properties that are held for rental income generation and value appreciation and not for their proprietary use or sale in the ordinary course of business, as well as rights-of-use for ground leases and general permanent rights-of-use. Investment properties are carried at acquisition cost plus incidental acquisition costs at the time of acquisition. In accordance with the option provided for in IAS 40, investment properties are subsequently measured at fair value, whereby changes in the fair value are generally recognised in profit or loss. Prepayment for real estate purchases are recognised as advance payments within item "Properties held as investment properties".

Valuation of properties

When measuring investment properties, the key valuation parameters and estimates are expected cash flows, assumed vacancy rates, their changes over the planning period and discounting and capitalisation rates. The valuation is carried out by an external, independent reviewer in accordance with International Financial Reporting Standards (IFRS), International Standards of Valuation of Real Estate for Investment Purposes ("International Valuation Standards") and the RICS Valuation Global Standards 2020 ("Red Book" dated July 2020) of the Royal Institution of Chartered Surveyors.

The fair value of DEMIRE's investment properties is determined using the discounted cash flow method.

The discounted cash flow method provides the basis for the dynamic investment calculation and is used to calculate the present value of future expected, time-staggered and varying levels of cash flows. After identifying all value-relevant factors, the expected and partially projectable future cash flows are totalled for each period. The result of the cash inflows and outflows is discounted up to a fixed point in time (valuation date) using the discount rate. In contrast to the German discounted earnings model of the German Property Valuation Regulation (Immobilienwertermittlungsverordnung – ImmoWertV), however, the cash flows during the period under consideration are explicitly quantified and not shown as annuity payments. Since the importance of future cash flows decreases as a result of discounting and the forecast uncertainty increases over the observation period, the stabilised net income of a property is usually capitalised (capitalisation rate) following a ten-year period (detailed observation period) and discounted to the valuation date when assessing investment decisions in real estate.

These valuation parameters reflect the customary market expectations as well as the extrapolation of analysed past values of the property to be valued or of one or more comparable properties.

The valuation parameters are assessed in the context of determining the market value at the discretion of the appraiser and can be divided into two groups:

The property-specific valuation parameters include, for example, rental revenue for initial and subsequent rentals, extension probabilities for the existing rental agreements, vacancy periods and vacancy costs, non-allocable ancillary costs, expected capital expenditures by the owner, and expansion and rental costs for initial and subsequent rentals.

Macroeconomic factors include, in particular, the development of market and rental prices during the detailed observation period and the inflation expectations assumed in the calculation model. In order to meet fair value disclosure requirements, DEMIRE has defined groups of assets and liabilities based on their nature, characteristics and risks and on the levels of the fair value hierarchy described above.

The Group's management team is closely involved in and oversees the process of evaluating investment properties, which takes place at least once per financial year. In doing so, the results made available by independent experts are checked for plausibility and compared with values in previous years. The evaluation results are also compared to the management's own assumptions made in the framework of early risk detection and any deviations are discussed with the expert. The portfolio's performance is also discussed in regular meetings with the Supervisory Board, which ensures that the development of the real estate portfolio's value is continuously monitored.

The determination of fair values depends on the underlying key, non-observable input factors (Level 3), which are specified in Appendix 1.

The resulting changes in value (gains and losses) are due, in particular, to the adjustment of the capitalisation and discounting rates.

A sensitivity analysis of the key unobservable input parameters showed the following effect on the fair value of investment properties: a substantial increase in maintenance costs or vacancy rates would lead to a lower fair value for the properties if the assumptions for the remaining input parameters remained unchanged. The sensitivity analysis can be found in Appendix 2.

Fair value development during the reporting period:

in EUR thousand	2022	Office	Retail	Logistics	Other
Fair value at the beginning of the financial year	**1,433,096**	**843,956**	**377,559**	**141,600**	**69,980**
Additions of properties	31,864	7,448	4,954	17,050	2,411
Disposals	–13,817	–13,817	–	–	–
Reclassifications to non-current assets held for sale	–158,650	–	–	–158,650	–
Unrealised gains from fair value measurement	10,792	10,360	275	–	156
Unrealised losses from fair value measurement	–72,211	–26,591	–40,613	–	–5,008
Fair value at the end of the financial year	**1,231,072**	**821,356**	**342,176**	**–**	**67,540**

in EUR thousand	2021	Office	Retail	Logistics	Other
Fair value at the beginning of the financial year	**1,426,291**	**902,810**	**376,511**	**76,000**	**70,970**
Additions of properties	28,508	8,292	12,916	5,057	2,243
Disposals	–70,480	–64,739	–150	–	–5,591
Unrealised gains from fair value measurement	83,230	15,804	4,524	60,543	2,358
Unrealised losses from fair value measurement	–34,453	–18,210	–16,243	–	–
Fair value at the end of the financial year	**1,433,096**	**843,956**	**377,559**	**141,600**	**69,980**

The additions to investment property totalling EUR 31,864 thousand consist almost entirely of capitalisations for current investments.

Additions in the previous period to investment properties totalling EUR 28,508 thousand primarily comprised capitalisation of current investments of EUR 18,873 thousand, from capitalised land acquisition tax of EUR 745 thousand and an extended leasehold of EUR 7,410 thousand.

Disposals of EUR 13,817 thousand were made during the period under review. These relate to the properties in Ludwigsburg and Bremen.

Disposals of EUR 70,480 thousand were made during the comparable period. These related to properties in Bremen, Regensburg, Ansbach, Potsdam, Cologne, Barmstedt, Gosslar, Bad Bramstedt and Garbsen.

Information about unrealised gains/losses from measurement at fair value is provided in Section D.3.

The fair value of the capitalised leaseholds and rights-of-use, which are reported under investment properties, developed as follows:

in EUR thousand	Retail	2022
Fair value at the beginning of the financial year	**20,419**	**20,419**
Additions arising from extension of the contractual term (term, interest)	2,149	2,149
Unrealised gains from fair value measurement	–	–
Unrealised losses from fair value measurement	–512	–512
Fair value at the end of the financial year	**22,056**	**22,056**

In addition, DEMIRE also has rights-of-use over an underground car park located in a property in Ulm, which is reported under "Investment properties". The fair value of these permanent rights-of-use as at 31 December 2022 is EUR 1,308 thousand (previous year: EUR 1,234 thousand).

in EUR thousand	Retail	2021
Fair value at the beginning of the financial year	**15,791**	**15,791**
Additions arising from extension of the contractual term (term, interest)	7,410	7,410
Unrealised gains from fair value measurement	–	–
Unrealised losses from fair value measurement	–2,781	–2,781
Fair value at the end of the financial year	**20,419**	**20,419**

Please refer to Section 7.2 for further information in conjunction with the accounting of leaseholds and rights-of-use.

1.4 SHARES IN COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Shares in companies accounted for using the equity method amounted to EUR 385 thousand (previous year: EUR 1,025 thousand). This includes the investment in the joint venture JV Theodor-Heuss-Allee-GmbH in the amount of EUR 0 thousand (previous year: EUR 510 thousand), the investment in G+Q Effizienz GmbH, Berlin, in the amount of EUR 281 thousand (previous year: EUR 262 thousand), with the assumption of profit of EUR 114 thousand (previous year: EUR 153 thousand), and DEMIRE Assekuranz GmbH & Co. KG, Düsseldorf, in the amount of EUR 104 thousand (previous year: EUR 253 thousand), with the assumption of annual profit of EUR 104 thousand (previous year: EUR 95 thousand).

1.5 LOANS TO COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Loans to companies accounted for using the equity method of EUR 24,752 thousand (previous year: EUR 26,505 thousand) include an unsecured loan granted by DEMIRE AG to JV Theodor-Heuss-Allee GmbH. In the previous year, this item also included a further unsecured loan from DEMIRE Holding XIII GmbH to JV Theodor-Heuss-Allee GmbH in the amount of EUR 1,542 thousand, which was repaid in 2022.

Impairments in accordance with IFRS 9.5 were taken into account in the reporting year for the expected credit loss according to the three-stage model in the amount of EUR 430 thousand (previous year: EUR 187 thousand), and are assigned to risk level 1. This is reported in the statement of income under impairment on trade accounts receivable. Please refer to Section C "Accounting policies" for more information on accounting principles and the expected credit loss model.

The following table shows the development of impairments on loans to companies accounted for using the equity method:

in EUR thousand	2022	2021
As at 1 January	**187**	**–**
Additions	243	187
Use	–	–
Reversal	–	–
As at 31 December	**430**	**187**

1.6. LOANS AND FINANCIAL ASSETS

Loans and financial assets amounted to EUR 62,750 thousand (previous year: EUR 64,264 thousand).

Financial assets are classified and accounted for at the settlement date according to the categories of IFRS 9. Further explanations are provided Section C.

The carrying amount of loans totals EUR 57,605 thousand (previous year: EUR 58,911 thousand) and includes a loan to a third party in the amount of the nominal value of EUR 60 million that was issued to RFR Immobilien 5 GmbH. This company is an affiliate of the joint venture partner RFR 4 Immobilien GmbH. The deviation between the carrying amount and the nominal value results on the one hand from the expected credit loss recognised according to the three-stage model in the amount of EUR 1,025 thousand (previous year: 445 thousand) and on the other hand from the offsetting of interest income in the amount of EUR 1,370 thousand (previous year: 643 thousand), which is distributed on a straight-line basis according to IFRS 9. The impairment losses are calculated in the amount of the 12-month ECL (risk level 1 of the risk level model).

Non-current financial assets in the amount of EUR 5,144 thousand (previous year: EUR 5,353 thousand) include non-current loan receivables from Taurecon Real Estate Consulting GmbH, Berlin, in the amount of EUR 1,793 thousand (previous year: EUR 1,793 thousand), from Taurecon Beteiligungs GmbH in the amount of EUR 1,969 thousand (previous year: EUR 2,140 thousand) and from LKS Beteiligungsgesellschaft mbH in the amount of EUR 1,382 thousand (previous year: EUR 1,383 thousand).

The following table shows the development of impairments on loans to third parties.

in EUR thousand	2022	2021
As at 1 January	**446**	**–**
Additions	579	446
Use	–	–
Reversal	–	–
As at 31 December	**1,025**	**446**

1.7 OTHER ASSETS

Other non-current assets total EUR 6,685 thousand (previous year: EUR 11,917 thousand) and include, among other things, the capitalised rent incentives in the amount of EUR 1,903 thousand (previous year: EUR 2,319 thousand) as well as the deferral of rent-free periods arising from the store portfolio leases in the amount of EUR 4,343 thousand (previous year: EUR 5,327 thousand). Other assets also include FF&E grants in the amount of EUR 439 thousand (previous year: EUR 4,271 thousand).

As movable property, furniture, fixtures and equipment (FF&E) generally have no permanent connection to the property.

2. Current assets

2.1 TRADE ACCOUNTS RECEIVABLE AND OTHER ASSETS

The following table shows the composition of trade accounts receivable and other assets as at 31 December 2022:

in EUR thousand	31/12/2022 Gross	Impairment	31/12/2022 Net	31/12/2021 Gross	Impairment	31/12/2021 Net
Trade accounts receivable	10,733	3,357	7,376	11,484	5,352	6,132
Receivables from operating costs	6,468	–	6,468	2,776	237	2,539
Subtotal of trade accounts receivable	**17,201**	**3,357**	**13,845**	**14,260**	**5,589**	**8,671**
Rent incentives	1,445	–	1,445	1,373	–	1,373
Receivables from processing value-added taxes	420	–	420	1,495	–	1,495
Other assets	793	–	793	323	–	323
Subtotal of other assets	**2,658**	**–**	**2,658**	**3,191**	**–**	**3,191**
Total	**19,859**	**3,357**	**16,503**	**17,451**	**5,589**	**11,862**

Impairments of financial assets are presented using a provision matrix. DEMIRE uses this matrix to determine the required risk provision depending on the maturity or overdue payment of the individual receivables. The provision matrix is based on historical experience and current expectations and is updated at each reporting date.

On this basis, the following change in value rates apply to DEMIRE:

in %	0–90 days past due	91–180 days past due	181–360 days past due	more than 360 days past due
Default rate	5%	9%	22%	43%

Trade receivables, other receivables due from DEMIRE's tenants and loans are measured as follows:

in Days / in EUR thousand	Gross carrying amount [1]	Risk provisions for credit losses expected over the total term	Net carrying amounts
0–90 days	1,071	52	1,019
91–180 days	689	65	624
181–360 days	949	211	738
more than 360 days	2,246	955	1,291
Total	**4,955**	**1,283**	**3,672**

[1] The values include balances of EUR 257 thousand that do not result in impairment. Furthermore, the values do not include receivables that have been individually impaired separately.

In addition to the value adjustments shown in the commission matrix, the portfolio of individual value adjustments amounts to EUR 2,073 thousand (previous year EUR 4,444 thousand). Individual value adjustments are made, for example, in the case of legal disputes with tenants or in insolvency cases. These related to gross book values of EUR 3,759 thousand (previous year EUR 6,374 thousand).

During the previous year, a large proportion of the impairment losses (EUR 1,990 thousand) was attributable to Galeria Karstadt Kaufhof, which was subject to protective shield proceedings or to insolvency proceedings as a result of the COVID-19 pandemic. During the year under review, impairment on receivables from this tenant decreased to EUR 330 thousand. Gross receivables from Galeria Karstadt Kaufhof amounted to EUR 413 thousand as at the balance sheet date (previous year: EUR 2,038 thousand). This tenant is currently once again in protective shield proceedings.

In the previous year, there were also value adjustments of EUR 1,872 thousand attributable to two hotel tenants who were also either insolvent or at risk of insolvency due to the pandemic. Currently, there are still value adjustments against one of these tenants in the amount of EUR 1,069 thousand (previous year EUR 1,056 thousand). The gross receivables from these hotel operators amount to EUR 1,590 thousand as at the reporting date (previous year EUR 1,562 thousand).

Gross receivables of EUR 2,019 thousand (previous year EUR 1,244 thousand) were not yet due. No value adjustments were made on these receivables. No value adjustments were made on the operating cost receivables of EUR 6,468 thousand, as these were not yet due as of the balance sheet date.

The trade receivables from the previous period and other receivables from DEMIRE's tenants were measured as follows:

in Days / in EUR thousand	Gross carrying amount	Risk provisions for credit losses expected over the total term	Net carrying amounts
0–90 days	866	46	820
91–180 days	445	50	395
181–360 days	490	177	313
more than 360 days	1,964	871	1,092
Total	**3,766**	**1,145**	**2,621**

The value adjustment of trade receivables developed as follows:

RECONCILIATION OF IMPAIRMENTS

in EUR thousand	
Impairments pursuant to IFRS 9 as at 01 January 2022	**5,589**
Increase in impairments through profit or loss in the financial year	3,043
Utilisation of impairments in the financial year	–2,718
Decrease in impairments through profit or loss in the financial year	–1,542
Impairments pursuant to IFRS 9 as at 31 December 2022	**4,372**

RECONCILIATION OF IMPAIRMENTS FROM THE PREVIOUS YEAR

in EUR thousand	
Impairments pursuant to IFRS 9 as at 01 January 2021	**5,374**
Increase in impairments through profit or loss in the financial year	4,978
Utilisation of impairments in the financial year	2,405
Decrease in impairments through profit or loss in the financial year	2,358
Impairments pursuant to IFRS 9 as at 31 December 2021	**5,589**

All trade accounts receivable are current in nature and usually due within a period of less than three months.

The calculation of impairments on trade accounts receivable is presented within the scope of the accounting and valuation principles Section C.

2.2 CURRENT FINANCIAL ASSETS

Financial assets in the amount of EUR 9,584 thousand (previous year: EUR 3,925 thousand) consist of the following:

in EUR thousand	31/12/2022 Gross	Impairment	31/12/2022 Net	31/12/2021 Gross	Impairment	31/12/2021 Net
Other purchase price receivables	8,552	–	8,552	2,000	–	2,000
Debtor warrant for Eisenhüttenstadt	614	–	614	615	–	615
Interest receivable on loans	231	–	231	352	–	352
Frozen funds	–	–	–	274	–	274
Savings bond	–	–	–	260	–	260
Claims arising from a legal dispute	–	–	–	200	–	200
Trust accounts	–	–	–	101	–	101
Other financial assets	187	–	187	123	–	123
Total	**9,584**	**–**	**9,584**	**3,925**	**–**	**3,925**

The purchase price receivable mainly relates to the property in Ludwigsburg in the amount of EUR 8,200 thousand.

