DEMIRE

2021 MANAGEMENT REPORT AND ANNUAL FINANCIAL STATEMENTS

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GROUP PRINCIPLES

This 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 2021. 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 pursuant to Section 315e 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 of the Annual Report 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.

Efficient real estate management requires a specific understanding of the local markets along with an excellent network. International investors do not have both of these readily to hand, meaning therefore that they will typically avoid DEMIRE's preferred markets. The reluctance of opportunistic investors and the fact a region's medium-sized companies tend to be highly stable give these markets a particular level of price stability.

In principle, the Company focuses its portfolio on a mix of office, retail, hotel and logistics 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.

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.

In terms of expanding the portfolio, the Company is focused on strong assets that have potential. A favourable financing environment will also assist with these acquisitions in order to increase returns and reduce interest expenses.

Following the profitable sale of smaller, non-core properties, DEMIRE has a real estate portfolio of 64 properties with lettable space of around 1.0 million m² and a market valuation of around EUR 1.4 billion as at the reporting date. The Cielo office property in Frankfurt am Main, which was acquired in the period under review, 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. 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. **Acquisition** – Realising economies of scale through the continued purchase of properties 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** – Realising cost savings potential

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

In detail, these levers can be described as follows:

Acquisition
The aim within the next few years is to grow the portfolio value to more than EUR 2 billion. The Company’s focus in terms of the associated purchases is on regional centres, medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. Given the continuing high demand for real estate, returns can be achieved in locations strategic for DEMIRE that have an appropriate opportunity/risk ratio and at the same time offer potential for optimisation.

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 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.

Profit/loss from the rental of real estate amounted to EUR 67.2 million (previous year: EUR 70.2 million), representing a year-on-year fall of 4.3% owing to numerous property sales. Despite the announced growth target, the portfolio management team is continuing to systematically sell properties that are not in line with the strategy and boost the real estate portfolio by focusing on properties with strong FFO. As a result, 11 properties were able to be successfully sold in 2021.

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.

In the favourable interest and financing environment, DEMIRE is also focusing on the continuous optimisation of its financing structure. Optimisation can be achieved primarily by refinancing existing loans. The average nominal interest rate on debt was reduced by 5 basis points from 1.71% at the end of 2020 to 1.66% p.a. The reduction is due to various refinancing and restructuring measures carried out in the 2021 financial year.

Current administrative costs were reduced again in 2021, and the financial result reflects the full effect of the refinancing measures taken in 2020 along with income from the investment in the "Cielo" joint venture. Despite the positive result for the period and due to the distribution of a dividend once again, the net loan-to-value ratio increased to 49.7% compared to the end of 2020 (49.2%).

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 2021. A fundamental aspect of this was the reallocation of asset and property management services to FVR.

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 (NOI) of the properties 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 (page 61 in the consolidated financial statements).

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. During the period under review, the contracts with both executives were extended to the end of 2024.

The Executive Board is monitored by the Supervisory Board. It was made up of three members, whose positions were confirmed at the 2021 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. An Audit Committee was also constituted in November 2021, with Frank Hölzle as its Chairman.

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 2021, the portfolio comprised 64 commercial properties (previous year: 75) with total lettable floor space of around 912,724 m² (previous year: 989,050 m²).

The **market value** of the properties totalled EUR 1,412.5 million (previous year: EUR 1,441.5 million). Office properties accounted for the largest share of this portfolio in terms of market value, at around 60% (31 December 2020: 65%). Retail properties account for approximately 25% (31 December 2020: 25%). Around 15% of the portfolio is made up of logistics and other properties, including hotels (31 December 2020: 10%). The market value per square metre averages EUR 1,548 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 in %	Lettable space in thousand m²	Value per m²	Contractual rent in EUR million p.a.	Contractual rent per m²	Rental yield in %	EPRA Vacancy Rate* in %	WALT in years
Office	42	843.7	59.7	516.7	1,633	47.2	8.9	5.6	12.6	3.9
Retail	17	357.1	25.3	220.1	1,623	22.8	9.4	6.4	7.1	5.4
Logistics and others	5	211.6	15.0	176.0	1,202	8.0	4.3	3.8	12.0	7.3
Total 31 December 2021	**64**	**1,412.5**	**100**	**912.7**	**1,548**	**78.1**	**8.0**	**5.5**	**11.0**	**4.7**
Total 31 December 2020	**75**	**1,441.5**	**100**	**989.1**	**1,457**	**85.6**	**8.0**	**5.9**	**6.9**	**4.8**
Change (in units/%/bp)	–11	–2.0	–	–7.7	+6.2	–8.8	+0.4	–40	410	–2.5

* Excluding properties held for sale and project developments
** Difference to balance sheet value of EUR 1,433.1 million mainly due to leaseholds

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 record 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 Immobilien Beratungs-GmbH as at the reporting date, 31 December 2021. The change in value compared to the previous year, from EUR 1,441.5 million to EUR 1,412.5 million, is due to the sale of 11 properties with a total market value of EUR 99.2 million and a gross valuation result of EUR 70.2 million.

Letting performance

At 182,742 m², letting performance in 2021 once again surpassed the record level achieved in the previous year. 177,247 m² of space had been leased in 2020, which was above DEMIRE's long-term average of approximately 80,000 m² per year. Approximately 46.4% of the letting performance in 2021 was attributable to new lettings and approximately 53.6% to follow-on lettings.

The EPRA Vacancy Rate for the portfolio, excluding properties held for sale and project developments, was 11.0% as at the reporting date, which was below the previous year's value of 6.9%. A main reason for the increased vacancy rate is the consolidation-related departure of Thyssenkrupp from the Essen location. Activities to renew the lease were commenced immediately and are ongoing. The weighted average lease term (WALT) of the entire portfolio remained more or less stable at 4.7 years, following on from 4.8 years reported as at 31 December 2020.

The annualised rental income generated from the real estate portfolio fell by 1.4% 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 2021

Asset class	Like-for-like rental growth
Office	–2.0%
Retail	–1.0%
Logistics and others	0.7%
TOTAL	**–1.4%**

Active portfolio management

The purchase of the Cielo office property in Frankfurt as part of an investment in a joint venture was completed in the 2021 financial year. 11 properties were sold for a total of EUR 104.0 million, which corresponds to a premium of 4.8% on the cumulative market value. No additional sales contracts yet to be implemented have been signed during the period under review.

DISPOSALS IN 2021

	Asset class	Last market value (31/12/2020) in EUR	Sale price in EUR
Bremen, Otto-Lilienthal-Str. 25	Office	7,100,000	7,100,000
Bremen, Otto-Lilienthal-Str. 27	Office	6,780,000	6,800,000
Bremen, Otto-Lilienthal-Str. 29	Office	6,680,000	6,700,000
Bremen, Flughafenallee 3 / Otto-Lilienthal-Str. 19	Office	10,400,000	10,400,000
Cologne, Marconistr. 4–8	Other	5,580,000	6,500,000
Ansbach	Office	15,900,000	18,000,000
Garbsen	Office	640,000	650,000
Barmstedt	Office	1,440,000	1,540,000
Regensburg	Office	38,000,000	38,350,000
Bad Bramstedt	Office	1,190,000	1,245,300
Potsdam	Office	5,500,000	6,700,000
TOTAL		**99,210,000**	**103,985,300**

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 32 employees, excluding the Executive Board, as at 31 December 2021 (31 December 2020: 34 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 13% of our employees are younger than 30 years of age, around 65% are between 30 and 50 years old, and another 22% are over 50.

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.

Providing close support to tenants also proved fruitful the previous year, which was once again characterised by the coronavirus pandemic. Constructive dialogue allowed individual solutions to be found in the vast majority of cases, keeping rent default risks to a minimum (cf. page 50 in the consolidated financial statements).

NETWORKING

DEMIRE's commercial success is also based on the ability to identify potential market opportunities on the transaction market at an early stage. This means seeking out properties that are undervalued in terms of their potential. Long-term partnerships with relevant service providers and other institutional market participants in the real estate market are maintained.

DEMIRE also provides support to numerous associations both inside and outside of the real estate sector through its memberships. As an active member of the Zentraler Immobilien Ausschuss e. V. (ZIA), the German real estate association and voice of the German real estate industry, DEMIRE supports its work, especially as a representative of its members' interests in the public and the political sphere.

DEMIRE has worked in partnership with the EBS Universität für Wirtschaft und Recht since 2019. The aim of this cooperation is to conduct practical and scientific studies and research in the field of real estate economics.

TRANSPARENCY

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 (EPRA key performance indicators in the consolidated financial statements). DEMIRE's reporting was commended by EPRA, receiving its Gold Award for implementing Best Practice Recommendations and Special Prize for Most Improved 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

PREPARING OUR FIRST SUSTAINABILITY REPORT

In recent years, social and environmental factors have become much more important alongside economic aspects. This has prompted DEMIRE to address this topic in greater depth, and the Company is preparing to publish its first sustainability report. This will be an exercise designed to take stock of the status quo, the idea being for further activities to be included later on.

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 in the Group by implementing guidelines. 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. ICG certification was confirmed once again by way of an audit in 2021.

ECONOMIC REPORT

Economic environment

Macroeconomic situation

As was the case for the majority of the previous year, 2021 was also characterised by the coronavirus pandemic. The SARS-CoV-2 virus had a sustained impact on the German economy. The January lockdown in particular had a significant impact on economic output. The second quarter saw the start of a notable economic recovery, which can in particular be attributed to the gradual easing of pandemic-related restrictions. The German Federal Statistical Office (destatis) reported growth in price, season and calendar-adjusted gross domestic product (GDP) of 2.8% for 2021 compared to the previous year. This meant economic output was still around 1.5% below the pre-crisis level. 2021 saw a slight recovery in the labour market. At 5.7%, the unemployment rate was 0.2 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 3.1% compared to 2020, based on the consumer price index. Alongside temporary effects (such as raising the VAT rate that had been temporarily reduced), this impact is primarily attributable to effects related to the crisis, such as supply shortages. Energy prices in particular have become significantly more expensive in 2021.

Rising lending rates are not yet in sight. For the time being, and probably throughout 2021, the ECB is focusing on gradually reducing its bond purchases. If interest rates do in fact rise again in the euro area, refinancing of expiring financing could become more expensive and consequently reduce FVR's earnings base.

DEVELOPMENT OF THE REAL ESTATE AND CONSTRUCTION SECTORS

Following on from a somewhat cautious year in 2020, the property investment market recovered to post record results in 2021. According to the Investment Market Overview by international brokerage Jones Lang Lasalle (JLL), properties with transaction volumes of EUR 111 billion were traded in the reporting period, up by 36.0% compared to the previous year. The main driver behind these record results is the acquisition of Deutsche Wohnen by Vonovia. The market continues to be defined by high liquidity levels and the accompanying pressure on capital for many investors. Properties that satisfy EU sustainability requirements for financial assets are increasingly in demand. However, JLL did not observe any discounted prices for "non-sustainable" property.

The construction industry had to deal with supply shortages in primary products, particularly during the first half of 2021. Overall it remains in robust shape in spite of the pandemic. The industry association BAU INDUSTRIE expects to see revenue growth of 5.5% compared to 2020. Real growth is expected to come to around 1.5% due to less dynamic price development. This positive change is being driven, among other things, by commercial construction performance as a result of rail infrastructural measures, for example. Contrary to this, demand for residential construction fell.

The section below outlines developments in the sub-markets that are the most relevant to DEMIRE in 2021.

OFFICE REAL ESTATE MARKET

The office letting market was significantly more dynamic in 2021 than in 2020. JLL, a brokerage house with international operations, recorded office space turnover of 3.29 million m² in what are known as "A" cities (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart). This figure represents a 23% increase compared to the previous year, and just 13% lower than the long-term average. Vacancies at these top locations totalled 4.5%, which was 23% and/or 80 base points above the previous years value. JLL attributed this to an increase in construction activity in previous year and reduced demand owing to the pandemic. However, this level of vacancies is not expected to have any impact on rental prices. Prime rents increased by 1.6% in total compared to the previous year.

Even the office investment market saw a significant recovery compared to the previous year. Looking at nationwide transaction volumes, figures from the international brokerage house BNP Paribas Real Estate of EUR 64.1 billion represent the second-best result on record. As a result, transaction volumes are significantly above the ten-year average. With a share of 48% of all commercial property investments, office investments were once again the dominant asset class among transactions completed in 2021. A total of EUR 37.1 billion flowed into these "A" cities. In terms of prime yields, "A" cities recorded slight declines of between 5 and 20 basis points, meaning that yields remained at a low level of 2.6% on average.

LOGISTICS REAL ESTATE MARKET

According to surveys conducted by the international brokerage firm CBRE, momentum on the industrial and logistics real estate market once again surpassed previous years. Market activity is dominated by high demand, low levels of space and product availability, and ongoing yield compression. Transaction volumes totalled approximately 10.15 million m² in 2021, a figure that was around 34% higher than the previous year's result. The high demand translated into declining net initial yields, which fell by 0.4 percentage points to 3.0%. Space turnover also increased by 20% to 8.3 million m². Prime rents also increased, with growth in the top 5 markets (Berlin, Düsseldorf, Frankfurt am Main, Hamburg and Munich) of 7.7% to EUR 6.80/m².

The biggest tenants include retail and logistics users. Space turnover occupied by logistics companies also managed to increase. However, there was a fall in demand from the production sector.

RETAIL REAL ESTATE MARKET

In spite of the pandemic, German retail sales rose from EUR 577.4 billion in 2020 to EUR 586 billion in 2021, according to the data portal statista. Although the textile industry posted huge falls in turnover, for example, pharmacies and retailers managed to expand their positions. E-commerce was once again one of the main beneficiaries in 2021. The share of online retail sales grew to around 13.3%.

The transaction volumes for retail real estate fell in 2021. Colliers reported transaction volumes of around EUR 8.1 billion in the German market, compared to EUR 11.4 billion the previous year. The fourth quarter was exceptionally weak, posting figures of just EUR 1.8 billion. The ten-year average of EUR 10.2 billion was fallen short of by 21%. Taking a detailed look at the market, Colliers believes there will be all kinds of different developments, with investors focused on specialist stores and specialist retail parks. On the flip side, investors were critical of large scale high-street properties and shopping centres.

The gross initial yields for prime location properties varied depending on the type of use and location, ranging from 2.8% in Frankfurt to 3.4% in Düsseldorf, Cologne and Hamburg. Specialist stores and specialist retail parks focused on food and drink continued to see above-average performance with a gross initial yield of approximately 4%, even with sustained downward pressure on yields noted.

HOTEL REAL ESTATE MARKET

The pandemic has had a significant impact on the market environment for hotel properties in the past two years. The collapse of national and international travel has posed major challenges for hotel operators and left the hotel investment market, which was previously an area of dynamic growth, facing significant uncertainty. The hotel investment market recovered slightly owing to the relaxing of travel restrictions, among others, but is yet to return to its former level.

According to analyses conducted by CBRE, transaction volumes increased by 27% to EUR 2.48 billion. However, when compared to the pre-crisis level, there was an average shortfall of transactions totalling EUR 1 billion per quarter. Of particular note was the high level of investments in Berlin. The capital city accounted for almost 23% of transactions completed.

Implications for DEMIRE

The macroeconomic and property market environment was challenging in 2021. Even in this period, however, DEMIRE benefited from the portfolio focus on economically strong German secondary locations. A joint study conducted by DEMIRE and bulwiengesa showed secondary locations were not exposed to any excessive market volatility and were much less affected than “A” locations by the ongoing yield compression witnessed in many asset classes.

General assessment of the Executive Board

General statement on the business performance and position of the Group

As in previous years, DEMIRE ended the 2021 financial year very successfully, especially given the continued adverse circumstances. Rental income and FFO as key management indicators, as well as numerous other key figures, showed positive development in line with, or even outstripping, our expectations. As was the case in 2020, even though the pandemic has not had any significant impact on the 2021 figures, the situation has once again tied up extensive management capacities. Even though the pandemic continued to dominate the headlines and everyday life in early 2022, DEMIRE nevertheless expects to see a certain easing in the current year or, at the very least, an increasing level of routine in dealing with the pandemic at a business level. 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 has once again also made a significant contribution to our very strong letting performance in 2021. In 2021, we also managed to push forwards in another key strategic area, namely our efforts to make our portfolio more dynamic by selling 11 properties that were no longer consistent with our strategy. Although this slightly reduced the value of the portfolio to EUR 1,412.5 million as at the reporting date, numerous other key portfolio figures improved as a result. The Cielo office property in Frankfurt, which was purchased together with an equal partner in a joint venture during the period under review, is not included in the property-specific indicators owing to the fact it is accounted for using the equity method, so is instead treated as a financial investment.

This provides us with an excellent basis on which we can also continue to pursue our strategic objectives, primarily portfolio growth, in 2022, taking advantage of opportunities as and when they arise.

TARGET/ACTUAL COMPARISON

Indicator/date in EUR million	2020 actual	Forecast 17/03/2021	Forecast 23/11/2021	**2021 actual**
Rental income	87.5	80.0–82.0	Upper margin of 80.0–82.0	82.3
FFO I (after taxes, before minority interests)	39.2	34.5–36.5	Exceeds previous year's value of 39.2	39.8

The 2021 results also 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 profitability forms the basis for DEMIRE's ability to pay sustainable dividends.