Receivables from the debtor warrant in the amount of EUR 615 thousand (previous year: EUR 615 thousand) resulted from the sale of the property in Eisenhüttenstadt. This receivable has not been realised as at the balance sheet date as not all conditions have been met. The receivable is expected to be settled within the first half of the year.

2.3 TAX ASSETS

During the period under review, the tax assets in the amount of EUR 6,514 thousand (previous year: EUR 6,369 thousand) primarily related to refund claims from retained capital gains tax in the amount of EUR 6,070 thousand including the solidarity surcharge for distributions (previous year: EUR 5,382 thousand).

2.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and bank balances carried at their nominal value.

Cash and cash equivalents in the amount of EUR 57,415 thousand (previous year: EUR 139,619 thousand) includes cash on hand and bank balances carried at their nominal value. Of this, cash and cash equivalents in the amount of EUR 198 thousand (previous year: EUR 3,286 thousand) remained earmarked for maintenance costs as at 31 December 2022. A further amount of EUR 4,683 thousand (previous year: EUR 0 thousand) relates to a pledged bank balance.

3. Non-current assets held for sale

For assets held for sale, it must be determined whether they can be sold in their present state and whether their disposal is highly probable. If this is the case, assets held for sale are recognised and measured in accordance with the relevant regulations of IFRS 5. Non-current assets held for sale are generally carried at the lower of the carrying amount and the fair value less costs to sell. In accordance with the exceptions of IFRS 5.5(d), real estate that is measured using the fair value model continues to be carried at fair value. The fair value of non-current assets held for sale is equal to their selling price less disposal costs, which are assigned to level 1.

As at the balance sheet date, the Leipzig Logistics Park is reported as held for sale at EUR 121,000 thousand (previous year: EUR 0 thousand). The valuation loss on this transaction amounts to EUR 44,490 thousand. The transfer of benefits and obligations took place for these properties in the 2023 financial year.

4. Equity

SUBSCRIBED CAPITAL

On 31 December 2022, the Company had fully paid in subscribed capital in the amount of EUR 107,777,324 divided into 107,777,324 no-par value bearer shares with a notional interest of EUR 1.00. The shares of DEMIRE AG have been admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange. Subscribed capital remained unchanged at EUR 107,777 thousand in the reporting period. There were also no changes in the same period last year.

No treasury shares were acquired in 2022. Treasury shares in the amount of EUR 260 thousand were acquired in 2021 (259,729 no-par-value shares). Overall, DEMIRE holds a total of 2,264,728 treasury shares with a nominal value of EUR 2,265 thousand as at the reporting date. Accordingly, the subscribed capital figure less treasury shares amounts to EUR 105,513 thousand (31 December 2021: EUR 105,513 thousand).

CAPITAL RESERVES

Capital reserves in the amount of EUR 88,366 thousand (previous year: EUR 88,366 thousand) remained unchanged from the previous year. In the 2021 reporting period, the offsetting of legal and consulting fees in conjunction with the 2020 II share buyback programme reduced this by EUR 38 thousand.

RETAINED EARNINGS

Retained earnings as at 31 December 2022 amounted to EUR 256,347 thousand (previous year: EUR 355,144 thousand). The changes are predominantly down to the negative result attained during the year under review in the amount of EUR –65,745 thousand (previous year: EUR 58,499 thousand), as well as the dividend payments in the amount of EUR –32,709 thousand (previous year: EUR –65,418 thousand). In the previous period, a dividend of EUR 0.62 per dividend-bearing share or EUR 65,417.8 thousand was distributed from the accumulated profit.

A reinvestment reserve pursuant to Section 13 REITG of EUR 3,589 thousand was released in the reporting year. The reserve corresponds to 50% of the difference between the selling price and the carrying amount at the time of the sale of the Cologne and Potsdam properties in the past financial year.

AUTHORISED CAPITAL

The Authorised Capital 2019/I remained unchanged in the period under review.

in EUR thousand	2022	2021
As at 1 January	53,888.66	53,888.66
Utilisation of authorised capital	0.00	0.00
As at 31 DECEMBER	**53,888.66**	**53,888.66**

The shareholders are generally entitled to subscription rights. The Executive Board is empowered, with approval of the Supervisory Board, to exclude the subscription rights of shareholders. This applies for cash capital increases of up to 10% of the share capital at an issue price that is not significantly lower than the market price, as well as to service option or conversion rights and in the case of capital increases against contributions in kind. The Authorised Capital 2019/I had not been utilised by the reporting date.

CONDITIONAL CAPITAL 2020/I

At the ordinary Annual General Meeting of 22 September 2020, Conditional Capital 2019/I was cancelled and Conditional Capital 2020/I was created in the amount of up to EUR 53,328,662.00, divided into up to 53,328,662 new no-par value bearer shares with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights or profit participation bonds (or combinations of these instruments) which were issued or will be issued on the basis of the authorisation resolved by the Annual General Meeting on 11 February 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect subsidiaries and grant a conversion or option right to new no-par value bearer shares of the Company or establish a conversion or option obligation. The new shares shall be issued at the exercise or conversion price to be determined in each case in accordance with the respective authorisation resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with conversion or option obligations fulfil their conversion or option obligations, unless cash compensation is granted or treasury shares or shares created from authorised capital are used to service this obligation. The new shares participate in the profit from the beginning of the financial year in which they are issued, and for all subsequent financial years. Provided it is legally permissible, and with the approval of the Supervisory Board, the Executive Board may decide to amend the profit entitlement schedule for the new shares, particularly, that the new shares may participate in the profit from the start of a past financial year for which no resolutions on the appropriation of profits had been made by the Annual General Meeting at the time at which the new shares were issued. The Executive Board is authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase. The Conditional Capital 2020/I had not been utilised by the reporting date.

AUTHORISATION TO PURCHASE TREASURY SHARES

The Company was authorised, for a period of five years from the date of the resolution on 22 September 2020, to acquire its own shares up to 10% of the share capital existing on the date of the resolution or – if lower – up to 10% of the share capital existing at the time the authorisation is exercised. The authorisation may be exercised in whole or in part, once or several times.

The Company's Annual General Meeting on 28 April 2021 cancelled the existing resolution of 22 September 2020 to authorise the purchase of treasury shares and made a new resolution to authorise the purchase of treasury shares. According to this resolution and where legally permissible, the Company is authorised to acquire, by 27 April 2026, treasury shares up to 10% of the share capital existing on the date of the resolution or – if lower – up to 10% of the share capital existing at the time the authorisation is exercised. Together with other treasury shares acquired and owned by the Company or attributable to the Company, the treasury shares acquired on the basis of this authorisation may at no time exceed 10% of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. Acquisition for the purpose of trading in treasury shares is excluded.

The number of treasury shares changed during the year under review as follows:

Reconciliation of number of shares (in thousands)	2022	2021
Total number of shares as at 1 January	105,513	105,772
Acquisition of treasury shares	–	–260
Total number of shares less treasury shares as at 31 December	**105,513**	**105,513**

As at 31 December 2022, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; DEMIRE AG itself held 2,264,728 of these shares as at the reporting date. As part of a public share buyback offer, the Company bought back treasury shares in January 2021 (a total of 259,729 treasury shares at a price of EUR 4.39 per share) and in 2020 (2,004,999 treasury shares). The total number of shares outstanding less treasury shares amounts to 105,512,596 (previous year: 105,512,596).

Non-controlling interests refer to the interests of shareholders outside of the group in the equity and the net profit of fully consolidated subsidiaries. The item non-controlling interests concerns the interests of third-party shareholders in the equity and net profit/loss of fully consolidated subsidiaries.

5. Non-current liabilities

5.1 DEFERRED TAX ASSETS AND LIABILITIES

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the tax balance sheet or for unused tax loss carryforwards (liability method). In assessing the realisability of deferred tax assets, DEMIRE considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realised. The realisability of deferred tax assets depends on whether, at the time of reversal of the temporary differences, taxable income is generated from which the temporary differences can be deducted. The basis for this assessment is the tax planning of DEMIRE. Deferred tax assets for tax loss carryforwards were recognised in the amount of EUR 4,657 thousand (previous year: EUR 6,930 thousand). The assessment of the recoverability of the loss carryforwards and the resulting recognition of deferred tax assets is based on a planning horizon of ten years. It is expected that deferred taxes will be realised after the first twelve months following the reporting date, not during the twelve months immediately following the reporting date.

Deferred taxes are measured using the local tax rates expected to apply when the asset is realised or the liability is settled. The tax rates applicable on the reporting date are used as a basis. The effects of changes in tax law are recognised in profit or loss in the year in which the changes take effect. Deferred taxes relating to items recognised directly in equity are not recognised in the income statement but directly in equity. Deferred tax assets are impaired if it becomes unlikely that the future tax benefits will be realised. Deferred tax assets and liabilities are offset against each other if the claims and obligations relate to the same tax authority.

DEMIRE recognised deferred taxes for temporary differences of Fair Value REIT-AG by applying the company-specific tax rate as at the reporting date. As Fair Value REIT-AG is generally exempt from taxes, no taxes are incurred at the level of Fair Value REIT-AG as long as its status as a tax-exempt REIT (Real Estate Investment Trust) is maintained. Nevertheless, deferred taxes were recognised for Fair Value REIT-AG according to the "tax-transparent entity" approach. This approach assumes a deemed disposal of all properties directly held by Fair Value REIT-AG and indirectly held through trusts.

Deferred tax assets and liabilities consist of temporary differences in the following balance sheet items:

in EUR thousand	31/12/2022	31/12/2021
Deferred tax assets on loss carryforwards	4,657	6,930
Deferred tax assets on lease liabilities	4,207	3,453
Deferred tax assets before offsetting	**8,864**	**10,383**
Deferred tax liabilities on investment properties and right-of-use assets	84,799	93,127
Deferred tax liabilities on financial liabilities/assets	112	1,948
Deferred tax liabilities before offsetting	**84,911**	**95,075**
Offsetting of deferred tax assets with liabilities	–8,864	–10,383
Deferred tax liabilities	**76,047**	**84,692**
Deferred tax assets before offsetting	**–**	–

Pursuant to IAS 12.74, deferred tax assets on loss carryforwards are only recognised to the extent to which deferred tax liabilities exist for the same taxable entity to the same tax authorities and for the same tax type. Regarding the deferred tax assets recognised on tax loss carryforwards before offsetting in the amount of EUR 4,657 thousand (previous year: EUR 6,930 thousand), the requirements of IAS 12.74 have been met.

The following table shows the change in deferred taxes in the period under review:

in EUR thousand	01/01/2022	Statement of income	31/12/2022
Investment properties and right-of-use assets	–93,127	8,328	–84,799
Lease liabilities	3,453	754	4,207
Tax loss carryforwards	6,930	–2,273	4,657
Financial liabilities	–1,948	1,836	–112
Total	**–84,692**	**8,645**	**–76,047**

The item "Financial liabilities" refers primarily to deferred taxes related to the 2019/2024 corporate bond.

Tax loss carryforwards and deductible temporary differences that were not considered when calculating deferred taxes and that generally do not expire, amounted to EUR 27,452 thousand (previous year: EUR 11,223 thousand). In the year under review, there are unrecognised deferred tax assets in the amount of EUR 3,278 thousand (previous year: EUR 1,776 thousand.

The change in deferred taxes in the previous year and its structure can be broken down as follows:

in EUR thousand	01/01/2021	Statement of income	31/12/2021
Investment properties and right-of-use assets	–78,079	–15,048	–93,127
Lease liabilities	2,499	954	3,453
Tax loss carryforwards	5,689	1,241	6,930
Financial liabilities	–2,231	283	–1,948
Total	**–72,122**	**–12,570**	**–84,692**

5.2 MINORITY INTERESTS

Minority interests reported under the Group's liabilities concern the capital of limited partners, who are mainly natural persons, in real estate funds in the legal form of a GmbH & Co. KG, totalling EUR 80,364 thousand as at the reporting date (previous year: EUR 82,882 thousand). Please refer to Section B for information about the consolidation principle used for minority interests.

5.3 FINANCIAL LIABILITIES

Financial liabilities are measured at their fair value on the date of assumption less directly attributable transaction costs and discounts. The fair value at the time of incurring the financial liabilities corresponds to the present value of the future payment obligations based on a maturity- and risk-congruent market rate. Subsequent measurement is carried out at amortised cost using the effective interest method. The effective interest rate is determined at the time of the initial recognition of the financial liabilities. Changes to the conditions relating to the amount or timing of interest and repayments result in a recalculation of the carrying amount of the financial liabilities at their present value and based on the originally determined effective interest rate. Any differences to the previously recognised carrying amounts of the financial liabilities are recognised through profit or loss.

The following table shows the nominal value of financial liabilities as at 31 December 2022:

FINANCIAL LIABILITIES

in EUR thousand	Fixed interest	Variable interest	Total
2019/2024 corporate bond	546,394	–	546,394
Other financial liabilities	276,991	5,670	282,661
Total	**823,385**	**5,670**	**829,055**

Financial liabilities as at 31 December 2021 consisted of the following:

FINANCIAL LIABILITIES FOR THE PREVIOUS YEAR

in EUR thousand	Fixed interest	Variable interest	Total
2019/2024 corporate bond	594,047	–	594,047
Other financial liabilities	296,467	–	296,467
Total	**890,514**	**–**	**890,514**

The following table shows the nominal value of financial liabilities as at 31 December 2022:

FINANCIAL LIABILITIES

in EUR thousand	Fixed interest	Variable interest	Total
2019/2024 corporate bond	550,000	–	550,000
Other financial liabilities	275,334	5,670	281,004
Total	**825,334**	**5,670**	**831,004**

The following table shows the nominal value of financial liabilities as at 31 December 2021:

FINANCIAL LIABILITIES FOR THE PREVIOUS YEAR

in EUR thousand	Fixed interest	Variable interest	Total
2019/2024 corporate bond	600,000	–	600,000
Other financial liabilities	297,866	–	297,866
Total	**897,866**	**–**	**897,866**

The difference between the carrying amounts of financial liabilities and their nominal values is due to the subsequent measurement of financial liabilities at amortised cost using the effective interest method in accordance with IFRS 9.

In January 2022, a loan in the FVR AG subgroup was extended for another two years. A minimum interest rate of 1.5% and a variable interest rate based on the three-month EURIBOR were agreed. All other loans have a fixed interest rate.

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal interest rate of 1.26% (previous year: 1.23%). The weighted average nominal interest rate on all financial liabilities amounted to 1.67% p. a. as at 31 December 2022 (31 December 2021: 1.66% p. a.).

The corporate bond represents a significant portion of financial liabilities. The bond has a nominal interest rate of 1.875 % and matures in 2024.

As at the reporting date, financial liabilities were collateralised by assets in the amount of EUR 346,890 thousand (previous year: EUR 346,890 thousand). As in the previous year, no assets of DEMIRE had been encumbered with a mortgage as a guarantee for third-party liabilities.

Generally, all loan agreements for the properties financed stipulate information requirements that DEMIRE's subsidiaries as debtors must fulfil with respect to the banks or investors as creditors. Depending on the type and scope of the loan, the information requirements range from providing key financial ratios (such as financial statements) to reporting on the compliance with covenants.

The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and asset management areas and other external service providers. Depending on the specific credit agreement, the appropriate reporting on the covenants as well as the basis for the underlying business ratios are to be submitted to the creditors quarterly, semi-annually or annually. If DEMIRE fails to comply with the stipulated values in the covenants, the creditors are entitled to demand additional collateral from DEMIRE. The loans are then in default. If the default persists for a longer period of time and cannot be permanently remedied, the creditors typically have a special right of termination.

One of the contractually agreed covenants had not been observed for an element of financing within the DEMIRE subgroup as at the reporting date, with an outstanding value of EUR 86.7 million. The financing has been and is being serviced as planned, and the Company has reached an agreement with the financier to cure the covenant breach. The latter is, however, entitled to require the provision of further collateral so that the repayment of the loan can be avoided or could be avoided by the Company itself by providing the collateral. As a result, the corresponding financial liabilities are not reported as current in the consolidated balance sheet.

In the previous year, there was a covenant breach in one loan in the FVR AG subgroup; the loan was repaid early on 30 December 2022.

CORPORATE BOND (2019/2024)

As at the reporting date of 31 December 2022, the 2019/2024 unsecured corporate bond issued in October 2019 is pending for the full nominal amount of EUR 550,000 thousand. In November 2022, DEMIRE AG repurchased a nominal EUR 50,000 thousand of the bond for EUR 36,682 thousand, after which the shares were cancelled by Deutsche Bank.

If new financial liabilities are assumed in accordance with the terms and conditions of the 2019/2024 corporate bond, DEMIRE AG is obliged to comply with the requirements of the financial covenants. If these covenants are not complied with, this would lead to extraordinary terminations by the bond creditors and consequently repayment obligations on the part of the Company. It would also result in additional restrictions on the distribution of dividends. The financial covenants include, specifically, the net loan-to-value (net LTV), which may not exceed 60% during the term of the bond. A further key ratio is the net secured LTV, which may not exceed 40% during the term of the bond. In addition, the interest coverage ratio, which may be no less than 175% during the period from the placement of the corporate bond until 31 March 2021 and no less than 200% since 1 April 2021, must also be observed. The obligation to review and calculate the financial covenants only applies in the course of further borrowings. The monitoring, compliance and reporting of the financial covenants were carried out by DEMIRE's Corporate Finance, Treasury and Asset Management departments. No financial covenants of the 2019/2024 corporate bond were breached for 2022 as a whole or as at the reporting date of 31 December 2022. The planning for DEMIRE also indicates that compliance with these ratios will be maintained.

CHANGES TO LIABILITIES ARISING FROM FINANCING ACTIVITY

The table below displays the development of Group liabilities arising from financing activity, including any net and non-cash changes.

in EUR thousand	Financial liabilities	Lease liabilities
31/12/2021	**890,514**	**24,472**
Net changes		
Proceeds from borrowings	–	–
Repayments of financial liabilities	–53,728	–
Repayment of lease liabilities	–	–224
Non-cash changes		
Valuation effects from the calculation of effective interest rates	3,194	–
Residual amortisation of redeemed financial liabilities	–	–
Accrued interest	2,191	–
Other valuation effects	–13,116	–
Admission of lease liabilities	–	–
Adjustment of lease liabilities owing to contractual adjustment	–	2,351
31/12/2022	**829,055**	**26,599**

in EUR thousand	Financial liabilities	Lease liabilities
31/12/2020	**829,712**	**18,726**
Net changes		
Proceeds from borrowings	69,700	–
Repayments of financial liabilities	–13,083	–
Repayment of lease liabilities	–	–324
Non-cash changes		
Valuation effects from the calculation of effective interest rates	1,669	–
Residual amortisation of redeemed financial liabilities	–	–
Accrued interest	2,516	–
Other valuation effects	–	–
Admission of lease liabilities	–	47
Adjustment of lease liabilities owing to contractual adjustment	–	6,024
31/12/2021	**890,514**	**24,472**

Of the other financial liabilities of EUR 282,661 thousand (previous year: EUR 296,467 thousand), a total of EUR 13,603 thousand (previous year: EUR 14,008 thousand) were classified as current in the period under review, as the maturity of these financial liabilities is expected to occur in the following period. These relate exclusively to current redemption payments.

5.4 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities amounted to EUR 0 thousand (previous year: EUR 305 thousand) as at the balance sheet date. The previous year's amount included compensation payments to minority shareholders in accordance with Section 304 AktG under the profit transfer agreements concluded in 2017. Please refer to Section C for further details.

6. Current liabilities

6.1 PROVISIONS

Provisions have been recognised as liabilities in the period under review for obligations to third parties that are likely to result in a future outflow of resources. The value of the provisions is reviewed at each reporting date.

DEMIRE assumes that the provisions will be fully utilised in the following financial year.

Provisions developed as follows during the period under review:

in EUR thousand	31/12/2021	Utilisation	Reversal	Additions	31/12/2022
Staff costs	3,561	–2,633	–809	1,941	2,060
Other provisions	452	–	–	499	951
Total	**4,012**	**–2,633**	**–809**	**2,440**	**3,010**

Provisions developed as follows during the previous year:

in EUR thousand	31/12/2020	Utilisation	Reversal	Additions	31/12/2021
Staff costs	2,995	–838	–	1,404	3,561
Other provisions	–	–	–	452	452
Total	**2,995**	**–838**	**–**	**1,856**	**4,012**

Staff provisions mainly contain obligations for the variable performance-related compensation remuneration for the Executive Board and employees as well as the outstanding remuneration for a former member of the Executive Board (see Section G. 2).

Other provisions in the amount of EUR 951 thousand include provisions for potential legal disputes (previous year: EUR 452 thousand). The provisions recognised represent the best possible estimate with regard to the outcome of the legal disputes. It is expected that a settlement regarding the legal dispute will be reached in the current reporting period.

6.2 TRADE PAYABLES AND OTHER LIABILITIES

Liabilities are recognised at amortised cost after their initial recognition.

As at the reporting date, trade payables and other liabilities were as follows:

in EUR thousand	31/12/2022	31/12/2021
Trade payables	15,807	9,471
Accounting and audit costs	805	1,100
Subtotal of other trade payables	**16,612**	**10,571**
Compensation payments	836	823
Accounts receivable with credit balances	791	–
Building obligations resulting from purchase agreements	744	850
Liabilities arising from retained collateral	600	337
Operating costs	541	–
Purchase price liabilities	500	2,200
Advance payments received	494	–
Interest expenses	237	–
Minority shareholders departing the Company	166	747
Expenditure for personnel	89	49
Liabilities arising from liquidation costs	32	88
Liability from distribution	–42	230
Other	174	150
Subtotal of financial liabilities	**5,162**	**5,473**
Liabilities arising from land acquisition tax	–	745
Liabilities arising from capital gains tax and solidarity surcharge	–	683
Liabilities from value-added tax	195	212
Total other non-financial liabilities	**195**	**1,641**
Total	**21,967**	**17,685**

Trade payables relate primarily to current liabilities incurred as part of property management activities and/or in conjunction with the maintenance and repair of properties. As was the case in the previous year, all liabilities are due for payment within one year. As was the case on 31 December 2022, all trade payables amounting to EUR 16,612 thousand (previous year: EUR 10,571 thousand) are current in nature.

Compensation payments concern guaranteed dividends to non-controlling shareholders under profit and loss transfer agreements within the framework of a tax group created for income tax purposes.

The building obligations resulting from purchase agreements in the amount of EUR 744 thousand (previous year: EUR 850 thousand) relate solely to expansion costs arising from the sales contract for the property in Eisenhüttenstadt.

Liabilities arising from land acquisition tax result exclusively from the sale of a property in Trier, which was reclassified internally within the Group for the purpose of a transaction.

Liabilities to minority shareholders of subsidiaries who have departed the Company in the amount of EUR 166 thousand relate to severance package obligations owing to terminations of the relationship with the Company. (previous year: EUR 747 thousand).

6.3 TAX LIABILITIES

Current income tax liabilities of EUR 13,116 thousand (previous year: EUR 8,670 thousand) are divided into corporate taxes of EUR 10,417 thousand (previous year: EUR 8,177 thousand) and trade taxes of EUR 2,699 thousand (previous year: EUR 493 thousand).

7. Leases

7.1 OPERATING LEASES – DEMIRE AS LESSOR

The leases concluded by DEMIRE as lessor constitute operating leases within the meaning of IFRS 16.

Minimum lease payments consist of the net rents payable over the lease term. Rent agreements are usually concluded over fixed minimum terms of up to ten years. In some cases, tenants are entitled to extension options. In these cases, contractual rent escalation clauses effectively reduce the market risk of a long-term commitment. In the case of unlimited tenancies extended on a recurring basis with a remaining term of <1 year as well as generally unlimited tenancies, an appropriate remaining term of the rental period of three years from the reporting date was recognised.

For more information on risks from the rental of real estate, see the Section "Risk management" (Section G) and "Opportunities and risks" in the management report.

in EUR thousand	31/12/2022	31/12/2021
Due within 1 year	81,928	76,903
Due within 2 years	72,863	64,403
Due within 3 years	54,305	55,585
Due within 4 years	42,274	33,762
Due within 5 years	35,798	27,573
Due after more than 5 years	255,187	145,933
Total future rental income	**542,355**	**404,160**

7.2 DEMIRE AS LESSEE

DEMIRE AG recognises leasehold rights of use arising from leasehold contracts from the department store portfolio acquired in 2019 as a lessee. DEMIRE AG also rents office space, parking spaces and vehicles. Lease agreements are concluded for fixed periods of 1 to 20 years but may have options to extend. Leases contain a variety of different conditions.

Leases are accounted for at the time the lease asset is made available. According to IFRS 16, the lessee reports a lease liability in the amount of the present value of the future lease payments, plus directly attributable costs, in the balance sheet for all leases. At the same time, the lessee also capitalises a corresponding right-of-use of the underlying asset. The lease instalment is divided into an interest component and a repayment component during the lease term.

— Rights-of-use of assets that are not regarded as investment property are depreciated on a straight-line basis over their expected useful lives. This relates to leases of vehicles. The rights-of-use for vehicles are reported under property, plant and equipment.

— Rights-of-use of investment property, which are measured at fair value in accordance with IAS 40, are measured in line with the standard accounting policies laid down by IAS 40 and also reported under this item. This applies to leaseholds and permanent rights-of-use of an underground car park. The measurement is therefore based on the report of the external independent expert Savills Advisory Services Germany GmbH & Co. KG, a company with its registered office based in Frankfurt am Main. Depreciation of the right-of-use on a straight-line basis over its useful life is therefore not effected. Please refer to Section E.1.3 for details on the valuation method applied.

Payments for short-term leases and low-value leases are recognised as an expense in the statement of income. Short-term leases are all agreements with a term of less than twelve months. Such expenses were only incurred to an immaterial extent during the period under review and in the previous year.

The following amounts related to leases are shown in the balance sheet:

RIGHTS-OF-USE

in EUR thousand	31/12/2022	31/12/2021
Leasehold contracts	22,056	20,419
Rights-of-use for rented underground car park	1,308	1,592
Vehicles	28	41
Total	**23,392**	**22,052**

Please refer to Section 1.3 "Investment properties" for information on profit derived from the valuation of rights-of-use.

LEASE LIABILITIES

in EUR thousand	31/12/2022	31/12/2021
Non-current	26,209	24,285
Current	391	187
Total	**26,600**	**24,472**

Lease liabilities comprise the obligations from the leasehold contracts of the Galeria Karstadt Kaufhof portfolio acquired in 2020 in the amount of EUR 26,209 thousand (previous year: EUR 23,213 thousand). The slight increase results from the adjustment of conditions regarding the leasehold in Trier.

The item also includes the obligations from the permanent rights-of-use for an underground car park in Ulm in the amount of EUR 1,308 thousand (previous year: EUR 1,234 thousand) and the DEMIRE vehicle fleet in the amount of EUR 15 thousand (previous year: EUR 25 thousand).

The leasehold contracts are set to expire no later than March 2083. When determining the respective present values of the lease liabilities upon initial recognition, the financing structure of the respective companies in terms of IFRS 16 was considered in determining the marginal borrowing rate. The following lease-related amounts are shown in the consolidated statement of income:

AMORTISATION EXPENSES FOR RIGHTS-OF-USE

in EUR thousand	2022	2021
Vehicles	28	34
Total	**28**	**34**

OTHER LEASE INTEREST EXPENSES

in EUR thousand	2022	2021
Interest expense (included in financial expense)	860	709

Of the lease interest expenses of EUR 860 thousand (previous year: EUR 709 thousand), EUR 806 thousand (previous year: EUR 664 thousand) is attributable to interest expenses from leasehold contracts.

The cash outflows for leases in 2022 came to a total of EUR 1,045 thousand (previous year: EUR 1,056 thousand), of which EUR 907 thousand (previous year: EUR 891 thousand) is attributable to leasehold payments.

8. Contingencies

The following contingent liabilities existed as at the reporting date for matters for which DEMIRE AG or its subsidiaries have pledged guarantees in favour of third parties.

The contingent liabilities as at the end of the period under review consist of mortgages under Section 1191 BGB in the amount of EUR 346,890 thousand (previous year: EUR 346,890 thousand). The maximum liability for these properties is limited to the carrying amount as at the reporting date of EUR 346,890 thousand (previous year: EUR 346,890 thousand).

9. Other financial obligations and contingent liabilities

The real estate purchase agreements concluded in the 2022 financial year that were not still in effect as at the reporting date resulted in no financial obligations as at 31 December 2022. There were also no financial obligations arising from purchase agreements as at the reporting date in the previous year.

Obligations for modification and expansion measures, as well as maintenance and modernisation work on the properties, totalled EUR 113,132 thousand (previous year: EUR 33,229 thousand). These obligations are fixed in terms of their scope. The increase as against the previous year is primarily due to the inclusion of costs in connection with the conversion of the property in Essen into police headquarters. Costs for the expansion and modernisation of a hotel in Kassel are also included.

The purchase order commitment from commissioned maintenance amounted to EUR 5,348 thousand (previous year: EUR 11,952 thousand) as at the reporting date.

As at 31 December 2022 no credit lines (previous year: EUR 5,000 thousand) were available for the financing of capex and reletting measures.

The amounts were determined on the basis of contractual agreements with tenants, agreed contract amounts and cost estimates from contractors such as architects, manual workers and general contractors. There is uncertainty surrounding the timing of cash outflows as construction activities can be delayed due to disruptions in supply chains or the availability of staff and materials. There is also uncertainty about the required amounts as price fluctuations may occur to a certain extent for services that have not yet been contractually agreed. It is currently assumed that around 18% of the funds required for contractual obligations will be incurred within one year and around 82% within a period of 1 to 5 years.

F. Group segment reporting

The segmentation of the data in the consolidated financial statements is based on the internal alignment according to strategic business segments pursuant to IFRS 8. The segment information provided represents the information to be reported to DEMIRE AG's Executive Board.

The Group is divided into the two reportable business segments "Core Portfolio" and "Fair Value REIT". The focus is on the sustainable management of the respective properties. These properties are held for the purpose of generating rental income and value appreciation.

The "Core Portfolio" segment contains the commercial properties which are held by the subsidiaries of DEMIRE AG, with the exception of the real estate of Fair Value REIT. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

Fair Value REIT is listed in the General Standard and, due to its status as a REIT company, is subject to the requirements of the REIT Act. When making management decisions, these requirements must be considered. As a result, a distinction is made between the "Core Portfolio" segment and the "Fair Value REIT" segment. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

2022

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate functions/ others	Group
External revenue	97,577	23,256	1,053	121,887
Total revenue	**97,577**	**23,256**	**1,053**	**121,887**
Profit/loss from fair value adjustments of investment properties	–88,813	–10,066	–	–98,878
Other income	375	201	224	800
Segment revenue	**9,140**	**13,391**	**1,277**	**23,808**
Expenses relating to the sale of real estate	–20,907	–	–	–20,907
Other expenses	–41,235	–25,689	–8,902	–75,826
Segment expenses	**–62,142**	**–25,689**	**–8,902**	**–96,733**
EBIT	**–53,001**	**–12,297**	**–7,626**	**–72,925**
Financial income	70	26	18,315	18,411
Financial expenses	–18,068	–1,228	–0	–19,296
Profit/loss from companies accounted for using the equity method	–266	–	–	–266
Interests of minority shareholders	–	770	–	770
Income taxes	–4,864	1,212	5,455	1,803
Net profit/loss for the period	**–76,128**	**–11,517**	**16,144**	**–71,502**
Significant non-cash items	**102,669**	**8,859**	**–6,433**	**105,095**
Impairment losses in net profit/loss for the period	**595**	**186**	**720**	**1,501**

31/12/2022

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate functions/ others	Group
Segment assets	**1,125,247**	**315,483**	**96,121**	**1,536,851**
Of which tax assets	1,565	50	4,926	6,541
Of which additions to investment properties	28,328	3,536	–	31,864
Of which non-current assets held for sale	121,000	–	–	121,000
Segment liabilities	**861,712**	**176,920**	**11,527**	**1,050,160**
Of which non-current financial liabilities	742,605	70,824	–	813,429
Of which lease liabilities	26,584	–	15	26,599
Of which current financial liabilities	13,065	2,560	–0	15,626
Of which tax liabilities	4,351	–	8,764	13,116

The column "Corporate Functions/Others" mainly contains the activities of DEMIRE AG for its subsidiaries in its function as the Group holding in areas such as risk management, finance and controlling, financing, legal, IT and compliance. The activities as the Group holding do not constitute a separate segment but rather reconcile items that cannot be allocated to the other segments.