Following the extensive refinancing activities performed in previous years, in 2021 the Company continued to reap significant benefits from much lower financing costs. In addition, further financing arrangements were concluded based on attractive conditions, meaning that DEMIRE still has financial leeway available to it with a comfortable liquidity position and that it was able to reduce its financing costs once again.

Measures were taken to actively shape the real estate portfolio in the financial year under review. 11 properties that were no longer consistent with the Company's strategy were sold, as a whole at approximately 4.8% above the latest market value. Annualised contractual rents fell 1.4% on a like-for-like basis, i.e. excluding purchases and sales. This was primarily due to the expiry of two major leases in Essen and Kassel. The previous year's fall was 1.9%. Despite the very strong letting performance, the EPRA vacancy rate, which excludes properties held for sale or under project development, therefore increased by 410 base points to 11.0% compared to the previous reporting date. The WALT remained almost constant compared to the end of 2020 at 4.7 years.

In summary, DEMIRE performed successfully in the 2021 financial year and achieved very positive development, given the exceptional situation. As part of the ongoing and consistent implementation of the "REALize Potential" strategy, the focus is on making the portfolio even more dynamic and allowing it to grow further, the aim being to achieve a market valuation in excess of EUR 2 billion. Due to the numerous sales, the Company expects a moderate decline in rental income and FFO I (after tax, before minority interests) for the 2022 financial year. Acquisition and growth opportunities are to be exploited as and when they arise and are therefore expected to have a positive impact on rental income and FFO. In the medium term, DEMIRE's objective is still to achieve an investment-grade rating and to continue to be able to pay an attractive and sustainable dividend to its shareholders.

Effects of COVID-19 and other external risks on business performance

Following the lockdown imposed at the end of 2020/start of 2021, public life increasingly normalised over the course of 2021 as vaccination rates increased. DEMIRE also performed well, in large part, thanks to its diversified portfolio and active portfolio management.

The programme of measures adopted by the Executive Board back in March 2020, immediately after the beginning of the pandemic, which includes measures to improve efficiency and safeguard liquidity, has been and continues to be implemented, even though specific coronavirus monitoring measures initially expired at the end of September 2021. The Company's liquidity remained very comfortable throughout the year at EUR 139.7 million as at the reporting date, following the distribution of a dividend in May and completion of the Cielo transaction in July. Therefore, DEMIRE is well-positioned to apply active portfolio management techniques to take advantage of possible growth opportunities and to further increase the value of its portfolio.

Approximately EUR 1.5 million in rent is outstanding for 2021, owing to the pandemic. This corresponds to approximately 1.8% of the expected rental income for 2021. For 2020, EUR 2.7 million, or 3.0%, of rents were still outstanding as at the reporting date. So far in 2021, EUR 1.2 million of the rents outstanding for 2020 have been paid. As before, all unpaid rents are recognised as a receivable, but some were also written off. The Company assumes that most of the receivables will be collected within the framework of the statutory deferral regulations.

The Company does not initially expect to see any impact from the conflict between Russia and Ukraine, which escalated in early 2022. This is down to the fact there are no direct relationships in place in Ukraine or Russia and that there are no direct links within the tenant base either.

Results of operations, net assets and financial position

Results of operations

Rental income and profit/loss from the rental of real estate fell compared to the previous year in line with expectations, owing to the numerous sales completed in 2020. The purchase of the Cielo property in Frankfurt in July 2021 failed to offset this effect. This is because it was purchased together with a partner in a joint venture and, given the fact it is accounted for as an investment using the equity method, it does not generate rental income but rather financial income. The income from the sale of real estate almost balances out the expenses relating to the sale. This demonstrates that, despite the challenging market environment, the properties could at least be sold at market value. Profit/loss from the fair value adjustment of investment properties is clearly positive, taking particular account, on the one hand, of demand for logistics properties. On the other hand, following on from the pandemic-related devaluation seen in the previous year, positive recoveries in value were generated in particular in the retail and hotel asset classes. The fall in impairments on receivables to EUR 3.5 million compared to EUR 6.1 million in the previous year is further evidence of a normalised economic environment, following on from increased bad debt losses posted at the start of the coronavirus pandemic. Another fall in general administrative expenses compared to the previous year is also further evidence of the success of numerous measures taken to increase efficiency. The financial result once again reflects the positive effects of the extensive refinancing measures during the period under review and in previous years, as well as the financial income from the Cielo joint venture recorded for the first time and on a pro-rata basis.

CONSOLIDATED INCOME STATEMENT

in EUR thousand	2020	2021	Change	in %
Rental income	87,509	82,325	–5,184	–5.9
Income from utility and service charges	21,327	20,206	–1,121	–5.3
Operating expenses to generate rental income	–38,608	–35,350	3,258	–8.4
Profit/loss from the rental of real estate	**70,228**	**67,181**	**–3,047**	**–4.3**
Income from the sale of real estate and real estate companies	88,887	104,106	15,219	17.1
Expenses related to the sale of real estate and real estate companies	–89,932	–102,665	–12,733	14.2
Profit/loss from the sale of real estate and real estate companies	**–1,045**	1,441	2,486	**–**
Profit/loss from fair value adjustments of investment properties	–22,134	48,777	70,911	–
Impairment of receivables	–6,150	–3,475	2,675	–43.5
Other operating income	1,490	1,188	–302	–20.3
General and administrative expenses	–13,368	–11,244	2,124	–15.9
Other operating expenses	–1,368	–2,002	–634	46.3
Earnings before interest and taxes	**27,653**	**101,866**	**74,213**	**>100**
Financial income*	1,046	3,167	2,121	>100
Financial expenses	–19,086	–18,331	755	–4.0
Profit/loss from companies accounted for using the equity method*	240	1,084	844	>100
Interests of minority shareholders	–3,371	–6,972	–3,601	>100
Financial result	**–21,171**	**–21,052**	**119**	**–0.6**
Earnings before taxes	**6,482**	**80,814**	**74,332**	**>100**
Current income taxes	–712	–6,663	–5,951	>100
Deferred taxes	3,397	–12,564	–15,961	–
Net profit/loss for the period	**9,167**	**61,587**	**52,420**	**>100**
of which attributable to parent company shareholders	8,503	58,499	49,996	>100
Basic earnings per share (in EUR)	0.08	0.55	0.47	>100
Weighted average number of shares outstanding (in thousands)	106,775	105,513	–1,262	–1.2
Diluted earnings per share (in EUR)	0.08	0.55	0.47	>100
Weighted average number of shares outstanding (diluted) (in thousands)	107,285	106,023	–1,262	–1.2

* Prior-year figures have been adjusted due to changes in classification.

DEVELOPMENT OF THE MAIN ITEMS OF THE STATEMENT OF INCOME

In the 2021 financial year, the DEMIRE Group generated **rental income** totalling EUR 82.3 million (previous year: EUR 87.5 million). This fall can be attributed to the numerous sales completed in 2020 and is in line with expectations; opposing effects from the purchase of the Cielo property in Frankfurt in July 2021 are not posted under rental income, but under the financial result owing to accounting using the equity method. In spite of this, rental income overshot the upper end of the forecast range, which was published in November 2021 as EUR 80.0 million to EUR 82.0 million.

Income from utility and service charges of EUR 20.2 million (previous year: EUR 21.3 million) includes tenant payments for utilities. Utility and service charges were recorded as expenses to generate rental income and measures to preserve the value of the property and amounted to EUR 35.4 million during the year under review (previous year: EUR 38.6 million). Overall, the total profit/loss from the rental of real estate increased by 4.3% to EUR 67.2 million in the financial year (previous year: EUR 70.2 million), representing a smaller fall than rental income.

The **profit/loss from the sale** of real estate amounted to EUR 1.4 million in the 2021 financial year (previous year: EUR –1.1 million), resulting from the sale of 11 properties with a volume of EUR 104.1 million. The main drivers behind the proceeds from these sales were the properties in Regensburg (EUR 38.4 million) and Ansbach (EUR 18.0 million). In addition, numerous small units that were not consistent with the Company's strategy were sold. The carrying amounts of the properties were usually achieved or exceeded. The balance includes the necessary expenses for brokers and consultants associated with the sales.

The **profit/loss from fair value adjustments** of investment properties (valuation result) amounted to EUR 48.8 million or 3.4% of the portfolio value (previous year: EUR –22.1 million). Many properties in the portfolio increased in value; the logistics property in Leipzig in particular experienced a notable increase in value following a strong letting performance, and at a level in line with the huge demand for this asset class. Assets in the retail and hotel segments were also able to recover most of their falls in value, which had fallen in the previous year due to the pandemic.

Impairments on receivables amounted to EUR 3.5 million during the period under review (previous year: EUR 6.2 million). During the previous year, EUR 1.9 million owed by retail property tenants, who were subject to protective shield proceedings or insolvency proceedings as a result of the COVID-19 pandemic, as well as EUR 1.5 million owed by two tenants of hotels that were either insolvent or threatened with insolvency as a result of the pandemic, had been written off as a result of the pandemic.

Other operating income fell by EUR 0.3 million year-on-year to EUR 1.2 million (previous year: EUR 1.5 million). This figure is primarily made up of insurance compensation.

General and administrative expenses fell significantly in 2021 to EUR 11.2 million (previous year: EUR 13.4 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 despite exercising cost discipline.

At EUR 2.0 million, **other operating expenses** increased slightly year-on-year due to provisions for litigation (previous year: EUR 1.4 million).

As a result of all of the factors referred to above, **earnings before interest and taxes** (EBIT) came to EUR 101.9 million, as against EUR 27.7 million in the previous year.

The **financial result** remained more or less constant in 2021 at EUR –21.1 million (previous year: EUR –21.2 million). While there was significant improvement in both financial income (increase of EUR 2.1 million to EUR 3.2 million) arising from the investment in the Cielo property as well as financial expenses (increase of EUR 0.8 million to EUR 18.3 million), the interests of minority shareholders in particular also saw an increase of EUR 3.6 million to EUR 7.0 million as a result of the positive valuation result.

The **net profit/loss for the period** (profit after taxes) came to EUR 61.6 million in the 2021 financial year, compared to EUR 9.2 million in the previous year.

FUNDS FROM OPERATIONS (FFO)

Funds from operations (FFO) measure the operating result of the DEMIRE Group that has an impact on its liquidity. 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	2020	2021	Change	in %
Earnings before taxes	6,482	80,815	74,333	>100
Interests of minority shareholders	3,371	6,972	3,601	>100
Earnings before taxes (EBT)	**9,853**	**87,787**	**77,934**	**>100**
± Profit/loss from the sale of real estate	1,046	–1,441	–2,487	>100
± Profit/loss from the valuation of investment properties	22,134	–48,777	–70,911	>100
± Profit/loss from the valuation of derivative financial instruments	0	0	0	-
± Other adjustments*	8,052	6,033	–2,019	–25.1
FFO I before taxes	**41,085**	**43,602**	**2,517**	**6.1**
± Current income taxes	–1,919	–3,773	–1,854	96.6
FFO I after taxes	**39,166**	**39,829**	**663**	**1.7**
of which attributable to parent company shareholders	33,805	35,018	1,213	3.6
of which attributable to non-controlling interests	5,361	4,810	–551	–10.3
± Profit/loss from the sale of real estate companies/real estate (after taxes)	–1,738	–2,903	–1,165	67.1
FFO II after taxes	**37,428**	**36,925**	**–503**	**–1.3**
of which attributable to parent company shareholders	31,698	32,416	718	2.3
of which attributable to non-controlling interests	5,730	4,509	–1,221	–21.3
FFO I after taxes per share				
Basic earnings per share (in EUR)	0.37	0.38	0.01	2.0
Weighted average number of shares outstanding (in thousands)	106,775	105,513	–1,262	–1.2
Diluted earnings per share (in EUR)	0.37	0.38	0.01	1.5
Weighted average number of shares outstanding (diluted) (in thousands)	107,285	106,023	–1,262	–1.2

FFO CALCULATION

in EUR thousand	2020	2021	Change	in %
FFO II after taxes per share				
Basic earnings per share (in EUR)	0.35	0.35	0.00	0.0
Weighted average number of shares outstanding (in thousands)	106,775	105,513	–1,262	–1.2
Diluted earnings per share (in EUR)	0.35	0.35	0.00	–0.5
Weighted average number of shares outstanding (diluted) (in thousands)	107,285	106,023	–1,262	–1.2

* Other adjustments include:
— One-time refinancing costs (EUR 2.4 million; previous year: EUR 3.8 million; including other effects from refinancing)
— One-time transaction, legal and consulting fees (EUR 2.7 million; previous year: EUR 0.6 million)
— One-time administrative costs (EUR 0.7 million; previous year: EUR 2.0 million)
— Non-period-related expenses (EUR 0.2 million; previous year: EUR 1.7 million)

FFO I (after taxes, before minority interests) increased again in the 2021 financial year and amounted to EUR 39.8 million (2020: EUR 39.2 million); after taxes and after minority interests, FFO I amounted to EUR 35.0 million (2020 financial year: EUR 33.8 million). Taking into account the result from the sale of real estate, funds from operations (FFO II) amounted to EUR 36.9 million after taxes and before minority interests (2020: EUR 37.4 million), and EUR 32.4 million (2020: EUR 31.7 million) after taxes and after minority interests. Other adjustments to FFOs during the period under review amounted to EUR 6.0 million compared to EUR 8.1 million in the previous year. In the previous year, EUR 1.6 million related to the reversal of linearised rent-free periods through profit or loss due to the insolvency proceedings of a tenant and the related termination of a lease agreement.

SEGMENT DEVELOPMENT

The segment reporting in the consolidated financial statements is in accordance with IFRS 8 “Operating Segments” and is based on the internal alignment of the strategic business 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 during the 2021 financial year:

SELECTED DISCLOSURES FROM THE CONSOLIDATED BALANCE SHEET

	Core Portfolio		Fair Value REIT		Corporate Functions/Others		Group	
in EUR thousand	2020	2021	2020	2021	2020	2021	2020	2021
External revenue	144,340	168,116	53,382	38,521	0	0	197,722	206,637
Total revenue	144,340	168,116	53,382	38,521	0	0	197,722	206,637
Profit/loss from fair value adjustments of investment properties	–19,900	42,325	–2,234	6,452	0	0	–22,134	48,777
Other income	486	470	412	586	592	132	1,490	1,188
Segment revenue	**124,926**	**210,911**	**51,560**	**45,559**	**592**	**132**	**177,078**	**256,601**
Expenses relating to the sale of real estate	–59,775	–88,806	–30,157	–13,859	0	0	–89,932	–102,665
Other expenses	–37,677	–32,398	–13,750	–9,903	–8,065	–9,768	–59,492	–52.71
Segment expenses	**–97,452**	**–121,205**	**–43,907**	**–23,762**	**–8,065**	**–9,768**	**–149,424**	**–154,736**
EBIT	**27,474**	**89,706**	**7,652**	**21,797**	**–7,473**	**–9,636**	**27,654**	**101,866**
Financial income	260	217	4	0	1,022	2,950	1,286	3,167
Financial expenses	–17,118	–17,028	–1,629	–1,148	–340	–154	–19,086	–18,331
Profit/loss from companies accounted for using the equity method	0	1,084	0	0	0	0	0	1,084
Interests of minority shareholders	0	0	–3,371	–6,972	0	0	–3,371	–6,972
Income taxes	5,347	–5,476	–1,628	–747	–1,034	–13,004	2,685	–19,227
Net profit/loss for the period	**15,963**	**68,502**	**1,028**	**12,930**	**–7,824**	**–19,845**	**9,166**	**61,587**
Significant non-cash items	**14,743**	**–37,221**	**4,638**	**–7,825**	**1,160**	**13,111**	**20,541**	**–31,934**
Impairment losses in net profit/loss for the period	**4,564**	**1,336**	**1,127**	**85**	**459**	**2,055**	**6,150**	**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 168.1 million in 2021 compared to EUR 144.3 million in the previous year. Net profit/loss for the period totalled EUR 68.5 million in 2021 (previous year: EUR 16.0 million).

Revenue in the “Fair Value REIT” segment amounted to EUR 38.5 million in 2021 compared to EUR 53.4 million in the previous year. Net profit/loss for the period totalled EUR 12.9 million in 2021 (previous year: EUR 1.0 million).

The “Corporate Functions/Others” segment did not generate any revenue in 2021, as was the case in the previous year. Net profit/loss for the 2020 period totalled EUR –19.8 million compared to EUR –7.8 million in the previous year.

At Group level, revenue increased from EUR 197.7 million in the previous year to EUR 206.6 million in the 2021 financial year. The Group’s net profit/loss for the period amounted to EUR 61.6 million in 2021 (2020: EUR 9.2 million).

Further information on segment reporting can be found in the Notes of the Annual Report on page 160.

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	31/12/2020	31/12/2021	Change	in %
Net Asset Value (NAV)	557,956	549,023	–8,933	–1.6
Deferred taxes	72,122	84,692	12,570	17.4
Goodwill resulting from deferred taxes	–4,738	–4,738	0	0.0
NAV (basic)	**625,340**	**628,976**	**3,636**	**0.6**
Number of shares outstanding (basic) (in thousands)	105,772	105,513	–260	–0.2
NAV per share (basic) (in EUR)	5.91	5.96	0.05	0.8
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0
NAV (diluted)	625,850	629,486	3,636	0.6
Number of shares outstanding (diluted) (in thousands)	106,282	106,023	–260	–0.2
NAV per share (diluted) (in EUR)	**5.89**	**5.94**	**0.05**	**0.8**

In 2021, diluted EPRA NAV increased by 0.6% to EUR 629.5 million, up from EUR 625.9 million at the end of 2020. A dividend was distributed once again and was able to be more than compensated for by way of the positive net profit/loss for the period under review. Based on the number of shares outstanding equalling EUR 106.0 million, diluted NAV per share equalled EUR 5.94, compared to EUR 5.89 at the end of 2020. The number of underlying shares has decreased by 0.3 million compared to the previous year, as the shares repurchased during the year are deducted *pro rata temporis*.