More than 10% of total revenue was generated from one customer in the "Core Portfolio" segment. This corresponds to a total of EUR 12,708 thousand (previous year: EUR 14,211 thousand) during the financial year.

In the "Core Portfolio" segment, non-cash items mainly comprise fair value adjustments in investment properties in the amount of EUR 88,812 thousand (previous year: EUR –42,325 thousand), income taxes in the amount of EUR 5,954 thousand (previous year: EUR –400 thousand), deferred taxes in the amount of EUR –1,091 thousand (previous year: EUR 5,076 thousand) and the profit/loss from companies accounted for using the equity method in the amount of EUR –244 thousand (previous year: EUR 1,084 thousand).

Business transactions between the segments are processed based on terms and conditions at arm's length.

2021

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate functions/ others	Group
External revenue	168,116	38,521	–	206,637
Total revenue	**168,116**	**38,521**	**–**	**206,637**
Profit/loss from fair value adjustments of investment properties	42,325	6,452	–	48,777
Other income	470	586	132	1,188
Segment revenue	**210,911**	**45,559**	**132**	**256,601**
Expenses relating to the sale of real estate	–88,806	–13,859	–	–102,665
Other expenses	–32,398	–9,903	–9,768	–52,071
Segment expenses	**–121,205**	**–23,762**	**–9,768**	**–154,736**
EBIT	**89,706**	**21,797**	**–9,636**	**101,866**
Financial income	217	0	2,950	3,167
Financial expenses	–17,028	–1,148	–154	–18,331
Profit/loss from companies accounted for using the equity method	1,084	–	–	1,084
Interests of minority shareholders	–	–6,972	–	–6,972
Income taxes	–5,476	–747	–13,004	–19,227
Net profit/loss for the period	**68,502**	**12,930**	**–19,845**	**61,587**
Significant non-cash items	**–37,221**	**–7,825**	**13,111**	**–31,934**
Impairment losses in net profit/loss for the period	**1,336**	**85**	**2,055**	**3,475**

31/12/2021

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate functions/ others	Group
Segment assets	**1,262,560**	**342,850**	**100,184**	**1,705,594**
Of which tax assets	3,718	47	2,602	6,369
Of which additions to investment properties	22,679	5,829	–	28,508
Of which non-current assets held for sale	–	–	–	–
Segment liabilities	**914,657**	**187,043**	**11,531**	**1,113,232**
Of which non-current financial liabilities	798,534	75,883	–	874,417
Of which lease liabilities	24,448	–	25	24,472
Of which current financial liabilities	13,350	2,747	–	16,097
Of which tax liabilities	1,892	–	6,777	8,670

G. Other disclosures

1. Financial instruments

In general, please refer to the risk report in the combined management report.

FINANCIAL RISK MANAGEMENT

The credit risk arising for DEMIRE as part of its operating activities as well as risk arising from financing activities are continuously monitored and actively managed by the Executive Board. As a result of these measures, the consolidated financial statements were prepared under the assumption of a going concern.

DEMIRE's financial assets mainly consist of loans to companies accounted for using the equity method, other loans, trade accounts receivable and other receivables, financial receivables, other financial assets and bank deposits. The majority of trade accounts receivable consists of rent receivables. Potential defaults in this context are taken into consideration.

DEMIRE's financial liabilities comprise mainly bonds, bank loans, other loans, lease liabilities and trade payables. The main purpose of these financial liabilities is to finance DEMIRE's operations.

DEMIRE is exposed to various financial risks as a result of its business activities: interest rate risk, credit risk and liquidity risk. The overarching risk management system concentrates on the continual identification and active management of typical business risks. This system accepts risks within a certain range if they offer the opportunity for commensurate returns. The goal is to limit the exposure to peak risks so that DEMIRE's continuance is not jeopardised.

The Executive Board identifies, evaluates and hedges financial risk in close collaboration with the risk manager and in coordination with DEMIRE AG's Supervisory Board.

Loan agreements exist in the Group that contain certain financial covenants stipulated by the creditors. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the creditors. The financial covenants concern financial ratios of the respective real estate portfolio, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV) debt ratio. The calculations are based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the financial covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and portfolio management areas and by external service providers. Depending on the type of financing, the financial covenants are reported to the creditors on a quarterly, semi-annual or annual basis, or the creditors are provided with the underlying economic ratios. Should DEMIRE fail to comply with the financial covenants, the creditors would be entitled to demand additional guarantees from DEMIRE. The loans are then in default. If the default persists for a longer period of time and cannot be permanently remedied, the creditors have a special right of termination.

FOREIGN CURRENCY RISK

There is no foreign currency risk for the existing portfolio of commercial real estate in Germany because all transactions are conducted in euros.

INTEREST RATE RISK

To finance its German commercial real estate, the DEMIRE Group uses liabilities with fixed interest loans to a degree customary for the industry, as well as tradeable instruments that contain options for conversion into shares of the Company or of Fair Value REIT-AG. This involves both loans with fixed and variable interest rates and tradable instruments.

Interest rate risk relating to cash flows exists with respect to liquid funds placed in Company accounts. The Company does not anticipate significant negative effects from interest rate changes over the long term because the liquid funds on the reporting date are only available until investments are made and will subsequently be tied up in projects according to plan.

In January 2022, a variable-rate loan in the FVR AG subgroup was extended for another two years. A minimum interest rate of 1.5% and a variable interest rate based on the three-month EURIBOR were agreed. All other loans have a fixed interest rate. DEMIRE is therefore exposed to a manageable interest rate risk from debt financing until the maturity of the 2019/2024 bond.

Since transaction prices for real estate increase when interest rates are low, the level of interest rates also has an impact on the purchase prices of newly acquired real estate. In addition, interest rates play an important role in the valuation of investment properties.

The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board of DEMIRE AG.

CREDIT RISK

The reported financial instruments represent the maximum credit risk and default risk. Counterparty risk is uniformly assessed and monitored within the framework of Group-wide risk management. The aim is to minimise the risk of defaults. Counterparty risk is not insured. Possible risks are taken into account as part of the expected credit loss model. For more information, see Section 1.5 and Section C "Accounting policies".

Rental deposits amounting to EUR 4,571 thousand (previous year: EUR 4,078 thousand) are available as security in the event a tenant defaults. For an analysis of the impaired receivables, please refer to Section E.2.1.

LIQUIDITY RISK

Liquidity management serves the purpose of ensuring the Group's solvency at all times. In principle, there is the risk that the Company may not have sufficient liquidity at all times during the year to meet its current obligations, and that the refinancing of expiring financial liabilities may not be obtained or may only be obtained at less favourable conditions than planned. Additional liquidity requirements from events beyond DEMIRE's control may also result, first and foremost, from the operating risks and other risks listed below. The funds available at the reporting date and the planned cash flows in 2023 are sufficient for the current needs of the operating activities.

CAPITAL MANAGEMENT AND CONTROL

The primary objective of the Group's capital management is to ensure that DEMIRE's debt eligibility and its financial substance are maintained in the future. The capital structure is managed according to economic and regulatory requirements. DEMIRE strives for a capital structure that is appropriate for the business risk and in doing so is also subject to the minimum capital requirements of the German Stock Corporation Act, the compliance of which is monitored by DEMIRE AG's Executive Board. The requirements were met both in the reporting year and in the previous year.

DEMIRE monitors its capital using the equity ratio, which is also an important indicator for investors, analysts and banks.

The equity ratio came to 31.7%, compared to 34.7% at the end of 2021. Non-controlling minority interests in the amount of EUR 80.4 million (previous year: EUR 82.9 million) are reported in non-current liabilities and not under equity in accordance with IFRS, primarily due to the legal form of a partnership. The corresponding adjusted Group equity totalled EUR 567.1 million or 36.9% of total equity and liabilities (31 December 2021: EUR 675.2 million or 39.6%).

OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IFRS 9. The accounting policies are presented in Section C of the Notes.

The classification of financial instruments required by IFRS 7 is in line with the respective items in the consolidated balance sheet. The tables below present the carrying amounts, valuations and fair values of the financial assets and liabilities for each individual category of financial instruments and reconcile these values to the measurement categories. Under IFRS 9, the relevant measurement category for DEMIRE is "at amortised cost".

Other financial liabilities (other liabilities) are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are spread over the term through profit or loss. DEMIRE allocates financial liabilities and other liabilities to this category.

31/12/2022

in EUR thousand	Measurement category	Carrying amount under IFRS 9	Fair Value
Assets			
Trade accounts receivable	At amortised cost	13,845	13,845
Loans to companies accounted for using the equity method	At amortised cost	24,752	20,566
Loans and financial assets	At amortised cost	72,335	61,701
Cash and cash equivalents	At amortised cost	57,415	57,415
Equity and liabilities			
Bonds	At amortised cost	546,394	383,911
Other non-current financial liabilities	At amortised cost	269,058	235,383
Minority interests	At amortised cost	80,364	80,364
Trade payables	At amortised cost	16,611	16,611
Other financial liabilities	At amortised cost	4,327	4,327
Current financial liabilities	At amortised cost	13,603	13,603
Compensation payments to minority shareholders	At amortised cost	836	836

31/12/2021

in EUR thousand	Measurement category	Carrying amount under IFRS 9	Fair Value
Assets			
Trade accounts receivable	At amortised cost	8,671	8,671
Loans to companies accounted for using the equity method	At amortised cost	26,505	26,457
Loans and financial assets	At amortised cost	68,189	68,022
Cash and cash equivalents	At amortised cost	139,619	139,619
Equity and liabilities			
Bonds	At amortised cost	594,047	592,848
Other non-current financial liabilities	At amortised cost	282,459	278,638
Minority interests	At amortised cost	82,882	82,882
Trade payables	At amortised cost	10,571	10,571
Other financial liabilities	At amortised cost	4,651	4,651
Current financial liabilities	At amortised cost	14,008	14,008
Compensation payments to minority shareholders	At amortised cost	1,127	1,127

Fair value is the amount at which financial assets and liabilities could be exchanged between independent business partners on the valuation date. For the purpose of determining the fair value of the bond and other non-current financial liabilities, please refer to Section C.

Due to the short maturity of cash and cash equivalents, trade accounts receivable and trade payables and other current receivables and liabilities, it is assumed that the respective fair value corresponds to the carrying amount. The lease liabilities of EUR 26,600 thousand (previous year: EUR 24,472 thousand) are recognised in accordance with IFRS 16.

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS IN 2022

in EUR thousand	Net gains/losses	Of which from interest
Assets		
At amortised cost	3,062	4,563
Equity and liabilities		
At amortised cost	–5,403	–18,436

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS IN 2021

in EUR thousand	Net gains/losses	Of which from interest
Assets		
At amortised cost	–308	3,167
Equity and liabilities		
At amortised cost	–17,643	–17,622

The following table shows the future maturities in accordance with IFRS 7.B11(a) for interest and repayments of liabilities at the balance sheet date as well as liabilities to minority interests:

AS AT 31/12/2022

in EUR thousand	2023	2024	2025	2026	2027	after 31/12/2027
2019/2024 corporate bond	10,354	560,313	0	0	0	0
Bank liabilities	15,293	176,759	56,787	20,355	1,796	18,705
Minority interests[1]	0	80,364	0	0	0	0
Lease liabilities	1,231	1,226	1,215	1,215	1,151	41,143
Trade payables	0	0	0	0	0	0
Other liabilities	8,370	0	0	0	0	0
Total	**35,249**	**818,661**	**58,002**	**21,570**	**2,947**	**59,849**

[1] The disclosure of the maturities of liabilities to minority shareholders was based on the earliest possible termination date and thus the earliest possible payment obligation, which must be disclosed in accordance with IFRS 7.B11 (a). This is not based on the actual due date, but it takes into account a possible due date derived from the earliest possible termination date. By way of derogation from the rules laid down in IFRS 7.B11 (a), the Group's internal liquidity planning makes provision for a due date after five years.

AS AT 31/12/2021

in EUR thousand	2022	2023	2024	2025	2026	after 31/12/2026
2019/2024 corporate bond	11,250	11,250	611,250	0	0	0
Bank liabilities	15,451	15,444	172,045	57,461	22,385	25,679
Minority interests[1]	0	82,882	0	0	0	0
Lease liabilities	1,011	1,133	1,122	1,119	1,119	40,178
Trade payables	10,571	0	0	0	0	0
Other liabilities	11,126	305	0	0	0	0
Total	**49,410**	**111,014**	**784,417**	**58,580**	**23,504**	**65,857**

[1] The disclosure of the maturities of liabilities to minority shareholders was based on the earliest possible termination date and thus the earliest possible payment obligation, which must be disclosed in accordance with IFRS 7.B11 (a). This is not based on the actual due date, but it takes into account a possible due date derived from the earliest possible termination date. By way of derogation from the rules laid down in IFRS 7.B11 (a), the Group's internal liquidity planning makes provision for a due date after five years.

The Company's liquidity management considers these liabilities to minority shareholders to be due after five years, provided the minority shareholders have not given notice of termination. This is a result of a long history spanning several years, which shows only a small number of terminations.

Liabilities from minority interests are reported as non-current at the balance sheet date from ongoing limited partnership contributions, as settlement is neither expected nor can be demanded within twelve months after the balance sheet date (IAS 1.69). If the minority shareholder has not given effective notice of termination by the balance sheet date, such notice can only be given on the following balance sheet date. In turn, the settlement balance is only due for payment six months after its binding agreement (on the termination date). Thus, in the case of limited partnership contributions that are still ongoing as at the reporting date, a payout is due no earlier than 18 months after the reporting date.

2. Related party disclosures

RELATED COMPANIES AND PERSONS

Companies and persons are considered to be related if they have the ability to control DEMIRE and its subsidiaries or exercise significant influence over their financial and operating policies. The existing control relationships were taken into account to determine the degree of significant influence that related companies and persons have on the Company's financial and operating policies. As at the reporting date, AEPF III 15 S. à r. l. Luxembourg/Luxembourg held 58.6% of DEMIRE and is thus the direct parent company. The ultimate parent company is Apollo Global Management, Inc. (Delaware NYSE Listed). The consolidated financial statements of DEMIRE AG are the largest and the smallest scope of consolidation in which DEMIRE AG is included.

Alongside the fully consolidated subsidiaries, the group of related companies also includes joint ventures and associated companies accounted for using the equity method. As at 31 December 2022, these include JV Theodor-Heuss-Allee-GmbH, DEMIRE Assekuranzmakler GmbH & Co. KG and G+Q Effizienz GmbH.

Due to their significant influence, the following key personnel of the parent company are considered to be related persons as defined by IAS 24:

— Members of the Executive Board of DEMIRE AG and their close relatives and
— Members of the Supervisory Board of DEMIRE AG and their close relatives.

Legal transactions with related companies and persons
In the financial year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between DEMIRE AG and its subsidiaries were settled in the same manner as those between unrelated parties and eliminated in the context of consolidation. Therefore, they are not explained in the Notes to the consolidated financial statements.

COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD:

During the period under review, the following transactions were completed with companies accounted for using the equity method:

The purchasing company, JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, was established in the first half of 2021. The Chairman of the Supervisory Board, Prof. Dr Alexander Goepfert, is a minority shareholder with a 1% stake in JV Theodor-Heuss-Allee GmbH (Cielo). The majority shareholders are DEMIRE Holding XIII GmbH with a 49.5% stake and RFR Immobilien 4 GmbH. As part of the Cielo transaction, the shareholders have various options regarding the land purchase of Theodor-Heuss-Allee 100, Frankfurt am Main, and the remaining shares in JV Theodor-Heuss-Allee GmbH. Furthermore, in the event of non-exercise of the share purchase option by DEMIRE, Prof. Dr Goepfert has the right to purchase RFR's shares. For more information, see Disclosures according to IFRS 12 B) Disclosures on associates and joint ventures. In the reporting period, the Chairman of the Supervisory Board received an amount of EUR 10 thousand within this context.

Furthermore, DEMIRE AG has issued an unsecured loan in the amount of EUR 25,326 thousand (including interest receivable) to this company. The outstanding loan amount is subject to interest charged at 4.135% p.a. Interest income from this loan comes to EUR 1,055 thousand as at 31 December 2022.

An agreement on asset management services in the amount of EUR 50 thousand per year has been in place with JV Theodor-Heuss-Allee GmbH since 12 August 2021. For the financial year 2022, this resulted in income of EUR 50 thousand plus VAT (previous year: EUR 50 thousand). The agreement runs for an indefinite period.

In addition, for the period commencing from 12 August 2021, there has also been an agreement in place with JV Theodor-Heuss-Allee GmbH covering treasury, controlling, financial accounting and investment management matters in the amount of EUR 25 thousand per year. For the 2022 financial year, this resulted in income of EUR 25 thousand (previous year: EUR 12 thousand). The agreement runs for an indefinite period.

As at 31 December 2022, receivables in the amount of EUR 32 thousand and income in the amount of EUR 75 thousand arise from these two agreements.

In the 2022 reporting period, DEMIRE Holding XIII GmbH received a disbursement from JV Theodor-Heuss-Allee GmbH in the amount of EUR 0 thousand.

In the year under review, DEMIRE received distributions of EUR 90 thousand from the associate G+Q Effizienz GmbH.

THE EXECUTIVE BOARD

The following were members of the Executive Board during the period under review and comparable prior-year period:

Mr Ingo Hartlief (FRICS) (CEO from 20 December 2018 to 31 December 2022)

Mr Tim Brückner (CFO since 1 February 2019)

At the Annual General Meeting held on 28 April 2021, approval was given for a new remuneration system ("New remuneration system") for the Executive Board members of DEMIRE AG. This was passed with a majority of 99.71% of the capital represented (www.demire.ag/en/annual-general-meeting).

The contracts of employment for the Executive Board members Ingo Hartlief and Tim Brückner were extended until 31 December 2024 by way of extension agreements concluded on 26 May 2021.

Given that the agreed changes to the remuneration of the Executive Board in accordance with the extension agreements dated 26 May 2021, as well as the agreements themselves, came into effect as of 1 January 2022, the Executive Board members were granted remuneration as of the 2022 financial year in accordance with the requirements of the new remuneration system ("New remuneration system"). Accordingly, the "New remuneration system" is presented below.

In contrast, components of the remuneration that relate to the performance period prior to 1 January 2022 – such as the "Short-Term Incentive" earned in the 2021 financial year – are based on the previous remuneration system (referred to here as the "Old remuneration system"). For this reason, the relevant key points of the "Old remuneration system" are presented at the appropriate place in this remuneration report (see below).

The remuneration of the Executive Board is reviewed on a regular basis by the Supervisory Board.

Adjustments made to the target remuneration of the Executive Board members in the 2022 financial year in comparison to the previous year are presented below.

Furthermore, the Supervisory Board laid down the performance criteria with regard to performance-related variable remuneration elements for the 2022 financial year. Details on the Executive Board members' bonuses which were vested in the 2022 financial year are reserved for the remuneration report for the 2023 financial year.

The performance-related variable remuneration for the Executive Board consists of one-year variable remuneration (short-term incentive [STI] = bonus) and multi-year variable remuneration (long-term incentive [LTI] = virtual stock option programme). The amount of variable remuneration is therefore based on the achievement of specific targets laid down in advance.

The following performance criteria are to be used to assess whether or not, and in what amount, a bonus is to be granted:

— 25%–50% Key performance indicators for the Company: Forecast values (rental income & FFO)
— 25%–50% Operational performance criteria: Transaction and letting targets
— 10%–30% Non-financial performance criteria: Strategic targets for the Company, environmental, social and governance policy targets

The bonus is capped at double the target amount.

The STI for the 2022 financial year amounts to EUR 198 thousand and was approved by the Supervisory Board at the beginning of 2023. This will be paid out in 2023.

2019 virtual stock option programme (Long-Term Incentive)
In addition to the bonus, annual virtual stock options (otherwise known as "performance share units" or "PSUs") are granted as part of a long-term, share-based variable remuneration package in the form of a virtual stock plan (performance share plan). The virtual stock option programme is capped by way of an annual allotment defined in the contract. There is no provision for vesting of more than 100% of the granted PSUs. Regardless of the target achievement or number of vested PSUs, the maximum payment per PSU is capped at 250% of the price when granted.

Accounting for the share-based payments issued within the Group is in accordance with IFRS 2 Share-based Payment. The virtual stock options are share-based remuneration transactions that are settled using cash and are measured at the fair value as at the balance sheet date. The remuneration expense is aggregated in instalments under consideration of the work performance completed on a pro-rata basis during the vesting period and is recognised in profit and loss as a provision until vesting.

This stock option programme was issued to Mr Ingo Hartlief (FRICS) with effect from 1 January 2019 and to Mr Tim Brückner with effect from 1 February 2019. Under this stock option programme, each member of the Executive Board is granted performance share units (PSUs) every year. The number of PSUs granted per year is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. The grant is made annually, with the first grant made on the date mentioned above.

The PSUs are paid out after a performance period of four years from the grant date, depending on whether performance targets are reached. The performance targets consist of 50% annual share price increases and 50% relative total shareholder return (TSR). The relative TSR compares the development of DEMIRE's TSR with the return of the EPRA/NAREIT Developed Europe ex UK Index over the four-year performance period. The entitlement is forfeited if the respective member of the Executive Board resigns from office during the performance period.

The maximum value and the threshold for the share price increase are determined in advance by the Supervisory Board. The same applies to the maximum value and the threshold for relative total shareholder return performance.

The liabilities arising from cash-settled share-based payment transactions are recognised as provisions and measured at fair value once again on each reporting date. The expenditure is also recognised as personnel expenses over the vesting period. As at 31 December 2022, the provision for the virtual stock option programme valid as of 2019 amounts to EUR 259 thousand (previous year: EUR 627 thousand). In addition to the 2019 tranche, the 2020, 2021 and 2022 tranches were also taken into account. The 60-day average price before granting the tranches is as follows: EUR 4.21 for the 2019 tranche, EUR 5.13 for the 2020 tranche, EUR 4.09 for the 2021 tranche and EUR 4.29 for the 2022 tranche.

The Supervisory Board deviated in part from the requirements of the "New remuneration system" in the 2022 financial year. The deviations are shown below.

The CEO Ingo Hartlief left the company with effect from the end of 31 December 2022. In this context, Mr Hartlief was promised a severance payment in the amount of EUR 1,080,000.00 (gross). This severance payment was due to be paid with the usual salary payment in January 2023. In addition, it was agreed that Mr Hartlief would receive a bonus for the past 2022 financial year in the amount of EUR 270,000 gross, which was due with the usual salary payment in January 2023. The agreement on a specific amount of the bonus was made in the interest of an overall settlement and mutual legal certainty. In addition, the severance payment covers all currently existing and/or future claims, including any claims from the LTI. The specifications of the "severance payment cap" described above were complied with accordingly. The severance payment does not exceed two years' remuneration (total remuneration for the past financial year and, if applicable, the expected total remuneration for the current financial year).

For the 2022 financial year, performance-related remuneration of EUR 731 thousand (previous year: EUR 610 thousand), fixed remuneration of EUR 457 thousand (previous year: EUR 699 thousand) and share-based remuneration of EUR –368 thousand (previous year: EUR 401 thousand) were recognised for the Executive Board of DEMIRE AG.

in EUR thousand	2022	2021
Short-term benefits	1,188	1,309
Post-employment benefits	0	0
Other long-term benefits	0	0
Benefits related to termination of employment	1,080	0
Share-based remuneration	–526	401
Total	**1,742**	**1,710**

This table shows share-based payments according to IFRS 2.

As at the reporting date, EUR 259 thousand (previous year: EUR 627 thousand) of share-based payments and EUR 457 thousand (previous year: EUR 333 thousand) of bonus payments were still outstanding.

The remuneration of the Executive Board members in office during the financial year is listed in the table below:

in EUR thousand	Fixed remuneration	Variable remuneration	Share-based remuneration	Total 2022
Ingo Hartlief (FRICS)	430	285	0	715
Tim Brückner	301	172	13	486
Total	**731**	**457**	**13**	**1,201**

This table shows the remuneration of Executive Board members in accordance with Section 314 (1) No. 6a of the German Commercial Code (HGB); this results in a difference to IFRS for share-based payments. Under HGB rules, the fair value at the grant date must be disclosed.

The remuneration of the active Executive Board members in the prior year consisted of the following:

in EUR thousand	Fixed remuneration	Variable remuneration	Share-based remuneration	Total 2021
Ingo Hartlief (FRICS)	410	380	153	943
Tim Brückner	289	230	91	610
Total	**699**	**610**	**244**	**1,553**

No loans or advances were granted to members of the Executive Board and no contingencies were assumed for the benefit of Executive Board members. In the previous year, the Company was still in dispute with a former member of the Executive Board about the amount of the remaining remuneration that might still be due to him, which is why the Company had set aside an amount of EUR 2,029 thousand (previous year: EUR 1,920 thousand) for this purpose. An agreement was made between the parties in the 2022 financial year. With the payment of an amount of EUR 1,700 thousand in the 2022 financial year, all of the disputed and any further remuneration claims of the former Executive Board member have now been settled.

THE SUPERVISORY BOARD

The members of DEMIRE AG's Supervisory Board, their professions and Supervisory Board remuneration received during the past financial year are listed in the table below.

in EUR thousand	Position	Profession	Period	2022	2021
Prof. Dr Alexander Goepfert	Chair	Attorney-at-law	since 27 June 2018	120	120
Frank Hölzle	Vice Chair	Managing director	since 14 February 2017	80	80
Prof. Dr Kerstin Hennig	Member	Professor	since 29 May 2019	40	40
Total				**240**	**240**

Furthermore, Supervisory Board members were reimbursed for travel expenses incurred of EUR 1 thousand in total (previous year: EUR 1 thousand).

No loans or advances were granted to members of the Supervisory Board and no contingencies were assumed for the benefit of members of the Supervisory Board either.

3. Employees and share-based remuneration

A. EMPLOYEES

The number of employees is listed in the following table

	31/12/2022	31/12/2021
Executive Board members	2	2
Permanent employees	34	35
Trainees	0	0
Total	**36**	**37**

The average total number of employees (incl. the Executive Board) in the 2022 financial year was 35.71 (previous year: 36.33).

B. SHARE-BASED PAYMENTS

2015 Stock Option Programme

In the 2015 financial year, share-based payments were issued in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG as well as to a selected group of persons within the DEMIRE Group. The stock option programme is an option plan that is settled with equity instruments (equity-settled stock option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2. Under IFRS 2, the total staff costs arising from the stock options are to be distributed over the four-year vesting period starting from the grant date. In the case of DEMIRE AG, the grant date is the day the approval is given by the Executive Board and/or Supervisory Board. These obligations are recognised at the fair value (grant date) of the equity instruments vested up until that point at the time of granting. The fair value was therefore recognised as personnel expenses over the vesting period and offset directly against the capital reserves.

The dilutive effect of the outstanding stock options is taken into account as an additional dilution in the calculation of earnings per share, provided that the stock options and the underlying conditions result in a calculated dilution for the existing shareholders.

The exercise of subscription rights is subject to the Company's share price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) being at least 10% higher than the basic price on the trading day preceding the exercise of the subscription rights.

A total of 1,000,000 stock options were allocated. 800,000 were granted in the first tranche to members of the Executive Board and 200,000 to selected DEMIRE AG and Group employees. The fair value of each option from the first tranche was EUR 2.74. In a second tranche, adjusted for those stock options returned by employees who left (90,000 share options), a total of 60,000 new options were issued. The fair value of each option from the second tranche was EUR 1.99. As at the reporting date, the first tranche still contains an entitlement to 400,000 stock options for one former member of the Executive Board and to 110,000 stock options for selected employees. In the period under review, there were no changes in the number of shares issued in comparison to the previous period.

The option term is nine years from the issue date. The first four years constitute a vesting period.

In the year under review, no more expenses arose from this share option programme (previous year: also EUR 0 thousand), as the Executive Board member left the company in 2019.

A summary of the 2015 stock option programme can be found in the following table:

2015 STOCK OPTION PROGRAMME

	2022	2021
Outstanding options at the start of the financial year	510,000	510,000
Outstanding options during the financial year	0	0
Outstanding options at the end of the financial year	510,000	510,000
Exercisable options at the end of the financial year	510,000	510,000
Exercise price for options exercised	**0**	**0**

4. Auditor's fee

The auditor's fee for PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, charged in the financial year with regard to DEMIRE consists of the following:

in EUR thousand	2022	2021
Auditing services of which for the previous years: EUR 32 thousand (previous year: EUR 316 thousand) of which for affiliated companies EUR 257 thousand (previous year: EUR 450 thousand)	807	1,139
Other assurance services	0	13
Tax consultation services	0	0
Other services	0	17
Total	**807**	**1,169**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has been appointed as the auditor starting in the 2018 financial year.

5. Subsequent events

The Supervisory Board appointed Prof. Dr Alexander Goepfert as a new member of the Executive Board with effect from 1 January 2023 and at the same time appointed him as CEO. Prof. Dr Goepfert informed the Supervisory Board that he would resign from his position as Chairman of the Supervisory Board with effect from 31 December 2022 and leave the Supervisory Board.

The vacancy in the Supervisory Board resulting from Prof. Dr Goepfert's resignation as at 1 January 2023 was filled with effect from 1 January 2023 by the court replacement appointment of Mr Markus Hofmann. Mr Hofmann was elected as the new Chairman of the Supervisory Board on 25 January 2023.

In addition, the Supervisory Board appointed Mr Ralf Bongers as an additional member of the Executive Board with effect from 1 April 2023.

At the beginning of March 2023, there were indications that GKK was intending to terminate the lease for the property in Celle as part of the ongoing insolvency proceedings. There had previously been promising negotiations relating to an extension of the rental agreement, as a consensus had been reached on the relevant terms and conditions of the contracts. These had been approved by DEMIRE's internal bodies. The uncertainty resulting from the negotiations with regard to future rental income was taken into consideration as part of the real estate valuation at the end of the year, and the corresponding agreed conditions were applied. Due to the planned continuation of the rental agreement at lower conditions, the value of the property in Celle was written down by 57.2% compared to the previous year to EUR 7.9 million, and this figure was recognised in the balance sheet as at 31 December 2022. This valuation did not reflect the termination that was then submitted in March. As a result of the notice of termination that has now been given, the property is expected to temporarily generate no rental income from 1 July 2023. The Executive Board will review the further use and rental options over the next few months. Due to the uncertainty now arising regarding the future rental of the property in Celle, there will probably be further devaluations of the property going forward, depending on how quickly and on what terms a new tenant can be found for the property.

6. Declaration of Conformity with the German Corporate Governance Code Pursuant to Section 161 AktG

On 17 February 2023, the Executive Board and Supervisory Board issued the latest Declaration of Conformity pursuant to Section 161 AktG. The Declaration was made permanently accessible to shareholders on the Company's website.