Total assets increase by 4.9%

Total assets of the DEMIRE Group as at 31 December 2021 amounted to EUR 1,705.6 million (31 December 2020: EUR 1,625.3 million), up by 4.9% year on year.

For the real estate portfolio (investment properties), the external real estate appraiser Savills Immobilien Beratungs-GmbH determined a total market value of EUR 1,412.5 million (31 December 2020: EUR 1,441.5 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 of the Annual Report (section E.1.1.3).

SELECTED DISCLOSURES FROM THE CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET – ASSETS

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Assets				
Total non-current assets	1,451,125	1,543,819	92,694	6.4
Total current assets	143,186	161,775	18,589	13.0
Non-current assets held for sale	31,000	0	–31,000	–100.0
TOTAL ASSETS	**1,625,311**	**1,705,594**	**80,283**	**4.9**

As at 31 December 2021, non-current assets increased by EUR 92.7 million to EUR 1,543.8 million (31 December 2020: EUR 1,451.1 million). Investment property accounted for the lion's share of this development, with an increase of EUR 6.8 million. This increase is predominantly attributable to the net valuation result (EUR 47.0 million) and capitalised, value-enhancing expansion measures and rent incentives (EUR 28.5 million), with sales having a dampening effect (EUR –68.7 million).

Loans to companies accounted for using the equity method were reported for the first time at EUR 26.5 million (previous year: EUR 0 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 increased by EUR 56.7 million to EUR 64.3 million, mainly driven by a loan to the vendor in conjunction with the Cielo property transaction.

As at 31 December 2021, the DEMIRE Group's current assets rose by EUR 18.6 million to EUR 161.8 million (31 December 2020: EUR 143.2 million). This increase resulted primarily from the increase in cash and cash equivalents, which now total EUR 139.6 million (previous year: EUR 101.6 million).

No assets were held for sale as at 31 December 2021 (31 December 2020: EUR 31.0 million).

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Equity and liabilities				
Equity				
Equity attributable to parent company shareholders	557,956	549,023	–8,933	–1.6
Non-controlling interests	40,085	43,339	3,254	8.1
Total equity	**598,041**	**592,362**	**–5,679**	**–0.9**
Liabilities				
Total non-current liabilities	987,235	1,066,581	79,346	8.0
Total current liabilities	40,035	46,651	6,616	16.5
Total liabilities	**1,027,270**	**1,113,232**	**85,962**	**8.4**
TOTAL EQUITY AND LIABILITIES	**1,625,311**	**1,705,594**	**80,283**	**4.9**

Equity ratio remains strong at 34.7%

Group equity fell slightly during the 2021 financial year to EUR 592.4 million (previous year: EUR 598.0 million). The net profit/loss for the period under review of EUR 61.6 million almost managed to offset the distribution of a dividend in 2021 in the amount of EUR 65.4 million. Due to the increased total assets, the equity ratio came to 34.7% compared to 36.8% at the end of 2020. Non-controlling minority interests of EUR 82.9 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 totalled EUR 675.2 million or 39.6% of total equity and liabilities (31 December 2020: EUR 676.9 million or 41.6%).

Non-current liabilities amounted to EUR 1,066.6 million at the end of 2021 (31 December 2020: EUR 987.2 million) and current liabilities came to EUR 46.7 million (31 December 2020: EUR 40.0 million). As a result, the total liabilities of the DEMIRE Group increased to EUR 1,113.2 million as at 31 December 2021 (31 December 2020: EUR 1,027.3 million).

Total financial liabilities of EUR 890.5 million (31 December 2020: EUR 829.7 million) include the EUR 600 million bond issued in 2019, which is reported with a market value of EUR 594.0 million as at the reporting date, and liabilities to credit institutes and third parties of approximately EUR 296.5 million (31 December 2020: EUR 237.7 million). The proportion of unsecured properties as at 31 December 2021 came to 48.4% (31 December 2020: 61.5%). There were no variable interest rate agreements as at the reporting date. The average nominal interest rate on financial liabilities decreased by 5 basis points to 1.66% p.a. as at the 31 December 2021 reporting date due to successful financing activities in the reporting period. This compares with 1.71% p.a. at the end of 2020. The average remaining term of the liabilities fell from 3.7 years at the end of 2020 to 3.0 years at the end of 2021.

As at 31 December 2021, trade payables and other liabilities dropped to EUR 17.7 million (31 December 2020: EUR 20.2 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 275.0 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 275.0 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 of the Annual Report. Cash and cash equivalents in the amount of EUR 139,619 thousand (previous year: EUR 101,620 thousand) includes cash on hand and bank balances carried at their nominal value. Of this, cash and cash equivalents in the amount of EUR 3,286 thousand (previous year: EUR 6,735 thousand) remained earmarked for maintenance costs as at 31 December 2021 and are subject to restrictions on disposal.

Pledged bank balances in the amount of EUR 200 thousand (previous year: EUR 200 thousand) were recognised under other receivables.

SELECTED DISCLOSURES FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR thousand	2020	2021	Change	in %
Cash flow from operating activities	–24,101	–2,441	21,660	–89.9
Cash flow from investing activities	34,983	–238	–35,220	–
Cash flow from financing activities	–11,400	40,678	52,078	–
Net change in cash and cash equivalents	**–519**	**37,999**	**38,518**	**–**
Cash and cash equivalents at the end of the period	**101,620**	**139,619**	**37,999**	**37.4**

Liquidity headroom remains comfortable

Cash flow development in the 2021 financial year is positive overall. While the operating cash flow is impacted by the distribution of a dividend on the one hand and a fall in other receivables on the other, the effects arising from property sales and, in the other direction, from payments in connection with the purchase of the Cielo property are reflected in the statement of investment activities. The cash flow from financing activities includes the raising of two new loans during the period under review. In the previous year, loan disbursements were largely offset by loan repayments and the buyback of treasury shares.

Cash flow from operating activities amounted to EUR –2.4 million at the end of the 2021 financial year (previous year: EUR –24.1 million) and, in addition to other receivables repaid (EUR 14.4 million, compared to EUR –11.6 million in the previous year), primarily includes the dividend distribution of EUR 67.7 million (previous year: EUR 60.1 million).

Cash flow from investing activities amounted to EUR –0.2 million in 2021, compared to EUR 35.0 million in 2020. This includes payments for loans to companies accounted for using the equity method totalling EUR –29.1 million (previous year: EUR 0 million) and payments from the granting of loans (EUR 60.0 million, compared to EUR 0 million in the previous year), both in conjunction with the purchase of the Cielo property, and with proceeds from these sales of EUR 103.1 million (previous year: EUR 100.5 million) having a dampening effect.

Cash flow from financing activities amounted to EUR 40.7 million (previous year: EUR –11.4 million). This includes proceeds from borrowed capital of EUR 69.7 million (previous year: EUR 89.9 million) in connection with two secured mortgage financing transactions. This is offset by the payments for the redemption of financial liabilities in the amount of EUR 10.6 million (previous year: EUR 69.4 million). The net change in cash and cash equivalents amounted to EUR 38.0 million at the end of the 2021 financial year (previous year: EUR –0.5 million). Total cash and cash equivalents at the end of the period under review amounted to EUR 139.6 million (previous year: EUR 101.6 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 of the Annual Report.

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 the carrying amount of investment properties and non-current assets held for sale. The net LTV as at the reporting date was as follows:

NET LOAN-TO-VALUE (LTV)

in EUR million	31/12/2020	31/12/2021
Financial liabilities and lease liabilities	848,438	914,986
Cash and cash equivalents	101,620	139,619
Net financial debt	**746,818**	**775,367**
Total assets	**1,625,311**	**1,705,594**
Intangible assets	**6,880**	**6,783**
Total assets less intangible assets	**1,618,431**	**1,698,811**
Net LTV (in %)	**49.2**	**49.7**

The net loan-to-value ratio remained virtually constant at 49.7%, compared to 49.2% the previous year. Financial liabilities and lease liabilities increased year-on-year by EUR 66.5 million to EUR 915.0 million.

The maturities of the existing loan agreements are broadly staggered. While there will be no follow-up financing over the next two years and only scheduled repayments will have to be made, refinancing requirements of EUR 769.5 million will emerge in 2024. The liquidity requirements for follow-up financing and repayments over the next few years are as follows:

MATURITIES

in EUR million	2022	2023	2024	2025	2026	from 2027
	11.9	12.0	769.5	56.3	21.8	19.0

Covenants complied with

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 31/12/2021

	NET LTV	NET SECURED LTV	ICR
Covenant	max. 60%	max. 40%	min. 2.00
Value	49.7%	9.9%	4.33

As at 31 December 2021, DEMIRE had complied with all covenants of the 2019/2024 corporate bond. The planning for the 2022 financial year and beyond assumes that all covenants will be complied with at all times.

Other financial obligations and contingent liabilities

The following other financial obligations existed as at the reporting date: The real estate purchase agreements concluded in the 2021 financial year that were not still in effect as at the reporting date resulted in no financial obligations as at 31 December 2021. 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 33.2 million (previous year: EUR 20.5 million). These obligations are fixed in terms of their scope. The purchase order commitment from commissioned maintenance amounted to EUR 12.0 million (previous year: EUR 5.5 million) as at the reporting date.

As at 31 December 2021, unused credit lines in the amount of EUR 5.0 million (previous year: EUR 5.0 million) were available for general corporate financing, including the financing of capital expenditure 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 2021 financial year, it generated revenue from management services rendered for the project companies. The number of employees, excluding Executive Board members, remained constant with an average of 30 in the year under review (2020 financial year: 30 employees).

DEMIRE's financial statements as at 31 December 2021 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

Following a weak start to the year as a result of the lockdown owing to the pandemic, an increasing recovery in the economic environment and a positive annual result that was a slight improvement on 2020 had been expected for the 2021 financial year. This forecast was achieved. Income from long-term equity investments fell as expected during the period under review, but were able to be more than compensated for by way of the increase in income from profit transfer agreements. Given that no withdrawal was made from the free capital reserves during the period under review (unlike the previous year), DEMIRE AG's accumulated profit fell compared to the previous year.

RESULTS OF OPERATIONS

STATEMENT OF INCOME (EXCERPT)

in EUR thousand	2020	2021	Change	in %
Revenue	4,024	4,206	182	4.5
Other operating income	1,095	1,049	–46	–4.2
Personnel expenses	–5,561	–4,937	–624	–11.2
Other operating expenses, depreciation and amortisation	–5,015	–5,320	305	6.1
Income from long-term equity investments	22,198	3,872	–18,325	–82.6
Income from profit transfer agreements	7,620	35,039	27,419	>100
Income from loans of financial assets	18,709	19,534	825	4.4
Other interest and similar income	647	512	–135	–20.9
Impairment of financial assets	–448	–650	202	45.2
Expenses from the assumption of losses	–1,044	–450	–594	–56.9
Interest and similar expenses	–12,320	–13,588	1,268	10.3
Expenses from compensation payments to minority shareholders	–142	–142	0	0
Result from ordinary activities	**29,763**	**39,126**	**9,363**	**31.5**
Income taxes	–595	–6,283	–5,688	>100
Net profit	**29,168**	**32,843**	**3,675**	**12.6**
Profit carried forward	459	950	490	>100
Withdrawal from the capital reserves and offsetting with shares acquired for redemption	36,740	880	–35,860	–100
Accumulated profit	**66,368**	**32,912**	**–34,855**	**–50.4**

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 only increased slightly by EUR 0.2 million to EUR 4.2 million.

Other operating income fell slightly by EUR 0.1 million from EUR 1.1 million in 2020 to EUR 1.0 million.

However, **personnel expenses** decreased by EUR 0.6 million to EUR 4.9 million, compared to EUR 5.6 million in the previous year.

Other operating expenses increased from EUR 5.0 million by EUR 0.3 million to EUR 5.3 million.

In the 2021 financial year, a total net profit of EUR 35.0 million (2020 financial year: EUR 7.6 million) was transferred and a loss of EUR 0.5 million (2020 financial year: EUR 1.0 million) was assumed on the basis of existing **control and profit transfer agreements**. This high level of income was generated during the period under review as a result of the sale of properties in Regensburg and Ansbach, each held by a company within the tax group.

In the previous year, **income from investments** included proceeds from the sale of a property in Unterschleißheim well above its carrying amount in the form of distributions from subsidiaries; no such lucrative sales were realised in the reporting period.

Income from **loans of financial fixed assets** amounting to EUR 19.5 million (previous year: EUR 18.7 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 2021 financial year came to EUR –13.6 million (2020 financial year: EUR –12.3 million). Impairment on financial assets in the 2021 financial year equalled EUR 0.7 million (2020: EUR 0.4 million). 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 39.1 million in 2021, compared to EUR 29.8 million in 2020.

Earnings after taxes amounted to EUR 32.8 million in 2021 (2020 financial year: EUR 29.2 million). No amount was withdrawn from free capital reserves and transferred to the accumulated profit in 2021 (previous year: EUR 36.7 million); EUR 0.9 million was recognised here to offset shares acquired for redemption (previous year EUR 0). Consequently, the Company's accumulated profit amounted to EUR 32.9 million (previous year: EUR 66.4 million).

NET ASSETS

BALANCE SHEET – ASSETS (EXCERPT)

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Assets				
Fixed assets	864,581	878,129	13,548	1.6
Current assets / prepaid expenses	119,382	93,104	–26,279	–22.0
TOTAL ASSETS	**983,963**	**971,233**	**–12,730**	**–1.3**

BALANCE SHEET – EQUITY AND LIABILITIES (EXCERPT)

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Equity and liabilities				
Equity	332,020	298,305	–33,715	–10.2
Provisions	6,291	11,203	4,912	76.5
Liabilities	645,652	661,724	16,072	2.5
TOTAL EQUITY AND LIABILITIES	**983,963**	**971,233**	**–12,730**	**–1.3**

The Company's total assets as at the 31 December 2021 reporting date amounted to EUR 971.2 million. This represents a moderate drop of 1.3% compared to the previous year's total of EUR 984.0 million.

Fixed assets also remained largely constant in a year-on-year comparison in the financial year under review at EUR 878.1 million (previous year: EUR 864.6 million). Current assets including prepaid expenses decreased by 22.0% to EUR 93.1 million compared to EUR 119.4 million on the previous year's reporting date. Cash and cash equivalents amounted to EUR 7.3 million (previous year: EUR 54.3 million).

On the liabilities side of the balance sheet, the Company's equity fell from EUR 332.0 million as at 31 December 2020 to EUR 298.3 million as at 31 December 2021 as a result of the dividend payout on the one hand, and the net profit for 2021 on the other.

The equity ratio declined accordingly from 33.7% as at 31 December 2020 to 30.7% as at 31 December 2021.

Provisions of EUR 11.2 million as at 31 December 2021 (31 December 2020: EUR 6.3 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 increased from EUR 645.7 million as at 31 December 2020 to EUR 661.7 million as at 31 December 2021 due to the taking out of a loan by a subsidiary.

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 at all times during the financial year and as at the reporting date, with two exceptions.

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	2020	2021	Change	in %
Cash flow from operating activities	29,458	16,332	–13,126	–44.6
Cash flow from investing activities	13,864	–14,274	–28,138	–
Cash flow from financing activities	–50,274	–49,073	1,201	–2.4
Net change in cash and cash equivalents	**–6,952**	**–47,015**	**–40,062**	**> 100**
Cash and cash equivalents at the end of the period	**54,315**	**7,299**	**–47,015**	**–86.6**

Operating activities resulted in a cash inflow of EUR 16.3 million in 2021, after a cash outflow of EUR 29.5 million in the previous year.

Cash flow from investing activities amounted to EUR –14.3 million, compared to EUR 13.9 million in 2020. The previous year includes purchases made through subsidiaries.

DEMIRE AG's cash flow from financing activities amounted to EUR –49.1 million in the 2021 financial year, compared to EUR –50.3 million in 2020.

During the 2021 financial year, DEMIRE was able to meet all of its payment obligations at all times.

FORECAST

The slight increase in net profit forecast for 2021 compared to 2020 materialised. As a result, in particular, of higher project-related costs, we expect a slightly reduced net profit for the 2022 financial year compared to 2021.

SUBSEQUENT EVENTS

No significant events occurred after the reporting date.

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 0.62 per share for the 2020 financial year. For the financial year 2021, the Executive Board and the Supervisory Board propose to carry forward the balance sheet profit to new account and not to distribute a dividend.

FURTHER LEGAL INFORMATION

Disclosures pursuant to Section 289a/315a HGB

COMPOSITION OF SUBSCRIBED CAPITAL

a) As at 31 December 2021

As at 31 December 2021, 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 2021

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 2021

In 2021, the Company received a voting rights notification from BRH Holdings GP, Ltd., which are published on the English version of DEMIRE's website. As at 31 December 2021, 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 of Mr Klaus Wecken, Basel, Switzerland held a total of 32.14% of the shares through various subsidiaries.

b) Development after 31 December 2021

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. 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.