Frankfurt am Main, 15 March 2023
DEMIRE Deutsche Mittelstand Real Estate AG

Prof. Dr Alexander Goepfert
(CEO)

Tim Brückner
(CFO)

DECLARATION BY THE EXECUTIVE DIRECTORS

As a member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, I hereby affirm that, to the best of my knowledge, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operation in accordance with the applicable accounting principles and that the Group management report, which is combined with the Company's management report, gives a true and fair view of the development and performance of the business, including the business results and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Frankfurt am Main, 15 March 2023

Prof. Dr Alexander Goepfert
(CEO)

Tim Brückner
(CFO)

INDEPENDENT AUDITOR'S REPORT[1]

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

Report on the audit of the consolidated financial statements and of the group management report

AUDIT OPINIONS

We have audited the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DEMIRE Deutsche Mittelstand Real Estate AG, which is combined with the Company's management report, including the remuneration report pursuant to § [Article] 162 AktG [Aktiengesetz: German Stock Corporation Act], including the related disclosures, included in section „Vergütungsbericht 2022“ for the financial year from 1 January to 31 December 2022.

In our opinion, on the basis of the knowledge obtained in the audit,

— the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2022, and of its financial performance for the financial year from 1 January to 31 December 2022, and

— the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report“ section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

[1] Translation – the German text is authoritative

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of investment properties
2. Accounting treatment of the joint venture JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, with land purchase option

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter, we present the key audit matters:

1. Recoverability of investment properties

1. Investment properties amounting to EUR 1,231,072 thousand (80.1% of total assets) are reported in the Company's consolidated financial statements as of December 31, 2022. The Company exercises the option set out in IAS 40.30 to account for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realized when properties are sold, as well as unrealized changes in market value, are recognized at fair value through profit or loss. In the financial year ended, EUR –98,878 thousand in unrealized changes in market value were recognized through profit or loss in the consolidated income statement.

   When determining the fair value of investment property, it is assumed that the current use corresponds to the highest and best use of the property. Fair values are determined using a measurement model developed by the executive directors with assistance from an external consulting firm, based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using a liquidation valuation method. Undeveloped land is usually measured based on an indirect comparison of indicative land values. To the extent possible, the valuation uses data directly observable on the market (sources include expert committees and public and subscriptions-based market databases). The measurement of investment properties is based on a large number of relevant parameters that are generally subject to specific uncertainties with regard to estimates and judgments.

Significant measurement parameters include in particular expected cash flows, the assumed vacancy rate and the discount and capitalization rate. Even small changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance in the context of our audit because the measurement of investment properties is generally subject to substantial judgments and estimation uncertainties, and there is the risk that the changes in fair value recognized through profit or loss do not fall within an appropriate range.

2. As part of our audit, and with the assistance of specialists with the relevant skills and expertise from Valuation, Modeling & Analytics, we assessed the valuation model used to measure investment properties as regards its conformity with IAS 40 in conjunction with IFRS 13, the correctness and completeness of the property portfolio data used, and the appropriateness of the measurement parameters used, such as the expected cash flows (market rent per m^2, planned maintenance per m^2), the assumed vacancy rate and the discount and capitalization rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we checked the results at the level of the individual properties and the portfolio for plausibility by comparing them against our expectations as regards changes in value. As part of our audit, we prepared a property-specific comparison calculation on a test basis using the discounted cash flow method. The valuation technique used to measure investment properties is appropriately designed and suitable for calculating fair values in accordance with the IFRSs. The underlying assumptions reflect the current market level.

3. The Company's disclosures relating to investment properties are contained in sections C. and E.1.3 of the notes to the consolidated financial statements.

2. Accounting treatment of the joint venture JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, with land purchase option

1. The joint venture JV Theodor-Heuss-Allee-GmbH, Frankfurt am Main, was established by a Group company of DEMIRE Deutsche Mittelstand Real Estate AG in financial year 2021. As of the end of the reporting period, the interest in the joint venture amounted to 49.5%. Pursuant to IFRS 11.24, it was recognized in the consolidated financial statements using the equity method in accordance with IAS 28. In financial year 2021, the joint venture entered into a heritable building right agreement with a term of 99 years. The price for establishing the heritable building right amounted to EUR 152,876 thousand. To finance the acquisition, the joint venture took out EUR 140,000 thousand in external bank financing and received a loan of EUR 25,150 thousand from DEMIRE AG. The joint venture has a contractual option to acquire the land for a fixed purchase price of EUR 122,813 thousand in the period between the end of the 57th month and the end of the 60th month of the term of the heritable building right (land purchase option). The joint venture's shareholders will mutually decide whether or not to exercise this land purchase option. A decision not to exercise the option may be made unilaterally by one of the two shareholders or by mutual agreement between them, and may result in penalties being paid. Upon exercise or non-exercise of the land purchase option, further options will be exercisable by the shareholders. In our view the options are of crucial significance in this structure, in particular with respect to whether the rights associated with the joint venture's land purchase option are material. Whether the values are material is heavily dependent on changes in the value of the property, including the land. The valuation is therefore subject to material uncertainties. Given the highly complex nature of the transaction, the measurement of the options and the material significance for the Company's assets, liabilities and financial performance, and of the scope of consolidation for its consolidated group, this matter was of particular significance in the context of our audit.

2. To assess whether the accounting treatment of the joint venture was appropriate, as part of our audit we examined the company law principles as well as the provisions of the underlying contractual arrangement, among other things. In this context, we evaluated and assessed fulfillment of the requirements for a joint venture in accordance with IFRS 11, and the resulting effects on the consolidated financial statements and measurement using the equity method in accordance with IAS 28. Furthermore, with the assistance of specialists with appropriate skills and expertise from our Valuation, Modeling & Analytics department, we assessed the valuation model used to measure the options as regards its conformity with IFRS 13, and the appropriateness of the measurement parameters used, such as the volatility, the underlying changes in property value, and the risk-free interest rate. As part of our audit procedures, we prepared a comparison calculation. The valuation technique used to measure the options is appropriately designed and is generally suitable for calculating the fair values of the options in accordance with the IFRSs and for reflecting the current market level with respect to the underlying assumptions. We were able to satisfy ourselves that the presentation and accounting treatment of the joint venture, including the land purchase option, was documented in a comprehensible manner and that the effects recognized were correctly determined.

3. The Company's disclosures relating to the joint venture's land purchase option and to the joint venture itself are contained in sections B.B, C., E.1.4, E.1.5 and G.2 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the disclosures marked as unaudited in the section „Opportunities and risks „ section of the group management report that are marked as an unaudited and constitute a part of the group management report not subject to a substantive audit.

The other information comprises

— the statement on corporate governance pursuant to § 289f HGB and § 315d HGB

— all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

— is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

The executive directors and the supervisory board are further responsible for the preparation of the remuneration report, including the related disclosures, which is included in a separate section of the group management report and complies with the requirements of § 162 AktG. They are also responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

— Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

— Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

— Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

— Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

— Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

ASSURANCE OPINION

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file DEMIRE _AG_KAuLB_ESEF-2022-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2022 contained in the „Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

BASIS FOR THE ASSURANCE OPINION

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the „Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

GROUP AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

— Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

— Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

— Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.

— Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.

— Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 18 May 2022. We were engaged by the supervisory board on 11 November 2022. We have been the group auditor of the DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Reference to an other matter – Use of the auditor's report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dr. Frederik Mielke.

Berlin, 15 March 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr Frederik Mielke	p.p. Julian Fersch
Auditor	Auditor

SHAREHOLDINGS

Schedule of shareholdings pursuant to Section 313 (2) HGB

Company	Share in capital in %	Equity 31/12/2022 in EUR	2022 net profit in EUR
GERMANY			
DEMIRE Apolda Wurzen GmbH, Frankfurt am Main	94.90	1,713,362.10	–174,931.34
DEMIRE HB HZ B HST GmbH, Frankfurt am Main	94.90	13,551,403.95	1,545,918.45
DEMIRE Leipzig Am alten Flughafen 1 GmbH, Frankfurt am Main	94.90	3,282,959.28	0.00
Panacea Property GmbH, Berlin [1]	51.00	2,778.77	–3,342.37
Fair Value REIT-AG, Frankfurt am Main	84.35	87,111,877.40	1,619,583.11
IC Fonds & Co. SchmidtBank-Passage KG, Langen (Hesse) [2]	48.00	6,988,498.03	90,960.03
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich [2]	43.99	15,175,878.64	2,811,247.71
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich [2]	50.72	7,404,279.09	1,036,885.05
GP Value Management GmbH, Frankfurt am Main	84.35	69,128.72	32,761.17
BBV 10 Geschäftsführungs-GmbH & Co. KG, Langen (Hesse)	84.35	25,000.00	0.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Langen (Hesse)	84.35	25,000.00	0.00
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich [2]	45.19	8,656,461.65	1,693,784.31
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich [2]	41.07	13,734,895.27	829,969.09
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt am Main	100.00	8,750,356.15	0.00
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main	100.00	100.00	0.00
DEMIRE Holding II GmbH, Frankfurt am Main	100.00	43,611,224.37	21,169.85
DEMIRE Meckenheim Merl GmbH, Frankfurt am Main	100.00	10,171,667.71	0.00
Schwerin Margaretenhof 18 GmbH, Frankfurt am Main	94.90	421,062.88	255,701.15
DEMIRE Holding III GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Worms Liebenauer Straße GmbH, Frankfurt am Main	100.00	331,754.47	48,903.54
DEMIRE Schwerin Am Margaretenhof 22–24,Frankfurt am Main	94.00	656,273.97	178,415.04

Company	Share in capital in %	Equity 31/12/2022 in EUR	2022 net profit in EUR
GERMANY			
DEMIRE Holding IV GmbH, Frankfurt am Main	100.00	78,301.00	0.00
DEMIRE Holding V GmbH, Frankfurt am Main	100.00	53,300.00	0.00
DEMIRE Holding VI GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Holding VII GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Holding VIII GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Eschborn Frankfurter Straße GmbH, Frankfurt am Main	94.00	1,562,759.41	832,678.71
DEMIRE Bad Kreuznach Brückes Hochstr. GmbH, Frankfurt am Main	94.00	75,376.69	0.00
DEMIRE Holding IX GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Düsseldorf Wiesenstraße 70 GmbH, Frankfurt am Main	94.00	1,149,633.15	668,746.25
DEMIRE Bad Oeynhausen Dr. Neuhäußer Straße 4 GmbH, Frankfurt am Main	94.00	37,528.89	0.00
DEMIRE Lichtenfels Bamberger Straße 20 GmbH, Frankfurt am Main	94.00	206,863.96	0.00
DEMIRE Holding I GmbH, Frankfurt am Main	100.00	471,403.20	145,032.97
DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf	47.50	2,000.00	0.00
G+Q Effizienz GmbH, Berlin	49.00	535,992.81	55,835.90
DEMIRE Kassel Kölnische Str. Mauerstr. Spohrstr. GmbH, Frankfurt am Main	94.90	888,575.24	0.00
DEMIRE Betriebsvorrichtungen Nr. 2 GmbH, Frankfurt am Main	100.00	263,884.04	92,419.76
DEMIRE Limbach Oberfrohna Moritzstraße 13 GmbH, Frankfurt am Main	94.00	25,000.00	0.00
DEMIRE Betriebsvorrichtungen Nr. 1 GmbH, Frankfurt am Main	100.00	–273,390.16	–33,041.35
DEMIRE Holding XI GmbH, Frankfurt am Main	100.00	18,980.41	0.00
DEMIRE Holding X GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Holding XII GmbH, Frankfurt am Main	100.00	–8,610,357.08	–641,617.65
DEMIRE Holding XIII GmbH, Frankfurt am Main	100.00	–20,666.66	–71,331.44
DEMIRE AN BN R PM FR FL GmbH, Frankfurt am Main	94.90	39,400,967.78	0.00
DEMIRE Ulm Bahnhofplatz Olgastr. Zeitblomstr. GmbH, Frankfurt am Main	94.00	–17,141,538.42	616,266.88
DEMIRE Kempten Bahnhofstr. Hirschstr. Alpenstr. GmbH, Frankfurt am Main	94.00	–3,496,603.94	129,271.83
DEMIRE Köln Max-Glomsda-Straße 4 GmbH, Frankfurt am Main	100.00	297,439.02	197,076.99
DEMIRE Bad Vilbel Konrad Adenauer Allee 1–11 GmbH, Frankfurt am Main	100.00	–2,291,003.67	557,879.27
DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH, Frankfurt am Main	100.00	–3,059,225.69	–3,568,301.22

Company	Share in capital in %	Equity 31/12/2022 in EUR	2022 net profit in EUR
GERMANY			
DEMIRE Aschheim Max-Planckstraße GmbH, Frankfurt am Main	100.00	–1,843,855.15	–431,827.59
DEMIRE Neuss Breslauer Straße GmbH, Frankfurt am Main	100.00	2,040,585.46	633,788.61
DEMIRE Frankfurt Gutleutstraße 85 GmbH, Frankfurt am Main	100.00	–5,939,951.61	–3,576,151.53
DEMIRE Trier Simeonstraße 46 GmbH, Frankfurt am Main	89.90	–3,834,596.33	–3,610,797.79
DEMIRE Ankauf 8 GmbH, Frankfurt am Main	100.00	–35,742.40	–12,453.67
DEMIRE Ankauf 9 GmbH, Frankfurt am Main	100.00	–38,558.70	–12,458.87
DEMIRE Ankauf 10 GmbH, Frankfurt am Main	100.00	–36,965.34	–12,456.74
DEMIRE Trier Celle GmbH, Frankfurt am Main	94.90	–11,384,329.49	–2,750,571.72
DEMIRE Goslar, Rosentorstraße 1 GmbH, Frankfurt am Main	94.90	379,220.27	210,903.61
DEMIRE Memmingen, Königsgraben 3 GmbH, Frankfurt am Main	94.90	54,478.99	225,453.73
DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main	94.90	397,893.25	387,141.89
DEMIRE BT HB DO H CLZ KS KO GmbH, Frankfurt am Main	94.00	–2,521,747.07	116,172.84
DEMIRE Darmstadt Artillerie Str. 9 GmbH, Frankfurt am Main	94.00	107,528.85	343,418.97
DEMIRE Leonberg Neue Ramtelstraße GmbH, Frankfurt am Main	94.00	–1,765,302.36	–51,130.54
DEMIRE Ludwigsburg Uhlandstraße 21 GmbH, Frankfurt am Main	94.00	–1,469,084.49	1,836,579.84
DEMIRE GO HB GmbH, Frankfurt am Main	94.00	634,080.26	13,489.03
Cielo BVO GmbH, Frankfurt am Main	100.00	138,878.18	–91,825.15
JV Theodor-Heuss-Allee GmbH, Frankfurt am Main	49.50	1,920,037.94	1,493,513.42
DEMIRE Bayreuth Nürnberger Straße 38 GmbH, frankfurt am Main (formaly DENSTON INVESTMENTS LIMITED, Nicosia) [3]	94.00	–2,791,334.99	–252,651.34
SWITZERLAND			
Sihlegg Investments Holding GmbH, Zug	94.0	–2,101,337.97	189,169.18

[1] Not fully consolidated due to its insignificance for the Group
[2] Fully consolidated because de facto control is exercised through quorum majority at the shareholder meeting
[3] Since 2022 in Germany

DISCLOSURES ON REAL ESTATE VALUATION

Appendix 1 to the consolidated financial statements

	31/12/2022	31/12/2021
Average market rent (in EUR per m² per year)	111.55	101.04
Range of market rents (in EUR per m² per year)	47,87–301,61	39,96–301,61
Lettable space as at reporting date (in m²)	753.33	912,724
Vacant space as at reporting date (in m²)	73.609	102,507.55
Value-based vacancy rate according to EPRA (in %)	9.50	10.97
Average vacancy rate based on lettable space (in %)	10.04	11.49
Range of vacancy rates based on lettable space (in %)	0,00–71,1	0,00–56,2
Weighted average lease term – WALT (in years)	4.79	4.69

The year-on-year reduction in total lettable space resulted from the disposal of the properties in Ansbach (12,610 m²), Cologne, Marconistr. (9,640m²), Garbsen (687m²), Barmstedt (1,257m²), Regensburg (29,219m²), Bad Bramstedt (997m²) and Potsdam (3,751m²).

In addition, both of the project development properties in Trier (total space 11,267 m²) and Cologne, Colonia Allee 11 (total space 9,108 m²) were not incorporated into the vacant space calculation. The departure of a key tenant in Essen in Q4 2021 (approximately 11,623 m² in space) resulted in a further increase in the level of vacancies.