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 2021

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 2021.

b) Development after 31 December 2021

There were no changes compared with 31 December 2021 up to the publication of this Annual Report.

Conditional capital

a) As at 31 December 2021

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 2021.

b) Development after 31 December 2021

There were no changes compared with 31 December 2021 up to the publication of this Annual Report.

Authorisation to issue convertible bonds or bonds with warrants

a) As at 31 December 2021

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, treasury 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 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 18 January 2022, 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 2021

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 2021 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 and 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 2021 financial year

REMUNERATION SYSTEM FOR THE EXECUTIVE BOARD MEMBERS IN THE 2021 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 (see: https://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, do not enter into force until **1 January 2022**, the Executive Board members were granted remuneration for the 2021 financial year in accordance with the requirements of the previous remuneration system (**"Old remuneration system"**). Accordingly, the Old remuneration system is presented below.

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

There was no adjustment made to the target remuneration of the Executive Board members in the 2021 financial year in comparison to the previous year.

Furthermore, the Supervisory Board laid down the performance criteria with regard to performance-related variable remuneration elements for the 2021 financial year. Details on the Executive Board members' bonuses which were vested in the 2021 financial year are reserved for the remuneration report for the 2022 financial year. They are therefore not presented in this remuneration report.

The Supervisory Board did not deviate from the requirements of the Old remuneration system in the 2021 financial year.

REMUNERATION SYSTEM FOR THE SUPERVISORY BOARD MEMBERS IN THE 2021 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 was applied in full, as laid down in Section 16 of the Articles of Association (version dated 22 September 2020).

Detailed breakdown of Executive Board remuneration during the 2021 financial year

OVERVIEW OF OLD REMUNERATION SYSTEM

The Old 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 Old 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 – bonus) and a multi-year variable remuneration amount (long-term incentive [LTI] in the form of a 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 below that summarises the key features of the Old remuneration system.

Key elements of the remuneration system applicable in 2021 financial year ("Old 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. In addition, the Company shall also reimburse the Executive Board member for the costs incurred for a private pension scheme, up to the value of the maximum voluntary monthly contribution to the statutory pension insurance scheme.
Pension expenses	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).

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	The one-year variable remuneration consists of a target amount that is paid out depending on the achievement of specific performance criteria.
	Cap: Double the target amount
Bonus (short-term incentive)	**Performance criteria:** **For Mr Tim Brückner:** 1. Qualitative targets — Development of digitalisation within the company, including in terms of reporting and the treasury management system — Continued stabilisation of the team, including under conditions imposed by COVID-19 — Commencement of the EPRA Sustainability Rating Project with the aim of receiving a sustainability rating in the future — Optimisation of the service provider and cost structure — Accounting optimisation — Optimisation of shareholder structures 2. Quantitative targets — FFO increase of at least 10% compared to 2019 — Reduction of DEMIRE financing costs

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	Performance criteria: **For Mr Ingo Hartlief:** 1. Qualitative targets — Implementation of an effective COVID-19 crisis management procedure (e.g. continuous monitoring of tenancies) — Cost structure optimisation (real estate, financing, structure-related and administrative costs) — Continued development of receivables management processes — Risk management improvements; ICG certification — Successful repositioning of single-tenant properties 2. Quantitative targets — FFO increase of at least 10% compared to 2019 — Continued development of the company with the aim of being able to distribute a dividend — Achievement of liquidity of at least EUR 200 million — Leases of at least 100,000 m² in size (new contracts and extensions of old leases)
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.

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	2019 tranche (LTI 2019/2023) **Cap:** Capped by way of an annual allotment defined 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).
	Performance criteria: A threshold of 7% p.a. and a maximum value of 14% p.a. applies to the annual share price increase sub-target. A maximum value of 10 percentage points and a threshold of minus 10 percentage points applies to the relative total shareholder return sub-target.
Virtual stock option programme (Long-term incentive)	**Payment:** After a period of four years, depending on the achievement of performance targets defined beforehand and the share price.

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	2020 tranches (LTI 2020/2024) (LTI 2021/2025) **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 stock options (also referred to as "performance share units" or "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.
	Performance criteria: — 50% annual share price increase — 50% relative total shareholder return A threshold of 7% p.a. and a maximum value of 14% p.a. applies to the annual share price increase sub-target. A maximum value of 10 percentage points and a threshold of minus 10 percentage points applies to the relative total shareholder return sub-target.
Virtual stock option programme (Long-term incentive)	**Payment:** After a period of four years, depending on the achievement of performance targets defined beforehand and the share price.

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	2020 tranches (LTI 2020/2024) (LTI 2021/2025) **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 stock options (also referred to as "performance share units" or "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.
	Performance criteria: — 50% annual share price increase — 50% relative total shareholder return A threshold of 7% p.a. and a maximum value of 14% p.a. applies to the annual share price increase sub-target. A maximum value of 10 percentage points and a threshold of minus 10 percentage points applies to the relative total shareholder return sub-target.
Virtual stock option programme (Long-term incentive)	**Payment:** After a period of four years, depending on the achievement of performance targets defined beforehand and the share price.

REMUNERATION ELEMENT

Other remuneration provisions	Basis for calculation/parameter
Maximum remuneration	Provision initially as part of amended agreements dated 26 May 2021.
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 or similar functions are accounted for against the fixed annual salary. No provision is in place for separate remuneration for assuming an Executive Board mandate at Fair Value REIT-AG.

DETAILED BREAKDOWN OF FIXED REMUNERATION ELEMENTS IN THE 2021 FINANCIAL YEAR

Basic remuneration in 2021 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 2021 amounted to EUR 400,000.00 gross p.a. for CEO Ingo Hartlief and EUR 240,000.00 gross p.a. for CFO Tim Brückner.

Fringe benefits in 2021 financial year

In addition to the basic remuneration, Executive Board members are also entitled to fringe benefits. These include the provision of a company car for business and personal use.

The Company also provides continued cover for Executive Board members under its directors' and officers' liability insurance policy (D&O insurance). 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 shall also reimburse the Executive Board member Tim Brückner for the costs incurred for a private pension scheme, up to the value of the maximum voluntary monthly contribution to the statutory pension insurance scheme.

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 he or she 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, his or her 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 2021 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 2021 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 2021 financial year (2020 bonus)

Basic structure

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 2020 financial year, which was paid out in the 2021 financial year.

The short-term incentive programme contains a provision regarding the maximum amount to be paid out, according to which the payment amount is capped at a total of 200% of the target value. If these performance criteria are not met, this variable remuneration element may also be omitted entirely.

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, the bonus for the 2020 financial year was set at a target gross remuneration amount of EUR 190,000. For the Executive Board member Tim Brückner, the bonus for the 2020 financial year was set at a target gross remuneration amount of EUR 115,000.

Beyond the financial aspects, these additional performance criteria are also intended to be meaningful for the Company's employees. The aim here is to ensure that the Company's interests are safeguarded and monitored in full from a managerial perspective.

The Supervisory Board must approve the targets for the current financial year.

The bonus vested in the 2020 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 2020 financial year were adopted, i.e. at the end of April 2021. This payment must therefore be attributed to remuneration granted for the 2021 financial year pursuant to Section 162(1) AktG.

The 2020 bonus is based on the Old remuneration system. The following performance criteria and other criteria were used in the 2020 financial year to assess the achievement of targets:

FOR MR TIM BRÜCKNER:

1. Qualitative targets

- Development of digitalisation within the company, including in terms of reporting and the treasury management system
- Continued stabilisation of the team, including under conditions imposed by COVID-19
- Commencement of the EPRA Sustainability Rating Project with the aim of receiving a sustainability rating in the future
- Optimisation of the service provider and cost structure
- Accounting optimisation
- Optimisation of shareholder structures

2. Quantitative targets

- FFO increase of at least 10% compared to 2019
- Reduction of DEMIRE financing costs

FOR MR INGO HARTLIEF:

1. Qualitative targets

- Implementation of an effective COVID-19 crisis management procedure (e.g. continuous monitoring of tenancies)
- Cost structure optimisation (real estate, financing, structure-related and administrative costs)
- Continued development of receivables management processes
- Risk management improvements; ICG certification
- Successful repositioning of single-tenant properties

2. Quantitative targets

- FFO increase of at least 10% compared to 2019
- Continued development of the company with the aim of being able to distribute a dividend
- Achievement of liquidity of at least EUR 200 million
- Leases of at least 100,000 m^2 in size (new contracts and extensions of old leases)

The achievement of targets was reported by the Supervisory Board in a general overview. DEMIRE AG's corporate performance during the 2020 financial year was impacted in part by the COVID-19 pandemic. Regardless of this, the agreed targets were not only met, but were in fact clearly exceeded, particularly with regard to the increase in FFO, the letting performance and the significantly reduced financing costs. The Supervisory Board believes that the Executive Board has successfully brought the Company forwards, which is a major achievement given the uncertain environment caused by the pandemic. Not only were all the set targets met, but in fact were exceeded by a long way, with a target achievement rate of 200%. As a result, in April 2021 the Executive Board members received a 200% bonus payment for the 2020 financial year.

Both the bonus and the PSUs granted are in line with the remuneration system, which provides both short-term and long-term incentives to the Executive Board. By providing these incentives, the remuneration system 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.

2021 VIRTUAL STOCK OPTION PROGRAMME (LONG-TERM INCENTIVE) IN THE 2021 FINANCIAL YEAR

Basic structure (2021/2025 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 2021/2025 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 2021 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 2021 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.

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 him or her. 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 2021 financial year (2021/2025 tranche)
In total, 121,027 (75,795 + 45,232) PSUs were provisionally granted to the Executive Board members in the 2021 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 310,000 gross	EUR 4.09	75,795
Tim Brückner	EUR 185,000 gross	EUR 4.09	45,232

OTHER REMUNERATION PROVISIONS IN THE 2021 FINANCIAL YEAR

Details regarding the defined maximum remuneration amounts for Executive Board members and compliance with said amounts in the 2021 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 2020/2024 and 2021/2025 tranches, 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 2021 financial year:

Compliance with the stipulated maximum amounts with regard to the variable remuneration elements in the 2021 financial year

INGO HARTLIEF – CHAIRMAN OF THE EXECUTIVE BOARD SINCE 20 DECEMBER 2018

in EUR (gross)		Target remuneration	Maximum	Payment
One-year variable remuneration	Bonus for 2021 (short-term incentive)	190,000	380,000	380,000 (Bonus for FY 2020, see above)
	Virtual stock option programme (LTI) (2021/2025 tranche)			
Multi-year variable remuneration	Value of granted PSUs (2021/2025 tranche) = 310,000	310,000	775,000 (Cap of 2.5x upon payment)	–

TIM BRÜCKNER – CHIEF FINANCIAL OFFICER SINCE 1 FEBRUARY 2019

in EUR (gross)		Target remuneration	Maximum	Payment
One-year variable remuneration	Bonus for 2021 (short-term incentive)	115,000	230,000	230,000 (Bonus for FY 2020, see above)
	Virtual stock option programme (LTI) (2021/2025 tranche)			
Multi-year variable remuneration	Value of granted PSUs (2021/2025 tranche) = 185,000	185,000	462,500 (Cap of 2.5x upon payment)	–

No overall maximum remuneration amount was stipulated for the Executive Board for the 2021 financial year.

Given that no overall maximum remuneration amount has been stipulated for the 2021 financial year, no such review can take place for the 2021 financial year.

REMUNERATION UPON TERMINATION OF CONTRACT IN THE 2021 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 plus fringe benefits 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 of the virtual stock option programme (LTI)

If the respective Executive Board member has resigned for "good cause", has not received an extension of his or her Executive Board employment contract or ends his or her 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.

Post-contractual non-competition clause

No post-contractual non-competition clauses have been agreed in the employment contracts. 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
In line with the Old remuneration system, the Supervisory Board has the option under Section 87(2) AktG to reduce the payments or other benefits.

Furthermore, in the event of a clear and unequivocal gross breach by the Executive Board member in his or her capacity as an Executive Board member, of one of his or her material duties to exercise skill and care within the meaning of Section 93 AktG or of one of his or her other material duties under the terms of his or her employment contract, the Supervisory Board may also exert its reasonable discretion (under Section 315 BGB) in reducing 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 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 his or her 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 LTI had already been paid out by the date the decision on reducing remuneration was taken, the Executive Board member must return any overpayments that he or she 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.

Any compensation claims by the Company against the Executive Board member arising in particular from Section 93(2) AktG, as well as the Company's entitlement to terminate for good cause within the meaning of Section 626(1) BGB, shall remain unaffected by this.

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 LTI 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.

Certain circumstances surrounding an individual's departure may result in the PSUs lapsing. In cases involving bad leavers, provision is in place for all PSUs granted to lapse without any compensation. The term "bad leaver" in this sense refers to an Executive Board member whose termination was not down to "good cause" or whose Executive Board employment contract was terminated for good cause (cf. Section 626 BGB, for example).

Third-party benefits

During the 2021 financial year, no Executive Board member was promised or granted benefits from a third party regarding his or her activity as an Executive Board member.

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

Remuneration benefits paid to undertake any intra-Group Supervisory Board mandates or similar functions are accounted for against the fixed annual salary. No provision is in place for separate remuneration for assuming an Executive Board mandate at Fair Value REIT-AG.

Mr Tim Brückner was appointed CEO of Fair Value REIT-AG on 20 May 2019. Mr Ingo Hartlief was appointed Vice Chairman of the Supervisory Board of Fair Value REIT-AG on 20 May 2019.

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%.

Mr Ingo Hartlief and Mr Tim Brückner did not observe any Executive Board and/or Supervisory Board mandates external to the Group during the 2021 financial year.

Detailed breakdown of Executive Board member remuneration during the 2021 financial year

Illustration of remuneration (including respective relative proportion) granted or owed to Executive Board members Ingo Hartlief and Tim Brückner for the 2021 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 2021 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 2021 financial year, which was vested in the 2020 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 was granted or owed in the 2021 financial year.

REMUNERATION GRANTED AND OWED PURSUANT TO SECTION 162 AKTG FOR FY 2021

Ingo Hartlief – Chairman of the Executive Board since 20 December 2018

		in EUR (gross)	in %
Fixed remuneration components			
	Basic remuneration 2021	400,000.00	50.66
	Fringe benefits 2021	4,622.04	0.59
Fixed remuneration	Pension expenses 2021	4,976.88	0.63
Total		**409,598.92**	**51.88**
Variable remuneration components			
One-year variable remuneration	2020 bonus (payment in March 2021)	380,000.00	48.13
	LTI 2019/2023	–	–
	LTI 2020/2024	–	–
Multi-year variable remuneration	LTI 2021/2025	–	–
Total		**380,000.00**	
Total			
TOTAL REMUNERATION		**789,598.92**	**100.00**

REMUNERATION GRANTED AND OWED PURSUANT TO SECTION 162 AKTG FOR FY 2021

Tim Brückner – Chief Financial Officer since 1 February 2019

		in EUR (gross)	in %
Fixed remuneration components			
	Basic remuneration 2021	240,000.00	46.25
	Fringe benefits 2021	18,000.00	3.47
Fixed remuneration	Pension expenses 2021	30,905.28	5.96
Total		**288,905.28**	**55.68**
Variable remuneration components			
One-year variable remuneration	2020 bonus (payment in March 2021)	230,000.00	44.32
	LTI 2019/2023	–	–
	LTI 2020/2024	–	–
Multi-year variable remuneration	LTI 2021/2025	–	–
Total		**230,000.00**	
Total			
TOTAL REMUNERATION		**518,905.28**	**100.00**

Remuneration granted and owed to former Executive Board members during the 2021 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 share 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 to the amount of the potential outstanding compensation. This is because the parties are still in litigious discussions about this.

Former Executive Board members did not receive any remuneration in the 2021 financial year.

SUPERVISORY BOARD REMUNERATION FOR THE 2021 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. An attendance fee may also be stipulated for committee members. 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. As an alternative to the remuneration amount payable annually, an attendance fee may be stipulated for Supervisory Board members. The value of said attendance fee is also 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 Vice 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 2021 financial year

The table below shows the remuneration granted to the current Supervisory Board members for the 2021 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 2021 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 illustration below includes the fixed annual remuneration for Supervisory Board activities during the 2020 financial year, which was paid out in the 2021 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 2020 financial year or the 2021 financial year.

REMUNERATION GRANTED TO SUPERVISORY BOARD MEMBERS IN THE 2021 FINANCIAL YEAR

	Fixed remuneration		Total remuneration	
Current Supervisory Board members	in EUR	in %	in EUR	in %
Prof. Dr Alexander Goepfert	90,000	100	90,000	100
Frank Hölzle	60,000	100	60,000	100
Dr Kerstin Hennig	30,000	100	30,000	100
TOTAL	**180,000**	**100**	**180,000**	**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, with the latter 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.

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

	Remuneration granted and owed for 2021	Remuneration granted and owed for 2020	Change in 2021 compared to 2020		Change in 2020 compared to 2019		Change in 2019 compared to 2018		Change in 2018 compared to 2017	
Current Executive Board members	in EUR	in EUR	in EUR	in %	in EUR	in %	in EUR	in %	in EUR	in %
Ingo Hartlief	789,598.92	1,104,221.36	–314,622.44	–28	770,027	230	323,727.17	–	–	–
Tim Brückner	518,905.28	339,143.18	179,762.10	53	111,213	49	–	–	–	–
Former Executive Board members										
Ralf Kind	–	–	–	–	–3,418.08	–100	–667,207.76	–99	146,625.84	28
Employees										
Employee average	106,702.89	95,656.46	11,046.43	12	–10,662.43	–10	5,628.61	6	–9,233.38	–8
Development of earnings										
Net income for the financial year – DEMIRE Group (in EUR thousand)	61,587	9,167	52,420	572	–70,571	–89	10,685	15	49,621	255
Net income for the financial year – DEMIRE AG (in EUR thousand)	32,843	29,168	3,675	13	26,472	982	–90,630	–97	139,095	N/A

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

	Remuneration granted and owed for 2021	Remuneration granted and owed for 2020	Change in 2021 compared to 2020		Change in 2020 compared to 2019		Change in 2019 compared to 2018		Change in 2018 compared to 2017	
Current Supervisory Board members	in EUR	in EUR	in EUR	in %	in EUR	in %	in EUR	in %	in EUR	in %
Alexander Goepfert	90,000	90,000	0.00	0	0.00	0	0.00	0	-	–
Frank Hölzle	60,000	60,000	0.00	0	0.00	0	0.00	0	0.00	0
Kerstin Hennig	30,000	30,000	0.00	0	0.00	0	-	–	–	–
Former Supervisory Board members										
Hermann Wagner	–	–	–	–	–	–	0.00	0	0.00	0
Thomas Wetzel	–	–	–	–	–	–	0.00	0	0.00	0
Employees										
Employee average	106,702.89	95,656.46	11,046.43	12	–10,662.43	–10	5,628.61	6	–9,233.38	–8
Development of earnings										
Net income for the financial year – DEMIRE Group (in EUR thousand)	61,587	9,167	52,420	572	–70,571	–89	10,685	15	49,621	255
Net income for the financial year – DEMIRE AG (in EUR thousand)	32,843	29,168	3,675	13	26,472	982	–90,630	–97	139,095	N/A

OPPORTUNITIES AND RISKS

Risk report

Risk management system

The objectives of the risk management system are to ensure the lasting viability of DEMIRE, to recognise risks at an early stage, monitor compliance with the risk strategy derived from the corporate strategy, 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 risk management system covers all of the DEMIRE Group's affiliated companies included in the consolidated financial statements, especially Fair Value REIT-AG.

EARLY RISK WARNING SYSTEM

DEMIRE AG's early 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, and will take place at regular intervals in the future.

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.

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

A completely new process to determine the risk-bearing capacity was established in 2021. The Monte Carlo method was chosen for the purpose of risk aggregation. This means extremely detailed results regarding the actual bearing capacity of risks by 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 informed quarterly and also ad hoc if necessary. 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.

FINANCIAL REPORTING PROCESS

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

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 of the Annual Report 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 to eliminate any control weaknesses

General risk situation

During the 2021 financial year, DEMIRE benefited from the continued positive development of the real estate market in Germany, despite the coronavirus pandemic. This, together with the measures initiated by the Company's Executive Board, contributed significantly to the improvement in the financial and operating figures. In spite of the property sales that were completed, the Company's rental income was able to be stabilised through successful letting. Consistent cost management at a property and Company level also contributed to an improvement in the key figures. In addition to further reductions in the average financing costs, this is also expected to result in significantly improved key figures in subsequent years too.

Nevertheless, the coronavirus pandemic is leaving a lasting mark on the Group's financial and operating figures. For example, the lockdown periods contributed to an increased number of open payment items. The strong letting result, particularly in the logistics property in Leipzig, was the main reason for the valuation result, which also draws on the work completed in previous years prior to the outbreak of the coronavirus pandemic.

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 properties' of the Annual Report.

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).

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 2021, the ongoing coronavirus pandemic resulted in losses in rental income and made the conditions for new lettings more difficult. In spite of this, the annual targets were able to be exceeded. For 2022, the forecast from the economic experts is cautiously positive, despite the ongoing coronavirus pandemic. Economic recovery would have a stabilising effect on demand for space in the office, retail and hotel sectors. However, in spite of the vaccination rate achieved in the meantime, economic performance remains subject to considerable uncertainty for the time being.

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 **low** on average.

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 2022 are sufficient for the current needs of the operating activities. In addition, there are no final maturities of financial liabilities in 2022 and 2023 to the relevant extent, so there is no risk from follow-up financing in this period.

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 62 of the Annual Report for the value of the individual covenants, as well as the status as at 31 December 2021 for the corporate bond. In April 2021, the internationally renowned rating agency Moody's cut its rating for the corporate bond to Ba3. This decision was taken in particular in conjunction with the scheduled dividend payment for the 2020 financial year that took place at a later date. 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. This involves loans with exclusively fixed interest rates, bank financing secured using real estate and tradable instruments such as corporate bonds as 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. The Executive Board estimates the Group's interest rate risk to be **very low**.

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 2021 financial year, the ten largest tenants accounted for 40.0% (31 December 2020: 39.05%; 31 December 2019: 43.2%) 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 14.5% (31 December 2020: 15.3%; 31 December 2019: 19.1%) of total contractual rents in the real estate portfolio across several leases and real estate locations, is Deutsche Telekom (GMG Generalmietgesellschaft GmbH). 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 Executive Board considers the risk from the valuation and the resulting effects on the net assets, financial position and results of operations to be **low**.

Coronavirus pandemic

The coronavirus pandemic hit Germany in early 2020, resulting in several 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. In spite of the current high number of daily new infections and the associated restrictions (including restricted access for businesses and restaurants), the day-to-day economy is continuing largely undisturbed.

However, the pandemic continues to have a sustained negative impact on the German economy and individual businesses, including, for example, as a result of global supply chain disruption. There is a threat of rent losses, insolvencies and risks in the re-letting of space. This applies in particular to retail spaces at the present time.

This situation is unprecedented in Germany, so all market participants are challenged to deal with these increased impairments in business life.

The Executive Board estimates the overall risk from the coronavirus pandemic as **medium**.

Sales risks

We are using property sales from the existing portfolio to reduce cluster risk in the sectoral and regional portfolio structure, achieve profit and reduce debt, thereby lowering financial 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, no contamination, occupancy rate. These could have a negative impact on the Company's net assets, financial position and results of operations.

Due to the relatively low volume of divestments – in terms of the absolute value of the properties sold – at DEMIRE in recent financial years, the Executive Board estimates the sales risk and the resulting effects on the 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.). It was successfully re-certified in 2021.

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 **very 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 as **low**.

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 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. This was confirmed once again in the 2021 financial year, when there were significantly fewer changes in personnel.

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 protects itself against IT risks with its own dedicated network, modern hardware and software solutions and measures against external attacks. Furthermore, all data is backed up. 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, also represents an 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

In spite of the ongoing coronavirus pandemic, and unlike the previous year, the risk situation faced by the DEMIRE Group and the Company has continued to improve during the reporting period. The operational successes, the sustained improvement in corresponding key figures, and the refinancing in 2019, 2020 and 2021 are contributing to DEMIRE being better equipped to withstand external shocks than in the past. This is clearly shown by the earnings of the 2021 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 newly introduced 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 that 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.

Description of major individual opportunities

Opportunities arising from the current market situation

MACROECONOMIC AND SECTOR OPPORTUNITIES

DEMIRE considers the macroeconomic and sector-specific environment to also be generally positive for the 2022 financial year. The further impact of the pandemic and the resulting lockdown is shaping the development of the macroeconomic situation as well as the real estate industry, but this appears to be somewhat manageable and is increasingly beginning to subside.

The Company does not initially expect to see any impact from the conflict between Russia and Ukraine, which escalated in early 2022. This is down to the fact there are no direct relationships in place in Ukraine or Russia and that there are no direct links within the tenant base either.

DEMIRE is therefore cautiously optimistic as it looks ahead to 2022. Internally, once again in 2021, the Company's strategy and structure survived their baptism of fire brought about by the special circumstances imposed by the coronavirus pandemic. 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 to further increase its enterprise value by carefully and professionally selecting additional properties and continuing to actively manage the existing portfolio.

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

Business opportunities

During the reporting period, the insourcing of Group functions and the associated harmonisation of processes and IT structures were largely completed. In addition, the in-house asset and portfolio management team was strengthened in terms of expertise and personnel resources, and was adapted to reflect the size of the portfolio and the planned growth. Property and facility management, which was largely outsourced to a renowned service provider at the end of 2018, is positioned well to deal with the planned portfolio growth. These measures have resulted in greater efficiency and economic benefits, which are reflected in the renewed drop in property-specific and current administrative expenses. DEMIRE now expects to achieve only minor further savings in 2022. 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 will improve compared to the level as at the reporting date.

At the same time, the purchase of properties offering potential to leverage their added value is highly attractive for DEMIRE's business model, as the Company's active property management approach will allow DEMIRE to increase the cash flows of these properties and the value of its portfolio.

FINANCIAL OPPORTUNITIES

Since there are no final maturities of financial liabilities in 2022, DEMIRE aims to use a balanced financing mix of secured and unsecured financing to further optimise the DEMIRE Group's financial structure, particularly in the context of its planned growth.

The financing possibilities for future property acquisitions remain positive and, in the Company's opinion, will continue to be so for the foreseeable future.

Overall assessment of DEMIRE's opportunities

Since 2019, DEMIRE has laid the essential foundations for its long-term success as one of the leading listed portfolio owners of German commercial real estate with a balanced risk/reward profile and attractive cash flows. 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 considers DEMIRE's opportunities favourable enough to further increase its portfolio's size and its profitability in the years ahead through planned growth and the optimisation of the property management platform.

FORECAST

Expected development of the overall environment and sector

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

The coronavirus pandemic will continue to have a significant negative impact on German economic recovery in 2022, according to forecasts released by the International Monetary Fund (IMF). The expected economic growth figure, measured in terms of gross domestic product, has been revised downwards by 0.8 percentage points to 3.8%. This is based on the German economy's sensitivity to the existing disruption to global supply chains. The IMF is also forecasting further increases in inflation in the short term. A fall in the inflation rate is not expected until 2023.

The industry association BAUINDUSTRIE expects the construction industry to post real revenue growth of 1.5% (nominal figure of 5.5%). In spite of the ongoing coronavirus pandemic, CUSHMAN & WAKEFIELD considers the commercial real estate market to be in good shape and forecasts growth in space turnover in 2022.

Anticipated development of the overall environment

Macroeconomic environment

CUSHMAN & WAKEFIELD predicts transaction volumes of just over EUR 60 billion for the commercial real estate market, on a par with the previous year. Owing to the ongoing high level of liquidity and demand, analysts believe there will continue to be a slight fall in prime yields, particularly for office properties in top locations. CBRE considers the hotel investment market to be heavily dependent on how the remainder of the pandemic plays out. However, initial transactions are already in the offing. With regard to retail properties, Colliers International expects demand to remain high in particular for local suppliers and specialist retail parks, while product availability remains low at the same time.

Savills expects ESG rules and regulations to have an increasing impact in the current year. BNP PARIBAS REAL ESTATE considers any interest rate change risks to be manageable, referring to the ongoing favourable financing conditions in a historical context and the attractive risk-reward profile of real estate investments.

Anticipated development of the sector

Transaction market for commercial real estate

CUSHMAN & WAKEFIELD predicts transaction volumes of just over EUR 60 billion for the commercial real estate market, on a par with the previous year. Owing to the ongoing high level of liquidity and demand, analysts believe there will continue to be a slight fall in prime yields, particularly for office properties in top locations. CBRE considers the hotel investment market to be heavily dependent on how the remainder of the pandemic plays out. However, initial transactions are already in the offing. With regard to retail properties, Colliers International expects demand to remain high in particular for local suppliers and specialist retail parks, while product availability remains low at the same time.

Savills expects ESG rules and regulations to have an increasing impact in the current year. BNP PARIBAS REAL ESTATE considers any interest rate change risks to be manageable, referring to the ongoing favourable financing conditions in a historical context and the attractive risk-reward profile of real estate investments.

Rental market

BNP PARIBAS REAL ESTATE is working on the assumption that recent positive trends in the office letting market will continue in 2022. This will become all the more prevalent as the coronavirus pandemic enters its endemic phase. As this happens, experts expect to see significant rebound effects.

On the logistics rental market, a shortage of space remains the determining factor. Specialists at CBRE expect demand to remain high, rents to increase in general and yields to fall as a result.

Expected development of the Group

Overall assessment

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

Overall, DEMIRE expects to see a stable economic environment for the 2022 financial year. As at the reporting date, the Company expects that neither the coronavirus pandemic nor the Russia-Ukraine conflict will have any substantial impacts on DEMIRE's business.

Expected development in operating business

The focus will be on further portfolio growth and measures to make the portfolio more dynamic, alongside continued positive development in the key operating figures. DEMIRE is planning to use its available liquidity to make further acquisitions in order to achieve its medium-term goal of a portfolio of over EUR 2 billion. DEMIRE intends to continue to optimise the current real estate portfolio by actively managing properties, reducing vacancies, realising value creation potential and continuing to selectively sell non-strategic properties. As a result, DEMIRE does expect to see a decline in the income base in 2022, based on sales completed in the past two years. However, this should be partly offset by further acquisitions, efficiency gains brought about by optimising real estate management measures and cost structures further and exploiting synergies and economies of scale.

Anticipated development of the key economic indicators

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

Within the context of the positive developments in 2021 and the successful streamlining of our portfolio, the Company expects to see rental income of between EUR 78.0 million and EUR 80.0 million and FFO I (after taxes, before minority interests) of between EUR 38.5 million and EUR 40.5 million for 2022. Due to the many sales in recent years, and despite the successful letting performance, this is expected to result in values slightly below those 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 planning to publish a sustainability report for the first time.

FORECAST

in EUR million	Forecast 17/03/2021	Forecast 23/11/2021	Result for 2021	Forecast for 2022
Rental income	80.0–82.0	Upper margin of 80.0–82.0	82.3	78.0–80.0
FFO I (after taxes, before minority interests)	34.5–36.5	Exceeds previous year's value of 39.2	39.8	38.5–40.5

Frankfurt am Main, 16 March 2022
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

BALANCE SHEET

as at 31 December 2021

ASSETS

in EUR	2020	2021
A. FIXED ASSETS		
I. Intangible assets		
Paid concessions, commercial property rights and similar rights and assets, as well as licences to such rights and assets	4.00	4.00
	4.00	**4.00**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on third-party property	49,103.00	10,586.00
2. Other equipment, operating and office equipment on third-party property	117,823.00	86,153.00
	166,926.00	**96,739.00**
III. Financial assets		
1. Investments in affiliated companies	239,151,688.79	238,501,688.79
2. Loans to affiliated companies	619,814,052.03	549,028,318.00
3. Loans to companies in which shares are held	0.00	25,150,000.00
4. Other loans	5,448,308.29	65,352,451.40
	864,414,049.11	**878,032,458.19**
	864,580,979.11	**878,129,201.19**
B. CURRENT ASSETS		
I. Receivables and other assets		
1. Trade accounts receivable	2,957,820.00	5,296,698.95
2. Receivables from affiliated companies	27,636,414.19	60,176,731.39
3. Other assets	31,739,235.68	18,274,323.09
	62,333,469.87	**83,747,753.43**
II. Cash on hand and bank balances	**54,314,556.13**	**7,299,301.71**
	116,648,026.00	**91,047,055.14**
C. PREPAID EXPENSES	**2,734,207.84**	**2,056,576.69**
	983,963,212.95	**971,232,833.02**

BALANCE SHEET

as at 31 December 2021

EQUITY AND LIABILITIES

in EUR	2020	2021
A. EQUITY		
I. Subscribed capital	**107,777,324.00**	**107,777,324.00**
Treasury shares	**– 2,004,999.00**	**– 2,264,728.00**
Issued capital	**105,772,325.00**	**105,512,596.00**
II. Capital reserves	**159,880,547.45**	**159,880,547.45**
III. Accumulated profit	**66,367,632.83**	**32,912,457.40**
	332,020,505.28	**298,305,600.85**
B. PROVISIONS		
1. Tax provisions	2,001,438.16	6,777,618.44
2. Other provisions	4,289,222.87	4,425,119.85
	6,290,661.03	**11,202,738.29**
C. LIABILITIES		
1. Bonds	600,000,000.00	600,000,000.00
2. Trade payables	108,659.54	269,907.43
3. Liabilities due to affiliated companies	40,040,335.76	57,667,001.51
4. Other liabilities	5,503,051.34	3,787,584.94
of which taxes EUR 54,428.65 (previous year: EUR 2,450,462.34)		
of which social security EUR 50,613.60 (previous year: EUR 47,335.19)		
	645,652,046.64	**661,724,493.88**
	983,963,212.95	**971,232,833.02**

STATEMENT OF INCOME

For the financial year 1 January 2021 to 31 December 2021

in EUR	2020	2021
1. Revenue	4,023,800.00	4,206,099.94
2. Other operating income	1,095,172.11	1,048,705.78
	5,118,972.11	**5,514,738.81**
3. Staff costs		
a) Wages and salaries	5,169,041.44	4,493,460.40
b) Social security contributions and expenses for pension schemes and related benefits of which pension expenses EUR 26,747.02 (previous year: EUR 30,969.47)	391,921.99	443,161.12
	5,560,963.43	**4,936,621.52**
4. Depreciation and amortisation of intangible fixed assets and property, plant and equipment	87,044.24	72,746.69
5. Other operating expenses	4,928,372.35	5,247,561.69
6. Income from investments	22,197,796.08	3,872,327.33
7. Profits transferred due to profit transfer agreements	7,620,331.11	35,038,983.05
8. Income from loans of financial assets	18,709,149.88	19,534,489.85
9. Other interest and similar income	646,569.00	511,626.26
10. Impairment of financial assets	447,809.00	650,000.00
11. Expenses from the assumption of losses	1,043,579.07	449,967.02
12. Interest and similar expenses	12,320,079.44	13,587,598.08
13. Expenses from compensation payments to minority shareholders	141,968.04	141,968.04
14. Income taxes	594,512.51	6,260,379.38
of which income from the reversal of deferred taxes EUR 0.00 (previous year: EUR 1,066,109.29)		
15. Earnings after taxes	29,168,490.10	32,865,389.79
16. Other taxes	0.00	22,274.39
17. Net profit	**29,168,490.10**	**32,843,115.40**
18. Profit carried forward	458,947.49	949,823.31
19. Withdrawal from the capital reserve	36,740,195.24	0.00
20. Offsetting with shares acquired for redemption	0.00	880,491.31
21. Accumulated profit	**66,367,632.83**	**32,912,457.40**

GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG" or "the Company") as at 31 December 2021 were prepared in accordance with the provisions of the German Commercial Code (HGB) concerning the accounting of corporations and the supplementary regulations of the German Stock Corporation Act (AktG). There were no additional provisions regarding accounting arising from the Company's Articles of Association. The annual financial statements were prepared in EUR, with individual amounts stated in EUR thousands. The financial year corresponds to the calendar year.