The basis for rental income planning is the rental payments contractually agreed with the tenants as well as prevailing customary local market rents for unleased space on the valuation date. The contractually agreed monthly rents per m² on the valuation date for the various types of use are shown in the following table:

CONTRACTUAL RENTS

in EUR per m² per month		2022	2021
	Min.	5.29	3.57
	Max.	21.76	20.54
Office	Avg.	9.57	8.92
	Min.	4.68	4.00
	Max.	19.61	21.72
Retail	Avg.	10.11	9.77
	Min.	4.58	3.26
	Max.	26.72	25.71
Other	Avg.	11.11	4.30
	Min.	**4.58**	**3.26**
	Max.	**26.72**	**25.71**
Total	**Avg.**	**9.78**	**8.22**

SENSITIVITY ANALYSIS OF REAL ESTATE VALUATION AS AT 31 DECEMBER 2022

Appendix 2 to the consolidated financial statements

in EUR

Discount Rate						Capitalisation rate
	+ 0.50%	in %	± 0.00%	in %	– 0.50%	in %
TOTAL						
+ 0.50%	–125,320	–10	–50,240	–4	41,590	3
± 0.00%	–78,660	–7	0	0	96,400	8
– 0.50%	–29,760	–2	53,110	4	154,000	13
OFFICE						
+ 0.50%	–87,090	–11	–34,420	–4	30,220	4
± 0.00%	–55,050	–7	0	0	68,050	8
– 0.50%	–21,430	–3	36,680	4	107,940	13
RETAIL						
+ 0.50%	–31,790	–10	–13,180	–4	9,140	3
± 0.00%	–19,490	–6	0	0	23,360	7
– 0.50%	–6,770	–2	13,660	4	38,080	12

in EUR

Discount Rate						Capitalisation rate
	+ 0.50%	in %	± 0.00%	in %	– 0.50%	in %
LOGISTICS						
+ 0.50%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
± 0.00%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
– 0.50%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
OTHER						
+ 0.50%	–6,440	–10	–2,640	–4	2,230	3
± 0.00%	–4,120	–6	0	0	4,990	7
– 0.50%	–1,560	–2	2,770	4	7,980	12

A difference in the market rent led to the following changes:

Market Rent	Value	Absolute Delta	Relative Delta
TOTAL			
– 10%	1,082,730,000	–126,070,000	–10
– 5%	1,146,090,000	–62,710,000	–5
± 0%	1,208,800,000	0	0
+ 5%	1,272,300,000	63,500,000	5
+ 10%	1,335,380,000	126,580,000	10
OFFICE			
– 10%	736,260,000	–84,880,000	–10
– 5%	778,920,000	–42,220,000	–5
± 0%	821,140,000	0	0
+ 5%	864,000,000	42,860,000	5
+ 10%	906,740,000	85,600,000	10
RETAIL			
– 10%	284,030,000	–36,090,000	–11
– 5%	302,180,000	–17,940,000	–6
± 0%	320,120,000	0	0
+ 5%	338,210,000	18,090,000	6
+ 10%	356,100,000	35,980,000	11

Market Rent	Value	Absolute Delta	Relative Delta
LOGISTICS			
– 10%	n.a.	n.a.	n.a.
– 5%	n.a.	n.a.	n.a.
± 0%	n.a.	n.a.	n.a.
+ 5%	n.a.	n.a.	n.a.
+ 10%	n.a.	n.a.	n.a.
OTHER			
– 10%	62,440,000	–5,100,000	–8
– 5%	64,990,000	–2,550,000	–4
± 0%	67,540,000	0	0
+ 5%	70,090,000	2,550,000	4
+ 10%	72,540,000	5,000,000	7

AS AT 31 DECEMBER 2021

in EUR						
Discount Rate						Capitalisation rate
	+ 0.50%	in %	± 0.00%	in %	– 0.50%	in %
TOTAL						
+ 0.50%	–144,860,000	–10	–54,970,000	–4	49,490,000	4
± 0.00%	–91,570,000	–6	–	–	112,320,000	8
– 0.50%	–35,740,000	–3	62,950,000	4	11,100,202	13
OFFICE						
+ 0.50%	–83,850,000	–10	–33,670,000	–4	27,530,000	3
± 0.00%	–52,640,000	–6	–	–	64,160,000	8
– 0.50%	–20,040,000	–2	35,350,000	4	102,510,000	12
RETAIL						
+ 0.50%	–33,960,000	–10	–14,370,000	–4	8,930,000	3
± 0.00%	–20,150,000	–6	–	–	24,460,000	7
– 0.50%	–6,330,000	–2	15,000,000	4	40,620,000	11
LOGISTICS						
+ 0.50%	–19,300,000	–14	–6,800,000	–5	9,300,000	7
± 0.00%	–13,200,000	–9	–	–	16,900,000	12
– 0.50%	–6,700,000	–5	7,100,000	5	24,900,000	18
OTHER						
+ 0.50%	–7,750,000	–11	–130,000	- 0	3,730,000	6
± 0.00%	–5,220,000	–8	–	–	6,800,000	10
– 0.50%	–2,670,000	–4	5,500,000	8	9,890,000	15

Market Rent	Value	Absolute Delta	Relative Delta
TOTAL			
– 10%	1,268,740,000	–141,200,000	–10
– 5%	1,339,390,000	–70,550,000	–5
± 0%	1,409,940,000	–	–
+ 5%	1,480,210,000	70,270,000	5
+ 10%	1,550,570,000	140,630,000	10
OFFICE			
– 10%	761,840,000	–81,900,000	–10
– 5%	802,990,000	–40,750,000	–5
± 0%	843,740,000	–	–
+ 5%	884,700,000	40,960,000	5
+ 10%	925,350,000	81,610,000	10
RETAIL			
– 10%	320,090,000	–37,050,000	–10
– 5%	338,460,000	–18,680,000	–5
± 0%	357,140,000	–	–
+ 5%	375,320,000	18,180,000	5
+ 10%	393,900,000	36,760,000	10

Market Rent	Value	Absolute Delta	Relative Delta
LOGISTICS			
– 10%	125,100,000	–16,500,000	–12
– 5%	133,300,000	–8,300,000	–6
± 0%	141,600,000	–	–
+ 5%	149,800,000	8,200,000	6
+ 10%	158,100,000	16,500,000	12
OTHER			
– 10%	61,710,000	–5,750,000	–9
– 5%	64,640,000	–2,820,000	–4
± 0%	67,460,000	–	–
+ 5%	70,390,000	2,930,000	4
+ 10%	73,220,000	5,760,000	9

STATEMENT OF FIXED ASSETS

Appendix 3 to the consolidated financial statements

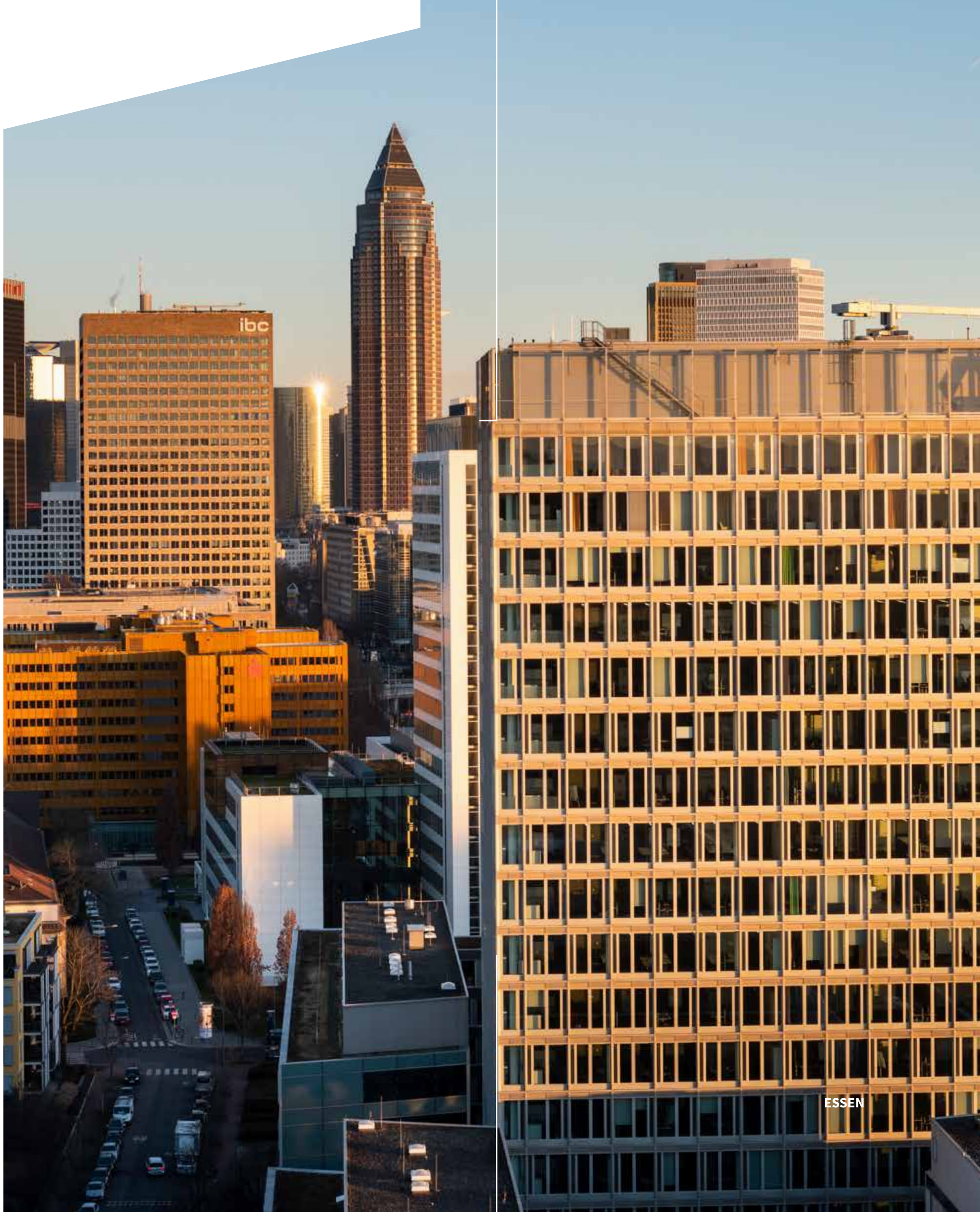
	Goodwill		Other intangible assets		Operating and office equipment		Technical equipment		Prepayments	
in EUR thousand	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Acquisition costs at the beginning of the financial year	7,246	7,246	126	223	1,214	1,150	1	1	–	–
Accumulated depreciation/ amortisation/impairment as at the beginning of the financial year	463	463	126	126	986	847	1	1	–	–
Carrying amounts as at the beginning of the financial year	6,783	6,783	–	97	228	303	–	–	–	–
Additions	–	–	–	–	33	64	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–	–
Disposals	–	–	–	97	51	–	1	–	–	–
Depreciation/amortisation	6,783	–	–	–	46	139	–1	–	–	–
Acquisition costs at the end of the financial year	7,246	7,246	126	126	1,196	1,214	–	1	–	–
Accumulated depreciation/ amortisation/impairment as at the end of the financial year	7,246	463	126	126	1,032	986	–	1	–	–
Carrying amounts as at the end of the financial year	–	6,783	–	–	164	228	–	–	–	–

FUNDAMENTAL COMPANY DATA

Appendix 4 to the consolidated financial statements

Name of the reporting company	DEMIRE Deutsche Mittelstand Real Estate AG
Company's registered office	Frankfurt am Main
Company's legal form	German stock corporation (AG)
Country in which the company is registered as a legal entity	Germany
Address of the registered office	Robert-Bosch-Straße 11 in Langen
Headquarters	Germany
Description of nature of business activity	Property portfolio holder and investor focused on acquiring and managing commercial real estate in secondary locations
Name of the parent company	AEPF III 15 S. à r. l. Luxembourg
Name of the ultimate parent company of the group of companies	Apollo Global Management, Inc. (Delaware NYSE Listed)

FURTHER DISCLOSURES



EPRA DISCLOSURES

General overview

DEMIRE AG supplements its reporting in accordance with International Financial Reporting Standards (IFRS) with the best practice recommendations of the European Public Real Estate Association (EPRA).

We report the following key figures: EPRA Net Reinstatement Value (EPRA NRV), EPRA Net Tangible Assets (EPRA NTA), EPRA Net Disposals Value (EPRA NDV), EPRA Net Initial Yield (EPRA NIY or "Topped-Up" NIY), EPRA Cost Ratios, EPRA Earnings and EPRA LTV. We also supplement the key figures with a breakdown of capital expenditure and a detailed overview of like-for-like rental development in the DEMIRE portfolio.

OVERVIEW OF EPRA KEY FIGURES

in EUR thousand	31/12/2022	31/12/2021
EPRA Net Asset Value (EPRA NAV)	526,783	629,486
EPRA Triple Net Asset Value (EPRA-NNNAV)	566,456	545,649
EPRA Net Reinstatement Value (EPRA-NRV)	607,221	740,668
EPRA Net Tangible Assets (EPRA-NTA)	484,794	590,970
EPRA Net Disposal Value (EPRA-NDV)	541,090	545,266
EPRA Net Initial Yield (in %)	5.3	4.6
EPRA "topped-up" Net Initial Yield (in %)	5.4	4.6
EPRA Vacancy Rate[1] (in %)	9.5	11.0
EPRA Loan-to-Value (EPRA LTV) (in %)	65.9	61.3

	2022	2021
EPRA Earnings	26,014	29,421
EPRA Cost Ratio including direct vacancy costs (in %)	36.0	34.5
EPRA Cost Ratio excluding direct vacancy costs (in %)	31.6	29.7

[1] Excluding properties held for sale and project developments

EPRA NAV & EPRA NNNAV

The **EPRA Net Asset Value** (EPRA NAV) indicates the intrinsic value of a real estate company. The value is calculated on the basis of the Group equity (before minority interests) adjusted for effects from the exercise of options, convertible bonds and other rights to equity as well as the market values of derivative financial instruments and deferred taxes, i.e. adjusted for items that have no influence on the long-term development of the Group.

EPRA NET ASSET VALUE (EPRA NAV)

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Net asset value (NAV) in the reporting period	450,226	549,023	–98,797	–18.0
Market value of derivative financial instruments	0	0	0	0.0
Deferred taxes	76,047	84,692	–8,644	–10.2
Goodwill resulting from deferred taxes	0	–4,738	4,738	–100.0
Basic EPRA NAV	**526,273**	**628,977**	**–102,704**	**–16.3**
Number of outstanding shares (basic) (in thousands)	105,513	105,513	–0	–0.0
Basic EPRA NAV per share	**4.99**	**5.96**	**–0.97**	**–16.3**
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0
Diluted EPRA NAV	**526,783**	**629,487**	**–102,704**	**–16.3**
Number of shares outstanding (diluted) (in thousands)	106,023	106,023	–0	–0.0
Diluted EPRA NAV per share	**4.97**	**5.94**	**–0.97**	**–16.3**

EPRA NET ASSET VALUE (NAV/EPRA NNNAV)

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Net Asset Value (NAV)	450,226	549,023	–98,797	–18.0
Market value of derivative financial instruments	0	0	0	0.0
Deferred taxes	76,047	84,692	–8,644	–10.2
Goodwill resulting from deferred taxes	0	–4,738	4,738	–100.0
EPRA NAV (basic)	**526,273**	**628,977**	**–102,704**	**–16.3**
Number of outstanding shares (basic) (in thousands)	105,513	105,513	–0	–0.0
EPRA NAV per share (basic) (in EUR)	4.99	5.96	–0.97	–16.3
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0
EPRA NAV (diluted)	526,783	629,487	–102,704	–16.3
Number of outstanding shares (diluted) (in thousands)	106,023	106,023	–0	–0.0
EPRA NAV per share (basic) (in EUR)	**4.97**	**5.94**	**–0.97**	**–16.3**
Market value of derivative financial instruments	0	0	0	0.0
Market value adjustments in liabilities (bonds)	162,483	1,199	161,284	>100
Deferred taxes	–122,810	–85,037	–37,774	44.4
EPRA NNNAV (diluted)	**566,456**	**545,649**	**20,807**	**3.8**
EPRA NNNAV per share (diluted) (in EUR)	**5.34**	**5.15**	**0.19**	**3.8**

EPRA NRV, EPRA NTA, EPRA NDV

The **EPRA Net Tangible Assets** (EPRA NTA) indicator represents the intrinsic value of a company adjusted by the pro-rata deferred taxes on fair-value adjustments of investment properties, the fair value of financial instruments and all intangible assets.