DEMIRE AG is the parent company of the DEMIRE Group. In its function as the Group management holding company, DEMIRE AG is responsible for determining the overall strategy and implementing corporate objectives. The Company assumes financing, service and coordination tasks for the Group entities and is also responsible for the Group's management, control and risk management systems.

As at the reporting date, the Company met the size criteria for small corporations pursuant to Section 267 (1) HGB. Because the Company makes use of an organised market as defined by Section 264d HGB in conjunction with Section 2 (11) WpHG through securities issued, the Company is considered a large corporation pursuant to Section 267 (3) sentence 2 HGB. Therefore, the Company is subject to the regulations for large corporations under commercial law.

The balance sheet categories comply with the category format under commercial law in accordance with Section 266 HGB, while the statement of income has been prepared in a single-column format using the total cost method in accordance with Section 275 (2) HGB.

The Company is headquartered in Frankfurt am Main. The Company's business address and head management office is located in Langen (state of Hesse, Germany). The Company is recorded under HRB 89041 in the commercial register in Frankfurt am Main.

DEMIRE AG's shares are listed in the Prime Standard segment of the regulated market of the Frankfurt Stock Exchange.

As the ultimate parent company, DEMIRE AG has prepared consolidated financial statements as at 31 December 2021 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the supplementary provisions of the German Commercial Code pursuant to Section 315e (1) HGB. The consolidated financial statements have been published in the Federal Gazette and can also be downloaded from the Company's website.

The Company's management report was combined with the Group management report by applying the provisions of Section 315 (5) HGB in conjunction with Section 298 (2) HGB.

The Company's annual financial statements were prepared under the going-concern assumption.

Control and profit and loss transfer agreements have been concluded between DEMIRE AG and its subsidiaries DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig, DEMIRE Holding III GmbH, Frankfurt am Main, DEMIRE Holding IV GmbH, Frankfurt am Main, DEMIRE Holding X GmbH, Frankfurt am Main, and DEMIRE Holding XI GmbH, Frankfurt am Main. The Company is also the parent company of the value-added tax group with some of the subsidiaries.

INFORMATION ON ACCOUNTING AND VALUATION PRINCIPLES

The accounting and valuation principles applied and presented below are unchanged compared to the previous year:

Fixed assets

INTANGIBLE ASSETS

Acquired intangible assets are measured at acquisition cost and amortised on a straight-line basis over their estimated useful economic life of three years. Internally generated intangible assets are not capitalised. If intangible assets are expected to be permanently impaired, their carrying amount is reduced to the lower fair value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at acquisition cost pursuant to Section 255 (1) HGB, including incidental costs, less straight-line depreciation over the expected useful lives pursuant to Section 253 (1) HGB. The deprecation of the individual groups of property, plant and equipment is based on the useful lives ranging from 3 to 13 years. Additions to property, plant and equipment during the year are depreciated on a pro rata basis.

LOW-VALUE ASSETS

Movable fixed assets with finite useful lives that can be used independently and have an acquisition cost of up to EUR 800 are fully depreciated in the year of acquisition. Fixed assets with an acquisition cost of more than EUR 800 are depreciated over their expected useful lives.

FINANCIAL ASSETS

Investments in affiliated companies are carried at acquisition cost. The cost of raising equity in the context of a capital increase that is related to the acquisition of subsidiaries is not capitalised as an incidental acquisition cost of the interests in affiliated companies in accordance with Section 248 (1) No. 2 HGB. If companies are acquired in the context of capital increases against a mixed contribution in kind, the incidental acquisition cost for the cash component is capitalised on a pro rata basis of the total expenses of the capital increase.

Loans to affiliated companies, loans to companies in which shares are held and other loans are generally carried at their nominal values.

If financial assets are expected to be permanently impaired, their carrying amount is reduced to the fair value recognising an impairment loss. These are recorded under “Impairment of financial assets” in the statement of income. If the reasons for the expected permanent impairment no longer exist, the impairment loss is reversed and recorded under “Other operating income” in the statement of income.

Current assets

RECEIVABLES AND OTHER ASSETS

Trade accounts receivable, receivables due from affiliated companies, and other assets are carried at their nominal values. All identified risks are taken into account based on a corresponding impairment charge to the lower fair value. The amount of the impairment charge is based on the expected default risk.

CASH ON HAND AND BANK BALANCES

Cash on hand and bank deposits are carried at their nominal values as at the reporting date.

PREPAID EXPENSES

Payments prior to the reporting date that relate to expenses that will occur at a certain point after the reporting date and discounts related to the issue of financial liabilities are capitalised as prepaid expenses in accordance with Section 250 (1) HGB and Section 250 (3) HGB, respectively. Discounts are amortised by scheduled annual write-downs spread over the total term of the financial liabilities.

DEFERRED TAXES

The amount of deferred taxes arising from temporary differences between the carrying amounts of assets, liabilities as well as prepaid expenses and deferred income in the commercial accounts and the tax carrying amounts or as a result of tax loss carryforwards is determined by applying the Company's individual tax rate at the time the difference is eliminated. The resulting tax expenses or tax benefits are not discounted. In addition, temporary differences between the carrying amounts of assets and liabilities, prepaid expenses and deferred income in the commercial accounts and the tax carrying amounts of entities included in the tax group are recognised to the extent that the reversal of temporary differences is expected to result in future tax expenses or tax benefits at the Company as the tax group's parent company.

Any resulting net tax expenses are recognised on the balance sheet as deferred tax liabilities. Any resulting net tax benefits are not recognised under the respective capitalisation option. In the reporting year and the previous year, the Company had deferred tax assets.

Deferred taxes are calculated based on the Company's combined income tax rate of 29.13% (31 December 2020: 28.78%) expected to be applicable at the time the differences will be reversed. The combined income tax rate includes corporate taxes, trade taxes and the solidarity surcharge. Income and expenses from the change in deferred taxes is recognised separately in the statement of income under the item "Income taxes" as a separate "of which" sub-item.

EQUITY

Subscribed capital is carried at its nominal value and is fully paid in.

Capital reserves result from various capital increases and are recognised at their nominal amount.

PROVISIONS

Provisions take into account all identifiable risks and uncertain obligations. They are carried at amounts deemed necessary to settle the future payment obligation based on a reasonable commercial assessment, including future cost and price increases, provided there is sufficient objective evidence that they will occur.

Provisions with a term of more than one year are initially recognised by applying the net method. Their measurement is based on the average market interest rate of the German Central Bank of the previous seven financial years in accordance with their maturity. For subsequent measurement, non-current provisions are to be reassessed, and the accrued interest is recorded under “Interest and similar expenses”.

LIABILITIES

Liabilities are recognised at their repayment amount. When a liability’s repayment amount is higher than its issuance amount, the difference is recognised as prepaid expenses and written down over the term of the liability.

CONTINGENT LIABILITIES

The carrying amount of contingent liabilities corresponds to the liability’s scope as at the reporting date. For more information, please refer to the presentation of the contingencies.

NOTES TO THE BALANCE SHEET

Fixed assets

The classification and development of fixed assets, including depreciation and amortisation, during the financial year from 1 January to 31 December 2021 is covered on page 101 of the attached statement of fixed assets.

FINANCIAL ASSETS

Investments in affiliated companies amounted to EUR 238,502 thousand (31 December 2020: EUR 239,152 thousand). The minor decrease primarily resulted from the write-down on shares in affiliated companies due to permanent impairment.

Impairments in the amount of EUR 650 thousand (2020 financial year: EUR 448 thousand) were recognised on financial assets in order to reflect an adjustment to the fair value. No reversals were recognised in the reporting year.

Loans to affiliated companies of EUR 549,028 thousand (31 December 2020: EUR 619,814 thousand) relate to loans granted to the Company's subsidiaries and sub-subsidiaries to finance the acquisition of real estate companies and properties. These loan agreements are concluded within the Group and include a management premium on the interest rate.

The decrease in loans to affiliated companies in the amount of EUR 70,786 thousand is mainly due to repayments from affiliated companies (including DEMIRE AN BN R PM FR FL GmbH in the amount of EUR 31,960 thousand, DEMIRE GO HB GmbH in the amount of EUR 21,049 thousand and DEMIRE Holding V GmbH in the amount of EUR 11,290 thousand). By contrast, loans to affiliated companies increased as a result of acquiring property or the purchase of additional interests in affiliated companies (DEMIRE Trier Simeonstraße 46 GmbH in the amount of EUR 3,033 thousand or DEMIRE Bad Vilbel Konrad Adenauer Allee 1-11 GmbH in the amount of EUR 1,965 thousand).

For information on shareholdings, please refer to page 88ff of the attached schedule of shareholdings as at 31 December 2021 in accordance with Section 285 Nos 11, 11a and 11b HGB.

Loans to companies in which shares are held amount to EUR 25,150 thousand (31 December 2020: EUR 0) and relate to loan receivables from a company in which there is a shareholding of less than 50%.

Other loans include loan receivables from minority shareholders of affiliated companies in the amount of EUR 5,352 thousand (31 December 2020: EUR 5,448 thousand). In 2021, a loan in the amount of EUR 60,000 thousand was granted to a minority shareholder who, together with a subsidiary of DEMIRE AG, holds a stake of almost 50% in a joint venture.

CURRENT ASSETS

Current assets consisting of receivables and other assets, as well as cash on hand and bank deposits, totalled EUR 91,684 thousand as at the reporting date (31 December 2020: EUR 116,648 thousand).

Impairments on receivables due from affiliated companies were recognised in the amount of EUR 142 thousand (31 December 2020: EUR 141 thousand), to align the carrying amounts to their lower fair values.

Receivables and other assets

Trade accounts receivable of EUR 5,297 thousand (31 December 2020: EUR 2,958 thousand) concern claims from service agreements with affiliated companies.

Receivables due from affiliated companies of EUR 60,177 thousand (31 December 2020: EUR 27,636 thousand) mainly relate to receivables from profit and loss transfer agreements, settlement transactions, passed-on expenses as well as to current loans. The year-on-year increase results from the profit and loss transfer agreements between consolidated tax group subsidiaries on the basis of the sales of real estate with accounting profit.

Other assets in the amount of EUR 18,274 thousand (31 December 2020: EUR 31,739 thousand) declined by EUR 31,465 thousand year-on-year. This fall results primarily from the repayment of a short-term loan receivable plus interest receivable from a minority shareholder to DEMIRE AG subsidiaries (year-on-year fall of EUR 9,196 thousand). Furthermore, subsidiaries and sub-subsidiaries of DEMIRE AG also settled interest receivables (year-on-year fall of EUR 3,657 thousand).

As in the prior year, all receivables and other assets are due within one year.

Other assets include interest receivables from affiliated companies in the amount of EUR 14,505 thousand.

Cash and cash equivalents

Cash and cash equivalents in the amount of EUR 7,299 thousand (31 December 2020: EUR 54,315 thousand) include cash on hand and current bank deposits.

Prepaid expenses

Prepaid expenses in the amount of EUR 2,057 thousand (31 December 2020: EUR 2,734 thousand) primarily include a discount of EUR 1,957 thousand from the issue of the 2019/2024 corporate bond (31 December 2020: EUR 2,669 thousand), which is amortised over the remaining term of the bond.

Equity

SUBSCRIBED CAPITAL

On 31 December 2021, 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 period under review. There were also no changes in the same period last year. Treasury shares with a nominal value in the amount of EUR 260 thousand were acquired in 2021 (259,729 no-par-value shares). These treasury shares are used for all legally permissible purposes and can also, for example, be redeemed. The aim of the share buy-back was to increase the share price. Treasury shares in the amount of EUR 2,005 thousand were acquired in 2020 (2,004,999 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.

A dividend of EUR 0.62 per share with dividend entitlement, or EUR 65,417.8 thousand, was distributed from the accumulated profit during the reporting period, following on from a dividend of EUR 0.54 per share with dividend entitlement, or a total of EUR 57,117.1 thousand, in 2020.

AUTHORISED CAPITAL

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) Sentence 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.

The Authorised Capital I / 2019 was unchanged and developed as follows during the reporting period:

in EUR thousand	2020	2021
As at 1 January	53,888.66	53,888.66
Utilisation of authorised capital	0	0
As at 31 December	53,888.66	**53,888.66**

The shareholders are generally entitled to subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts, 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, to meet the obligations of option or conversion rights, and to execute capital increases against contribution in kind. The Authorised Capital I / 2019 had not been utilised by the reporting date.

CONDITIONAL CAPITAL I / 2020

At the ordinary Annual General Meeting of 22 September 2020, Conditional Capital I / 2019 was cancelled and Conditional Capital I / 2020 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 I / 2020 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. In January 2021, the Company bought back a total of 259,729 shares at a price of EUR 4.39 per share as part of a public share buy-back offer.

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, 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. Together with other own shares acquired and owned by the Company or attributable to the Company, the own 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 Company made no further use of the authorisation to purchase treasury shares up to the reporting date.

Stock option programme

2015 stock option programme
In the 2015 fiscal year, share-based payments in the form of subscription rights (stock options) were issued to the Executive Board of DEMIRE AG and to a selected group of persons within the DEMIRE Group. The stock option plan is an option plan that is settled with equity instruments (equity-settled share option plan). The option plan only provides for the possibility of settling the share option plan in DEMIRE AG shares. The accounting treatment of the share price-based payments issued is in accordance with IFRS 2.

Subscription rights from the 2015 stock option programme within the meaning of Section 192 (2) No. 3 AktG are not recognised in the balance sheet at the time of issue. When the options are exercised in conjunction with the use of the conditional capital, the subscribed capital is increased by the number of shares exercised multiplied by the nominal value, and the capital reserve is increased by the amount of the paid-in premium.

The dilutive effect of outstanding share options is taken into account as an additional dilution in the calculation of earnings per share if the issue of share options and the conditions on which they are based result in an arithmetical dilution for the existing shareholders.

The prerequisite for exercising the subscription rights is that the closing price of the share in XETRA trading (or in a comparable successor system) on the Frankfurt Stock Exchange on the trading day preceding the exercise of the subscription right is at least 10% higher than the strike price.

A total of 1,000,000 stock options were allocated. In a first tranche, 800,000 stock options were issued to members of the Executive Board and 200,000 stock options were issued to selected employees of DEMIRE AG or employees of Group companies. The fair value of an option for the first tranche is EUR 2.74. In a second tranche, a total of 60,000 new stock options were issued, adjusted for those stock options returned by employees who left the Company (90,000 stock options). The fair value of each option from the second tranche was EUR 1.99 on the reporting date. As of the balance sheet date, there is still an entitlement to 400,000 stock options for a former member of the Executive Board and 110,000 stock options for selected employees from the first tranche. There was no change in the number of shares issued in the reporting period compared to the previous period.

No more expenses occurred due to this stock option programme during the period under review. In the previous year, expenses amounted to EUR 0.

2017 and 2018 virtual stock option programmes

The 2017 and 2018 virtual stock option programmes concerned a former Executive Board member. A provision was formed to the amount of EUR 2,029 thousand (previous year: EUR 1,920 thousand), the amount of the potential outstanding compensation, which also includes the virtual stock option programmes.

2019 virtual stock option programme

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 share programme, each member of the Executive Board is annually granted performance share units (PSUs) with an allocation amount totalling EUR 810 thousand for Mr Ingo Hartlief (FRICS) and EUR 420 thousand for Mr Tim Brückner as at 31 December 2021. 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 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 2021, the provision for the virtual stock option programme, which has applied since 2019, amounts to EUR 627 thousand (previous year: EUR 226 thousand). In addition to the 2019 tranche, the 2020 and 2021 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 and EUR 4.09 for the 2021 tranche.

CAPITAL RESERVES

As at 31 December 2021, capital reserves amounted to EUR 159,881 thousand (31 December 2020: EUR 159,881 thousand).

As at the reporting date, capital reserves include full amounts as per Section 272 (2) No. 1 HGB.

ACCUMULATED PROFIT

The Company's accumulated profit as at the reporting date is as follows:

In EUR thousand	2020	2021
Accumulated profit carried forward from the previous year	57,576	66,367
Dividend payments	– 57,117	– 65,418
Net profit / loss for the period	29,168	32,843
Release of capital reserves	36,740	0
2021 share buy-back	0	– 880
Accumulated profit as at 31 December	**66,367**	**32,912**

CHANGES IN EQUITY

The individual components of equity developed as follows during the reporting year:

In EUR thousand	Subscribed capital	Treasury shares	Capital reserves	Accumulated profit
As at 1 January 2021	**107,777**	**– 2,005**	**159,881**	**66,367**
Distribution in 2021				– 65,418
Acquisition of treasury shares		– 260		– 880
2021 net profit				32,483
As at 31 December 2021	**107,777**	**– 2,265**	**159,881**	**32,912**

PROVISIONS

Tax provisions include the tax burden determined for the taxable income of DEMIRE as at 31 December 2021. There were additions for a corporate income tax provision in the amount of EUR 6,279 thousand and additions to the trade tax provision in the amount of EUR 241 thousand for the 2021 financial year.

Other provisions amounted to EUR 4,425 thousand (31 December 2020: EUR 4,289 thousand) and mainly include obligations for outstanding invoices, accounting and audit, legal and consulting fees and staff costs.

Liabilities

CORPORATE BOND (2019/2024)

As at the reporting date of 31 December 2021, the 2019/2024 unsecured corporate bond issued in October 2019 is pending for the full nominal amount of EUR 600,000 thousand.

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. Finally, 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% as from 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 were breached for 2021 as a whole or as at the reporting date of 31 December 2021. The planning for DEMIRE also indicates that compliance with these ratios will be maintained.

Liabilities due to affiliated companies

As at the reporting date, liabilities due to affiliated companies came to EUR 57,667 thousand (31 December 2020: EUR 40,040 thousand). The year-on-year increase primarily results from a loan to two affiliated companies amounting to EUR 46,242 thousand (31 December 2021: EUR 29,450 thousand). One loan exists in relation to DEMIRE Leipzig Am alten Flughafen 1 GmbH in the amount of EUR 23,134 thousand (31 December 2020: EUR 29,450 thousand), while another loan exists in relation to DEMIRE AN BN R PM FR FL GmbH in the amount of EUR 23,108 thousand (31 December 2021: EUR 0). This also includes liabilities of EUR 10,045 thousand from profit and loss transfers.

Other liabilities

Other liabilities amounting to EUR 3,788 thousand (31 December 2020: EUR 5,503 thousand) mainly include interest liabilities from the 2019/2024 bond in the amount of EUR 2,504 thousand (31 December 2020 from the 2019/2024 bond: EUR 2,508 thousand) as well as liabilities due to minority shareholders from affiliated companies in the amount of EUR 142 thousand (31 December 2020: EUR 142 thousand). Other liabilities include liabilities to affiliated companies in the amount of EUR 1,034 thousand (31 December 2020: EUR 346 thousand).

The structure and the remaining term of the liabilities and details on collateralisation are shown in the schedule of liabilities below.

31/12/2021 (31/12/2020)

in EUR	up to 1 year	over 1 year	of which more than 5 years	TOTAL
1. Bonds	0.00 (0.00)	600,000,000.00 (600,000,000.00)	0.00 (0.00)	**600,000,000.00** (600,000,000.00)
2. Trade payables	269,907.43 (108,659.54)	0.00 (0.00)	0.00 (0.00)	**269,907.43** (108,659.54)
3. Liabilities due to affiliated companies	11,425,203.36 (40,040,335.76)	46,241,798.15 (0.00)	0.00 (0.00)	**57,667,001.51** (40,040,335.76)
4. Other liabilities	3,787,584.94 (5,503,051.34)	0.00 (0.00)	0.00 (0.00)	**3,787,584.94** (5,503,051.34)
TOTAL	15,482,695.73 (45,652,046.64)	646,241,798.15 (600,000,000.00)	0.00 (0.00)	**661,724,493.88** (645,652,046.64)

Contingencies

Through the conclusion of credit and loan agreements, DEMIRE AG has pledged liens and other guarantees to affiliated companies:

As at the reporting date, the following contingent liabilities existed from the provision of collateral for third-party liabilities with a value of EUR 940 thousand (31 December 2020: EUR 940 thousand) to affiliated companies.

The risk of the above contingent liabilities being used is categorised as low. The net assets and earnings position of the affiliated companies is stable, and the companies can manage their liabilities independently.

Other financial obligations and off-balance-sheet transactions

As at the reporting date, other financial obligations according to Section 285 No. 3a HGB in the amount of EUR 341 thousand (31 December 2020: EUR 186 thousand) consist of rental and lease contracts, each with the following maturities:

In EUR thousand	Total	up to 1 year	over 1 year	of which more than 5 years
Rental and lease contracts	**341**	183	158	0
of which from affiliated companies	**294**	153	141	0

Rental and lease contracts concern an office building rented from a subsidiary, leased property and operating and office equipment.

Off-balance-sheet transactions represent the rental and lease contracts described. Because the Company is not obliged to purchase the assets, such transactions help optimise the balance sheet ratios. The future financial effects of the rental and lease contracts concluded are not material in assessing the Company's financial position.

Deferred taxes
There was a surplus of deferred tax assets as at the reporting date.

Deferred taxes are measured at a tax rate of 29.13% (31 December 2021: 28.78%). This tax rate includes corporate taxes, trade taxes and a solidarity surcharge. For different valuations of financial assets, a tax rate of only 1.46% (5% of 29.13%) is applied due to the prohibition on making deductions to reduce taxable income. The surplus of deferred tax assets is not recognised in accordance with Section 274 (1) No. 2 HGB (negative figures represent deferred tax liabilities):

BALANCE SHEET ITEMS

In EUR thousand	Deferred taxes
Investments in affiliated companies	– 1,245
Loans to affiliated companies	58
Fixed assets of affiliated companies (profit and loss transfer agreement)	7,811
Receivables and other assets	15
Surplus of deferred tax assets	**6,639**

The year-on-year change in deferred tax assets consists of the following:

BALANCE SHEET ITEMS

In EUR thousand	Deferred taxes
Deferred tax assets as at 1 January 2021	5,951
Investments in affiliated companies	474
Loans to affiliated companies	– 9
Fixed assets of affiliated companies (profit and loss transfer agreement)	225
Receivables and other assets	–2
Deferred tax assets as at 31 December 2021	**6,639**

Deferred tax assets primarily result from differences in fixed assets between the commercial and tax balance sheets of companies with which a profit and loss transfer agreement exists.

NOTES TO THE STATEMENT OF INCOME

Revenue

Revenues of EUR 4,206 thousand (2020 financial year: EUR 4,024 thousand) relate to services in the amount of EUR 4,118 thousand (2020 financial year: EUR 3,946 thousand) to German companies and in the amount of EUR 88 thousand (2020 financial year: EUR 78 thousand) to foreign companies, insofar as the place of management is located abroad. Revenues mainly include income from agency agreements with affiliated companies.

Other operating income

Other operating income of EUR 1,049 thousand (2020 financial year: EUR 1,095 thousand) mainly comprises income from the reversal of provisions in the amount of EUR 509 thousand (2020 financial year: EUR 455 thousand), income from value-added tax reimbursements in the amount of EUR 446 thousand (2020 financial year: EUR 0) and reversal of write-downs on receivables from affiliated companies of EUR 0 (2020 financial year: EUR 496 thousand).

Other operating income includes non-periodic income of EUR 1,215 thousand (2020 financial year: EUR 951 thousand).

Other operating expenses

Other operating expenses in the amount of EUR 5,248 thousand (2020 financial year: EUR 4,928 thousand) comprise mainly depreciation on receivables in the amount of EUR 1,349 thousand (2020 financial year: EUR 141 thousand), legal and consulting fees in the amount of EUR 803 thousand (2020 financial year: EUR 1,489 thousand), expenses for accounting, preparation and audit of the annual and consolidated financial statements in the amount of EUR 569 thousand (2020 financial year: EUR 577 thousand), third-party services and work in the amount of EUR 242 thousand (2020 financial year: EUR 332 thousand) and ancillary expenses from monetary transactions of EUR 229 thousand (2020 financial year: EUR 438 thousand).

Income from investments

Income from investments of EUR 3,872 thousand (2020 financial year: EUR 22,198 thousand) relates predominantly to distributions by DEMIRE Holding II GmbH in the amount of EUR 650 thousand (2020 financial year: EUR 12,500 thousand), DEMIRE Holding XIII GmbH in the amount of EUR 300 thousand (2020 financial year: EUR 0), DEMIRE HB HZ B HST GmbH in the amount of EUR 237 thousand (2020 financial year: EUR 7,118 thousand) and the allocation of earnings of FVR Beteiligungsgesellschaft Erste bis Achte mbH & Co. KG and affiliated companies in the amount of EUR 2,685 thousand (2020 financial year: EUR 2,580 thousand).

Income from profit and loss transfer agreements

Income from profit and loss transfer agreements in the amount of EUR 35,039 thousand (2020 financial year: EUR 7,620 thousand) relate to the profit and loss transfer agreements concluded with DEMIRE Holding X GmbH, Frankfurt am Main, in the amount of EUR 30,879 thousand (2020 financial year: EUR 2,898 thousand), DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig, in the amount of EUR 4,057 thousand (2020 financial year: EUR 2,485 thousand) and DEMIRE Holding IV GmbH, Frankfurt am Main, in the amount of EUR 112 thousand (2020 financial year: EUR 0).

Income from loans of financial assets

Income from loans of financial assets in the amount of EUR 19,534 thousand (2020 financial year: EUR 18,709 thousand) relates predominantly to income from loans granted to affiliated companies to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries (EUR 16,446 thousand) and income from other loans (EUR 2,946 thousand).

Interest result

Interest income resulted predominantly from financing arrangements between DEMIRE AG and third parties in the amount of EUR 431 thousand (2020 financial year: EUR 647 thousand) from Taurecon RE Consulting GmbH and Taurecon Beteiligungs mbH (both based in Berlin). Other interest and similar income includes income from affiliated companies in the amount of EUR 6 thousand (2020 financial year: EUR 0 thousand).

Interest and similar expenses of EUR 13,588 thousand (2020 financial year: EUR 12,320 thousand) concern mainly the interest payments from the existing 2019/2024 corporate bond.

Interest and similar expenses due to affiliated companies amounted to EUR 1,630 thousand (2020 financial year: EUR 346 thousand).

Impairment of financial assets

Impairment of financial assets relates to impairment losses in the amount of EUR 650 thousand (2020 financial year: EUR 448 thousand) on investments in affiliated companies.

Expenses from the assumption of losses

Expenses from the assumption of losses in the amount of EUR 450 thousand (2020 financial year: EUR 1,044 thousand) relate to the assumption of losses from existing control and profit and loss transfer agreements with subsidiaries. Of this amount, EUR 444 thousand (2020 financial year: EUR 844 thousand) is attributable to DEMIRE Holding XI GmbH, Frankfurt am Main, EUR 6 thousand (2020 financial year: EUR 199 thousand) is attributable to DEMIRE Holding III GmbH, Frankfurt am Main, and EUR 0 thousand (2020 financial year: EUR 199 thousand) is attributable to DEMIRE Holding IV GmbH, Frankfurt am Main.

Income taxes

As the parent company of the tax group, the Company is also subject to taxation for subsidiaries included in the income tax group of consolidated companies through control and profit and loss transfer agreements. Income taxes include income from the reversal of deferred tax liabilities in the amount of EUR 0 thousand (2020 financial year: EUR 1,066 thousand).

OTHER DISCLOSURES

Governing bodies

EXECUTIVE BOARD MEMBERS AND REMUNERATION

The Executive Board members are:

Mr Tim Brückner (since 1 February 2019), Chief Financial Officer

Mr Ingo Hartlief (FRICS) (since 20 December 2018), Chief Executive Officer

Since 20 May 2019, Ingo Hartlief (FRICS) has been a member of the Supervisory Board/Vice Chairman of Fair Value REIT-AG (Frankfurt am Main District Court, HRB 120099), which has been listed on the stock exchange since 16 November 2007. In the reporting year, Tim Brückner was not a member of any statutory supervisory boards or comparable controlling bodies or of any comparable domestic or foreign controlling bodies of commercial enterprises.

In the 2021 financial year, DEMIRE AG recognised variable remuneration in the amount of EUR 610 thousand (previous year: EUR 333 thousand), fixed remuneration in the amount of EUR 699 thousand (previous year: EUR 703 thousand) and share-based payment transactions in the amount of EUR 376 thousand (previous year: EUR 67 thousand) for the members of the Executive Board. As at the reporting date, EUR 244 thousand (previous year: EUR 226 thousand) of share-based payment transactions and EUR 610 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	Performance-based remuneration	Share-based remuneration	Total 2020	Total 2021
Ingo Hartlief	410	380	153	623	943
Tim Brückner	289	230	91	480	610
Total	**699**	**610**	**244**	**1,103**	**1,533**

The Executive Board's fixed remuneration consists of fixed salary and fringe benefits. The fringe benefits consist of benefits in kind, most notably the use of company cars. The performance-based remuneration consists of a special remuneration relating to the business development of the reporting year.

Pension obligations and post-employment benefits for active or former members of the Executive Board did not exist or were not granted during the reporting year.

Remaining compensation for a former member of the Executive Board is still outstanding, as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 2,029 thousand has been recognised.

The members of the Executive Board were not granted any loans or advances, and no contingencies were assumed for their benefit.

SUPERVISORY BOARD MEMBERS AND REMUNERATION

The names and professions of the Company's Supervisory Board members are shown in the table below.

The Supervisory Board's total remuneration for the financial year amounted to EUR 240 thousand (2020 financial year: EUR 180 thousand). In addition, Supervisory Board members were reimbursed by the Company for travel expenses of EUR 1 thousand (2020 financial year: EUR 1 thousand) incurred in the context of Supervisory Board meetings.

The following members of the Company's Supervisory Board held positions on other supervisory boards or in other supervisory bodies as defined by Section 125 (1)(5) AktG:

Name	Company	Position
Prof. Dr Alexander Goepfert (Chairman of the Supervisory Board) Attorney-at-law (since 27 June 2018)	iddiw Institut der Deutschen Immobilienwirtschaft e.V., Frankfurt	Vice President
	PROXIMUS Real Estate AG, Cologne	Ordinary Member of the Supervisory Board
	shareDnC GmbH, Cologne	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institute, Wiesbaden	Chairman of the Board of Trustees
Frank Hölzle (Vice Chairman of the Supervisory Board), Managing Director (since 14 February 2017)	GreySky Properties AG, Basel/Switzerland	Member of the Board of Directors
	Care4 AG, Basel	Executive Board member (CEO)
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Allmyhomes GmbH, Berlin	Member of the Advisory Board
	mobileObjects AG, Büren	Chairman of the Supervisory Board
	rankingCoach international GmbH, Cologne	Chairman of the Advisory Board
	SIC invent AG, Basel/Switzerland	Member of the Board of Directors
	Evana AG, Saarbrücken	Member of the Supervisory Board
	sevDesk GmbH, Offenburg	Member of the Advisory Board
	KUGU Home GmbH, Berlin	Member of the Advisory Board
	Fair Value REIT-AG, Frankfurt	Chairman of the Supervisory Board
Prof. Dr Kerstin Hennig, Honorary professor (since 29 May 2019)	DWS Grundbesitz GmbH, Frankfurt	Ordinary Member of the Supervisory Board
	Urban Land Institute (ULI), Berlin	Member of the Executive Committee
	Real Estate Brand Club	Member of the Management Board
	Institutionelle Investoren Hotel	Member of the Advisory Board
	ZIA Deutschland Mitte	Executive Board member
	iddiw Institut der Deutschen Immobilienwirtschaft e.V., Frankfurt	Member of the Executive Committee

Employees

The Company employed an average of 29 (previous year: 31) employees in the 2021 financial year. All of them were working in administration.

Related party transactions

Related parties are legal or natural persons that can exercise influence over the Company or are subject to control or significant influence exercised by the Company.

Parties related to DEMIRE AG include the members of the Executive and Supervisory Boards, shareholders and governing bodies of subsidiaries, including their closely associated family members, and such entities over which the members of the Company's Executive and Supervisory Boards and their closely associated family members can exert significant influence or entities in which they hold significant voting rights. Related parties also include entities in which the Company holds an interest that allows it to significantly influence the investee's operating policies. Finally, the Company's major shareholders are also considered related parties.

Transactions with related parties are carried out mainly with subsidiaries. All transactions with related parties conducted during the reporting year were based on market standard terms.

Statement with regard to the German Corporate Governance Code

The Supervisory Board and the Executive Board of DEMIRE AG are committed to the responsible and transparent management and control of the Company, geared to long-term value creation. The statement required under Section 161 AktG with regard to the German Corporate Governance Code (GCGC) is made available to shareholders on the Company's website. The Declaration of Conformity with the German Corporate Governance Code has been made permanently available to shareholders on the website of DEMIRE Deutsche Mittelstand Real Estate AG in the 'Company' section.

Auditor's fee

The disclosure of the total fee paid to the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, in accordance with Section 285 No. 17 HGB, is provided in the Notes to the Company's consolidated financial statements, which are published in the electronic Federal Gazette.