The **EPRA Net Disposal Value** (EPRA NDV) indicator represents the intrinsic value of a company adjusted by the full deferred taxes on fair-value adjustments, the recognised goodwill and the market value adjustment of fixed-interest liabilities.

The **EPRA Net Reinstatement Value** (EPRA NRV) indicator represents the intrinsic value of a company adjusted for fair-value adjustments and the fair value of financial instruments.

NEW REPORTING STANDARD (EPRA NAV)

	31/12/2022			31/12/2021		
in EUR thousand	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NTA	EPRA NDV
IFRS shareholders' equity	452,701	452,701	452,701	549,023	549,023	549,023
Plus:						
I. Hybrid financial instruments	0	0	0	2,173	2,173	2,173
Diluted NAV	**450,226**	**450,226**	**450,226**	**551,196**	**551,196**	**551,196**
plus:[1]						
II. a) Revaluation of IP (when applying the IAS 40 cost option)	0	0	0	0	0	0
II. b) Revaluation of IPUC (when applying the IAS 40 cost option)	0	0	0	0	0	0
II. c) Revaluation of other assets	0	0	0	0	0	0
III. Revaluation of leases held as finance leases	0	0	0	0	0	0
IV. Revaluation of real estate inventory	0	0	0	0	0	0

NEW REPORTING STANDARD (EPRA NAV)

in EUR thousand	31/12/2022 EPRA NRV	31/12/2022 EPRA NTA	31/12/2022 EPRA NDV	31/12/2021 EPRA NRV	31/12/2021 EPRA NTA	31/12/2021 EPRA NDV
Diluted NAV at market value	**452,701**	**452,701**	**452,701**	**551,196**	**551,196**	**551,196**
less:[1]						
V. Deferred taxes on valuation gains from investment properties	84,797	42,399	x	93,116	46,558	x
VI. Market value of derivative financial instruments	–7,830	–7,830	x	0	0	x
VII. Goodwill as a result of deferred taxes	0	0	0	–4,738	–4,738	–4,738
VIII. a) Goodwill according to IFRS balance sheet	x	0	0	x	–2,045	–2,045
VIII. b) Intangible assets according to IFRS balance sheet	x	–0	x	x	–0	x
plus:[2]						
IX. Market value of fixed-interest liabilities (bonds)	x	x	90,864	x	x	854
X. Revaluation of intangible assets at fair value (optional)	0	x	x	0	x	x
XI. Land transfer tax/ acquisition costs	80,028	0	x	101,094	0	x
NAV	**607,221**	**484,794**	**541,090**	**740,668**	**590,970**	**545,266**
Number of shares (fully diluted)	106,023	106,023	106,023	106,023	106,023	106,023
NAV per share	**5.73**	**4.57**	**5.10**	**6.99**	**5.57**	**5.14**

[1] Plus = assets (+) liabilities (–), whether on or off the balance sheet
[2] Less = assets (–); liabilities (+) (part of balance sheet)

EPRA Net Initial Yield

The **EPRA Net Initial Yield** (EPRA NIY) indicator is the annualised contractual rent in relation to the fair value of the completed property portfolio plus an investor's estimated ancillary acquisition costs.

The EPRA Net Initial Yield compares the annualised rental income (excluding non-allocable property expenses) with the market value of the property portfolio as at the balance sheet date. The "topped-up" calculation includes hypothetical rents for expiring rent-free periods.

EPRA NET INITIAL YIELD/TOPPED-UP (EPRA NIY)

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Investment property	1,231,072	1,433,096	–202,024	–14.1
Shares in companies accounted for using the equity method	385	1,025	–640	–62.4
Real estate held for sale	121,000	0	121,000	–
Real estate portfolio (net)	**1,352,457**	**1,434,121**	**–81,664**	**–5.7**
Estimated ancillary acquisition costs	67,623	71,706	–4,083	–5.7
Real estate portfolio (gross)	**1,420,080**	**1,505,828**	**–85,748**	**–5.7**
Annualised cash rental income	84,120	77,688	6,432	8.3
Non-allocable real estate operating costs[1]	–8,412	–9,110	698	–7.7
Annualised net cash rental income	**75,709**	**68,578**	**7,131**	**10.4**
Rent-free periods	1,026	400	626	>100
Annualised "topped-up" net rental income	**76,735**	**68,978**	**7,757**	**11.2**
EPRA Net Initial Yield (in %)	**5.3**	**4.6**	**70 bp**	**15.2**
EPRA "topped-up" Net Initial Yield (in %)	**5.4**	**4.6**	**80 bp**	**17.4**

[1] Adjusted for a one-off effect from penalties in connection with the termination of leases (EUR 2,514 thousand)

EPRA Earnings

The **EPRA Earnings** reflect the recurring earnings from the core operating business. The EPRA Earnings are adjusted in particular for valuation effects, deferred taxes and the sales earnings from the consolidated result.

EPRA EARNINGS

in EUR thousand	2022	2021	Change	in %
Net profit/loss for the period	–71,502	61,587	–133,090	>100
Profit/loss from fair-value adjustments of investment properties	98,878	–48,777	147,655	>100
Profit/loss from the sale of real estate and real estate companies	8,164	–1,441	9,605	>100
Profit/loss from companies accounted for using the equity method	2,948	–1,084	4,032	>100
Profit/loss from the sale of real estate inventory	0	0	0	0.0
Taxes on sales earnings	1,081	4,106	–3,025	–73.7
Goodwill impairment	6,783	0	6,783	–
Valuation result of financial instruments	0	0	0	0.0
Acquisition costs for share deals and for shares in non-controlling joint ventures	0	0	0	0.0
Deferred taxes on EPRA adjustments	–8,644	12,564	–21,208	>100
Non-controlling interests	–11,693	2,466	–14,159	>100
EPRA Earnings	**26,014**	**29,421**	**–3,407**	**–11.6**
Number of outstanding shares (basic)	105,513	105,513	–0	–0.0
EPRA earnings per share (EPS basic)	0.25	0.28	–0.03	–11.9
Number of outstanding shares (diluted)	106,023	106,023	–0	–0.0
EPRA earnings per share (EPS diluted)	0.25	0.28	–0.03	–12.4

EPRA Cost Ratio

As a ratio of EPRA costs to gross rental income, the **EPRA Cost Ratio** provides a statement on the cost efficiency of a real estate company – once including and once excluding direct vacancy costs.

General administrative expenses (overhead costs) are generally not capitalised. In the reporting year, agent's commission of EUR 1,003 thousand and rent incentives of EUR 3,376 thousand were capitalised.

EPRA COST RATIO

in EUR thousand	2022	2021	Change	in %
Administrative and operational costs according to IFRS	**30,911**	**28,250**	**2,661**	**9.4**
General and administrative expenses	10,772	11,157	–385	–3.5
Other operating expenses[1]	1,210	1,950	–740	–38.0
Operating expenses to generate rental income	48,221	35,350	12,871	36.4
Income from utility and service charges	–29,291	–20,206	–9,085	45.0
Amortisation and depreciation	99	140	–41	–28.9
EPRA costs (including vacancy costs)	**31,010**	**28,390**	**2,620**	**9.2**
Direct vacancy costs	–3,817	–3,908	91	–2.3
EPRA costs (excluding vacancy costs)	**27,193**	**24,481**	**2,712**	**11.1**
Rental income	86,153	82,325	3,828	4.6
EPRA Cost Ratio (including vacancy costs) (in %)	**36.0**	**34.5**	**150 bp**	**4.3**
EPRA Cost Ratio (excluding vacancy costs) (in %)	**31.6**	**29.7**	**190 bp**	**6.4**

[1] Adjusted for one-off effects from the impairment of goodwill (EUR 6,783 thousand) and from the amortisation of rental incentives (EUR 8,490 thousand)

EPRA Capital Expenditure

The acquisition of the joint venture in 2021 relates to the purchase of a property in Frankfurt am Main.

The investments under "Core Portfolio" in 2021 and 2022 mainly relate to value-enhancing conversion and expansion measures at various properties in our portfolios. Interest is generally not capitalised.

EPRA CAPITAL EXPENDITURE ANALYSE

	2022		
in EUR thousand	DEMIRE Portfolio	Joint Venture	Total
Acquisitions	0	0	0
Development portfolio [1]	0	0	0
Core Portfolio [2]	28,965	0	28,965
Incremental letting space	17,102	0	17,102
No incremental letting space	11,863	0	11,863
Building cost subsidies	3,376	0	3,376

	2021		
in EUR thousand	DEMIRE Portfolio	Joint Venture	Total
Acquisitions	0	164,441	164,441
Development portfolio [1]	0	0	0
Core Portfolio [2]	23,725	0	23,725
Incremental letting space	4,624	0	4,624
No incremental letting space	19,101	0	19,101
Building cost subsidies	5,258	0	5,258

[1] DEMIRE AG does not engage in real estate development
[2] No capitalised interest

EPRA Vacancy Rate

The **EPRA Vacancy Rate** is the ratio of market rent for vacant space to the market rent for the total space in the portfolio (as at the balance sheet date).

EPRA VACANCY RATE[1]

in EUR thousand	31/12/2022	31/12/2021	Change	in %
Estimated market rent for vacancies	8,012	9,761	–1,748	–17.9
Estimated market rent for total portfolio	84,317	89,018	–4,702	–5.3
EPRA Vacancy Rate (in %)	9.5	11.0	–150 bp	–12.9

[1] Excluding properties held for sale and project developments

The year-on-year drop in the EPRA Vacancy Rate as at 31 December 2022 is due, in particular, to new lettings in Freiburg, Düsseldorf and Flensburg and the properties in Kassel and Bad Vilbel.

EPRA like-for-like rental growth

Like-for-like rental income is rental income from properties in a portfolio that have been held continuously within two comparison periods. Changes from portfolio additions and disposals are therefore not included. In a comparison of the periods, the organic component of the change in rental income from letting activities becomes particularly clear.

LIKE-FOR-LIKE GROWTH 31/12/2022

	Total portfolio		Like-for-like portfolio				
			31/12/2022		31/12/2021	in EUR million	in %
in EUR million	Market value	Annualised contractual rents	Market value	Annualised contractual rents	Annualised contractual rents	LFL growth	LFL growth
Office	821.1	50.3	821.1	50.3	46.4	3.9	8.4
Retail	320.1	24.5	320.1	24.5	22.8	1.7	7.3
Logistics&Other	188.5	10.4	188.5	10.4	8.0	2.3	28.9
Total	**1,329.8**	**85.1**	**1,329.8**	**85.1**	**77.3**	**7.9**	**10.2**

LIKE-FOR-LIKE GROWTH 31/12/2021

	Total portfolio		Like-for-like portfolio				
				31/12/2021	31/12/2020	in EUR million	in %
in EUR million	Market value	Annualised contractual rents	Market value	Annualised contractual rents	Annualised contractual rents	LFL growth	LFL growth
Office	843.7	47.2	843.7	47.2	48.2	–1.0	–2.0
Retail	357.1	22.8	357.1	22.8	23.1	–0.2	–1.0
Logistics&Other	211.6	8.0	211.6	8.0	8.0	0.1	0.7
Total	**1,412.5**	**78.1**	**1,412.5**	**78.1**	**79.2**	**–1.1**	**–1.4**

EPRA-Loan-to-Value

The **EPRA Loan-to-Value** (EPRA-LTV) is the ratio of net financial liabilities to the value of the assets, as defined by EPRA.

EPRA LOAN TO VALUE (EPRA LTV) 31/12/2022

in EUR thousand	Group EPRA LTV before proportionate consolidation	Proportionate consolidation: Share of joint ventures	Proportionate consolidation: Share of material associates	Proportionate consolidation: Non-controlling interests (NCI)	Combined
Net debt					
Include:					
Borrowings from financial institutions	282,661	79,954	0	–11,485	351,131
Commercial paper	0	0	0	0	0
Hybrids (including convertibles, preference shares, debt, options, perpetuals)	0	0	0	0	0
Bond loans	546,394	0	0	0	546,394
Foreign currency derivates (futures, swaps, options and forwards)	0	0	0	0	0
Net payables	101,428	59,204	0	0	160,632
Owner-occupied property (debt)	0	0	0	0	0
Current accounts (Equity characteristic)	0	0	0	0	0
Exclude:					
Cash and cash equivalents	–57,415	–1,472	0	3,606	–55,282
Net debt (a)	**873,068**	**137,686**	**0**	**–7,879**	**1,002,875**

EPRA LOAN TO VALUE (EPRA LTV) 31/12/2022

		Proportionate consolidation			
in EUR thousand	Group EPRA LTV before proportionate consolidation	Share of joint ventures	Share of material associates	Non-controlling interests (NCI)	Combined
Investment property portfolio and other eligible assets					
Owner-occupied property	0	0	0	0	0
Investment properties at fair value	1,231,072	128,296	0	–45,036	1,314,332
Properties held for sale	121,000	0	0	0	121,000
Properties under development	0	0	0	0	0
Intangibles	0	0	0	0	0
Net receivables	0	0	0	–54	–54
Financial assets	87,502	0	0	0	87,502
Loans to companies accounted for using the equity method	24,752	0	0	0	0
Loans and financial assets	62,750	0	0	0	0
Total property portfolio and other eligible assets (b)	**1,439,574**	**128,296**	**0**	**–45,090**	**1,522,779**
LTV (a/b) (in %)	**60.6**	**107.3**	**0.0**	**17.5**	**65.9**

EPRA LOAN TO VALUE (EPRA LTV) 31/12/2021

		Proportionate consolidation			
in EUR thousand	Group EPRA LTV before proportionate consolidation	Share of joint ventures	Share of material associates	Non-controlling interests (NCI)	Combined
Net debt					
Include:					
Borrowings from financial institutions	346,143	82,194	0	–12,025	416,312
Commercial paper	0	0	0	0	0
Hybrids (including convertibles, preference shares, debt, options, perpetuals)	0	0	0	0	0
Bond loans	544,371	0	0	0	544,371
Foreign currency derivates (futures, swaps, options and forwards)	0	0	0	0	0
Net payables	105,763	59,184	0	0	164,947
Owner-occupied property (debt)	0	0	0	0	0
Current accounts (Equity characteristic)	0	0	0	0	0
Exclude:					
Cash and cash equivalents	–139,619	–903	0	4,497	–136,025

EPRA LOAN TO VALUE (EPRA LTV) 31/12/2021

		Proportionate consolidation			
in EUR thousand	Group EPRA LTV before proportionate consolidation	Share of joint ventures	Share of material associates	Non-controlling interests (NCI)	Combined
Net debt (a)	**856,658**	**140,475**	**0**	**–7,527**	**989,606**
Investment property portfolio and other eligible assets					
Owner-occupied property	0	0	0	0	0
Investment properties at fair value	1,433,096	136,315	0	–44,775	1,524,636
Properties held for sale	0	0	0	0	0
Properties under development	0	0	0	0	0
Intangibles	0	0	0	0	0
Net receivables	0	0	0	–1,066	–1,066
Financial assets	90,769	0	0	0	90,769
Loans to companies accounted for using the equity method	26,505	0	0	0	0
Loans and financial assets	64,264	0	0	0	0
Total property portfolio and other eligible assets (b)	**1,523,865**	**136,315**	**0**	**–45,840**	**1,614,340**
LTV (a/b) (in %)	**56.2**	**103.1**	**0.0**	**16.4**	**61.3**

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The Executive Board of
DEMIRE Deutsche Mittelstand Real Estate AG

PHOTOS
p. 32 Schrammen Architekten BDA
pp. 36, 38, 39, 40, 41, 42 iStockphoto

CONCEPT AND LAYOUT
Berichtsmanufaktur GmbH, Hamburg

PUBLICATION DATE
16 March 2023