Disclosures on the parent company

As the parent company, the Company prepares consolidated financial statements according to the International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary provisions of the German Commercial Code pursuant to Section 315e (1) HGB, which are published in the electronic Federal Gazette. The consolidated financial statements of DEMIRE are the largest and the smallest scope of consolidation in which DEMIRE AG is included.

Disclosures under Section 160 (1) No. 8 AktG

Under Section 160 (1) No. 8 AktG, the Company must disclose existing shareholdings that were notified to the Company in accordance with Section 33 (1) or (2) WpHG during the reporting period, as well as those published under Section 40 (1) WpHG. In addition, further shareholdings that were notified to the Company after the end of the reporting period and until the preparation of the annual financial statements, and that were disclosed under Section 40 (1) WpHG, were considered. In the reporting period and up to the preparation of the annual financial statements, the Company received no such notifications. For the current status of notifications, please refer to the Company's website.

Executive Board's proposal for the appropriation of profits / losses

The Executive Board proposes to carry forward the net profit for the year.

Responsibility Statement under Section 264 (2) sentence 3 HGB

As the governing body of DEMIRE AG, the Executive Board hereby assures to the best of its knowledge that the financial statements give a true and fair view of the Company's net assets, financial position and results of operations in accordance with the applicable reporting principles.

Subsequent events

No significant events have occurred after the reporting period. The Company is not affected by the Russia-Ukraine conflict.

Frankfurt am Main, 16 March 2022

DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

SCHEDULE OF SHAREHOLDINGS

pursuant to Section 285 Nos 11, 11A and 11B HGB

GERMANY

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
DEMIRE Apolda Wurzen GmbH, Berlin	94.9	1,888,293.44	– 200,728.80
DEMIRE HB HZ B HST GmbH, Berlin	94.9	12,005,485.50	401,993.74
DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig	94.9	3,282,959.28	0.00
Panacea Property GmbH, Berlin *	51	2,778.77	– 3,342.37
Fair Value REIT-AG, Frankfurt am Main	84.35	90,963,609.36	6,034,071.43
IC Fonds & Co. SchmidtBank-Passage KG, Munich **	48.00	6,997,733.74	485,386.97
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich **	43.57	14,811,004.54	2,652,171.78
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich **	50.57	7,260,288.54	1,319,547.36
GP Value Management GmbH, Munich	84.35	41,531.60	17,417.24
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich **	45.03	6,943,706.24	1,390,843.18
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich **	41.07	13,792,496.96	1,042,773.18
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt am Main	100	8,750,356.15	0.00
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main	100	– 96,183.29	27,166.10
DEMIRE Holding II GmbH, Frankfurt am Main	100	43,787,472.95	1,561,951.16
DEMIRE Meckenheim Merl GmbH, Frankfurt am Main	100	10,171,667.71	0.00

GERMANY

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
Schwerin Margaretenhof 18 GmbH, Frankfurt am Main	94.9	185,556.73	344,153.78
DEMIRE Holding III GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Worms Liebenauer Straße GmbH, Frankfurt am Main	100	282,850.93	– 28,293.52
DEMIRE Schwerin Am Margaretenhof 22–24, Berlin	94	488,551.93	156,159.75
DEMIRE Holding IV GmbH, Frankfurt am Main	100	78,301.00	0.00
DEMIRE Holding V GmbH, Frankfurt am Main	100	53,300.00	0.00
DEMIRE Holding VI GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VII GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VIII GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Eschborn Frankfurter Straße GmbH, Frankfurt am Main	94	731,967.51	619,293.74
DEMIRE Bad Kreuznach Brückes Hochstr. GmbH, Frankfurt am Main	94	75,376.69	0.00
DEMIRE Holding IX GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Düsseldorf Wiesenstraße 70 GmbH, Frankfurt am Main	94	480,886.90	558,950.81
DEMIRE Bad Oeynhausen Dr. Neuhäußer Straße 4 GmbH, Frankfurt am Main	94	37,528.89	0.00
DEMIRE Lichtenfels Bamberger Straße 20 GmbH, Frankfurt am Main	94	206,863.96	0.00
DEMIRE Holding I GmbH, Frankfurt am Main	100	231,151.27	51,421.67
DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf	47.5	2,000.00	0.00
G+Q Effizienz GmbH, Berlin	49	535,992.81	55,835.90
DEMIRE Kassel Kölnische Str. Mauerstr. Spohrstr. GmbH, Leipzig	94.9	823,261.63	0.00
DEMIRE Betriebsvorrichtungen Nr. 2 GmbH, Düsseldorf	100	211,660.28	138,020.09
DEMIRE Limbach Oberfrohna Moritzstraße 13 GmbH, Frankfurt am Main	94	25,000.00	0.00
DEMIRE Betriebsvorrichtungen Nr. 1 GmbH, Frankfurt am Main	100	– 240,348.81	– 46,518.41
DEMIRE Holding XI GmbH, Frankfurt am Main	100	18,980.41	0.00
DEMIRE Holding X GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding XII GmbH, Frankfurt am Main	100	– 7,962,261.93	– 1,580,154.25

GERMANY

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
DEMIRE Holding XIII GmbH, Frankfurt am Main	100	50,664.78	457,591.61
DEMIRE AN BN R PM FR FL GmbH, Frankfurt am Main	94.9	39,395,085.67	0.00
DEMIRE Ulm Bahnhofplatz Olgastr. Zeitblomstr. GmbH, Frankfurt am Main	94	– 17,757,805.30	837,034.85
DEMIRE Kempten Bahnhofstr. Hirschstr. Alpenstr. GmbH, Frankfurt am Main	94	– 3,624,074.08	109,386.75
DEMIRE Köln Max-Glomsda-Straße 4 GmbH, Frankfurt am Main	100	98,876.77	179,273.00
DEMIRE Bad Vilbel Konrad Adenauer Allee 1 – 11 GmbH, Frankfurt am Main	100	– 2,848,882.94	– 34,826.71
DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH, Frankfurt am Main	100	509,075.53	817,632.34
DEMIRE Aschheim Max-Planckstraße GmbH, Frankfurt am Main	100	– 1,412,027.56	– 708,622.38
DEMIRE Neuss Breslauer Straße GmbH, Frankfurt am Main	100	1,396,897.69	826,216.29
DEMIRE Frankfurt Gutleutstraße 85 GmbH, Frankfurt am Main	100	– 2,502,709.14	– 1,509,160.15
DEMIRE Trier Simeonstraße 46 GmbH (vorher DEMIRE Ankauf 7 GmbH), Frankfurt am Main	89.9	– 162,396.54	– 151,439.60
DEMIRE Ankauf 8 GmbH, Frankfurt am Main	100	– 23,288.73	– 12,331.79
DEMIRE Ankauf 9 GmbH, Frankfurt am Main	100	– 26,099.83	– 15,172.66
DEMIRE Ankauf 10 GmbH, Frankfurt am Main	100	– 24,508.60	– 13,581.79
DEMIRE Trier Celle GmbH, Frankfurt am Main	94.9	– 8,633,757.77	– 3,260,434.19
DEMIRE Goslar, Rosentorstraße 1 GmbH, Frankfurt am Main	94.9	168,316.66	351,679.98
DEMIRE Memmingen, Königsgraben 3 GmbH, Frankfurt am Main	94.9	– 170,974.74	230,192.81
DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main	94.9	10,751.36	418,945.47
DEMIRE BT HB DO HCLZ KS KO GmbH, Frankfurt am Main	94	– 2,637,919.91	537,783.41
DEMIRE Darmstadt Artillerie Str. 9 GmbH, Frankfurt am Main	94	– 207,046.82	30,508.75
DEMIRE Leonberg Neue Ramtelstraße GmbH, Frankfurt am Main	94	– 1,714,171.82	– 110,121.18
DEMIRE Ludwigsburg Uhlandstraße 21 GmbH, Frankfurt am Main	94	– 3,093,603.85	– 37,700.28
DEMIRE GO HB GmbH (previously GO Bremen ApS, Kopenhagen), Frankfurt am Main	94	620,591.23	7,876,598.38
Cielo BVO GmbH, Frankfurt am Main	100	230,730.33	– 968.75
JV Theodor-Heuss-Allee GmbH, Frankfurt am Main	49.5	376,062.03	1,351,062.03

SWITZERLAND

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
Sihlegg Investments Holding GmbH, Wollerau	94	– 2,301,571.25	112,492.19

CYPRUS

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
Denston Investments Ltd., Nikosia	94	– 2,576,683.47	– 728,999.44

NETHERLANDS

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
MAGNAT Investment I B. V., Hardinxveld Giessendamm*,***	100	– 2,458,024.00	– 4,788,011.00

ROMANIA

Company	Share in capital %	Equity 31/12/2021 in EUR	2021 net profit in EUR
SC Victory International Consulting s. r. l., Bucharest*,****	100	867,269.00	– 28,190.60

* Not fully consolidated due to its insignificance for the Group
** Fully consolidated because de facto control is exercised through quorum majority at the shareholder meeting
*** Equity and net profit / loss as at 31 December 2019
**** Equity and net profit / loss as at 31 December 2020

INDEPENDENT AUDITOR'S REPORT

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

Report on the audit of the annual financial statements and of the management report

AUDIT OPINION

We have audited the annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, which comprise the balance sheet as at 31 December 2021, and the statement of income for the financial year from 1 January to 31 December 2021 and notes to the financial statements, including the presentation of the accounting and measurement policies. In addition, we have audited the management report of DEMIRE Deutsche Mittelstand Real Estate AG, which is combined with the Group management report – consisting of the contents included to comply with the German legal requirements and the Remuneration Report pursuant to Section 162 of the German Stock Corporation Act (AktG) contained in the section "Remuneration Report 2021" in the management report, including the related disclosures – for the financial year from 1 January to 31 December 2021.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the financial year from 1 January to 31 December 2021 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3)(1) HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINION

We conducted our audit of the annual financial statements and of the management report in accordance with Section 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 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 annual financial statements and of the management report" section of our auditor's report. We are independent of the Company 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) letter (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 annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the annual 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 matter of most significance in our audit was as follows:

1. Measurement of investments in and loans to affiliated companies and companies in which shares are held

Our presentation of this key audit matter has been structured as follows:

1. Matter and issue

2. Audit approach and findings

3. Reference to further information

Hereinafter, we present the key audit matter:

1. Measurement of investments in and loans to affiliated companies and companies in which shares are held

1. In the annual financial statements of the Company, investments in affiliated companies amounting to € 238,502 thousand (24.6% of total assets), loans to affiliated companies amounting to € 549,028 thousand (56.5% of total assets) and loans to companies in which shares are held of € 25,150 thousand (2.6% of total assets) are reported under the "Financial assets" balance sheet item.

Investments in and loans to affiliated companies and investees are measured in accordance with German commercial law at the lower of cost and fair value. The fair values of investments in and loans to affiliated companies and investees are materially based on the fair values of the investment properties, which are owned by the affiliated companies and investees in question. The fair values of properties held by affiliated companies and investees are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors with support by an external advisory firm.

Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial investment. The other assets and the liabilities due to affiliated companies are included by addition into the fair value calculation of the investments in and loans to affiliated companies and investees. On the basis of the values determined and supplementary documentation, impairment losses relating to investments in and loans to affiliated companies and loans to companies in which shares are held amounting in total to € 650 thousand were required for the financial year.

No reversal of impairment was recognised.

The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors of the future cash flows, and on the respective discount rates and rates of growth used. The valuation is therefore subject to material uncertainties and discretionary scope. Against this background and due to the highly complex nature of the valuation and its material significance for the Company's assets, liabilities and financial performance, this matter was of particular significance in the context of our audit.

2. As part of our audit, we assessed the methodology used by the Company for the purposes of the valuation of investments in and loans to affiliated companies and investees, among other things. In particular, we assessed whether the fair values of the investment properties had been appropriately determined using discounted cash flow models in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the detailed explanations of the executive directors and the staff of the external advisory firm used regarding the key value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate and the growth rate applied can have a material impact on the fair value calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate and the growth rate applied, and assessed the calculation model. Finally, we assessed whether, for each affiliated company, the values of properties calculated on this basis, taking into account other assets and liabilities, were appropriately assigned to the related carrying amounts of the financial assets, in order to determine a possible requirement for impairment or reversal of impairment on the investments in or loans to affiliated companies and investees.

   In our view, taking into consideration the information available, the valuation parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of appropriately measuring the investments in and loans to affiliated companies and investees.

3. The Company's disclosures relating to investments in and loans to affiliated companies and investees are contained in the section "Accounting and valuation principles" within "Financial assets" and in the section "Notes to the balance sheet" within "Financial assets" of the Notes to the financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information.

The other information comprises the statement on corporate governance pursuant to Sections 289f and 315d HGB.

Our audit opinions on the annual financial statements and on the 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 annual financial statements, with the content of the audited management report or our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual 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 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 management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Furthermore, the Executive Board and the Supervisory Board are responsible for the preparation of the Remuneration Report, including the related disclosures, which is included in a separate section of the management report and which complies with the requirements of Section 162 AktG. In addition, they are responsible for such internal control as they determine 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 ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual 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 annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (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 annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the annual financial statements and of the 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 annual financial statements and of arrangements and measures (systems) relevant to the audit of the 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 of the Company.

— 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 Company'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 annual financial statements and in the 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 Company to cease to be able to continue as a going concern.

— Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

— Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

— Perform audit procedures on the prospective information presented by the executive directors in the 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, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual 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 MATTERS – FORMAL REVIEW OF THE REMUNERATION REPORT IN ACCORDANCE WITH SECTION 162 AKTG

The audit of the management report described in the auditor's report includes the formal audit of the Remuneration Report required by Section 162 (3) of the German Stock Corporation Act (AktG), including the issuance of an audit opinion. As we express an unqualified opinion on the management report, this audit opinion concludes that the disclosures pursuant to Section 162 (1) and (2) AktG have been provided in all material respects in the Remuneration Report.

Other legal and regulatory requirements

Report on the audit of the electronic versions of the annual financial statements and the management report pursuant to Section 317 (3a) HGB created for the purposes of disclosure

AUDIT OPINION

We carried out an audit pursuant to Section 317 (3a) HGB to determine with reasonable assurance whether the versions of the annual financial statements and the management report created for the purposes of disclosure in the file DEMIRE Deutsche Mittelstand Real Estate_AG_JA+LB_ESEF-2021-12-31.zip (hereinafter referred to as "ESEF documents") comply with the requirements of Section 328 (1) HGB in all material respects with regard to the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit only covers the transfer of information from the annual financial statements and the management report into the ESEF format, and therefore does not include the information included in these versions or other information in the above-mentioned file.

In our opinion, the versions of the annual financial statements and the management report created for disclosure purposes in the above-named file comply in all material respects with the requirements of Section 328 (1) HGB relating to electronic reporting. We cannot issue any audit opinion on the information included in these versions or on the other information included in the above-named file that goes beyond this audit opinion and the audit opinions included in the above "Report on the audit of the annual financial statements and of the management report" for the accompanying annual financial statements and management report for the financial year from 1 January to 31 December 2021.

BASIS FOR THE AUDIT OPINION

We carried out our audit of the versions of the annual financial statements and the management report included in the above-named file in compliance with Section 317 (3a) HGB, taking into consideration the IDW auditing standard: Auditing electronic versions of financial statements and management reports pursuant to Section 317 (3a) HGB created for the purposes of disclosure (IDW PS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibilities according to these standards are described in further detail in the section "Responsibilities of the auditor for auditing ESEF documents". Our auditing firm applied the requirements of the quality assurance system of the IDW quality assurance standard: Quality assurance requirements for auditing firms (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD REGARDING ESEF DOCUMENTS

The Company's executive directors are responsible for issuing ESEF documents with the electronic versions of the annual financial statements and the management report in accordance with Section 328 (1)(4), item 1 HGB.

Furthermore, the Company's executive directors are responsible for the internal controls deemed necessary in order to facilitate the preparation of ESEF documents free from material infringements, whether due to fraud or error, of the requirements pursuant to Section 328 (1) HGB in terms of the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the accounting process.

RESPONSIBILITIES OF THE AUDITOR FOR AUDITING THE ESEF DOCUMENTS

We aim to obtain sufficient assurances as to whether the ESEF documents are free from material infringements, whether due to fraud or error, of the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material infringements, whether due to fraud or error, of the requirements pursuant to Section 328 (1) HGB, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

— Obtain an understanding of internal controls relevant to the audit of ESEF documents 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 controls.

— Evaluate the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents fulfils the technical specifications for this file as outlined in the requirements of the Delegated Regulation (EU) 2019/815 in the version valid as at the reporting date.

— Assess whether the ESEF documents enable the reproduction of the content of the audited annual financial statements and the audited management report as an XHTML file.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the Annual General Meeting on 28 April 2021. We were engaged by the Supervisory Board on 30 January 2022. We have been the auditor of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, without interruption since the 2018 financial year.

We declare that the audit opinions expressed in this auditor's report, along with the additional report to the audit committee, are consistent with Article 11 of the EU Audit Regulation (long-form audit report).

Other matters – use of the auditor's report

Our auditor's report should always be read in conjunction with the audited annual financial statements and the audited management report, as well as the audited ESEF documents. The annual financial statements and management report, which have been converted to ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited annual financial statements and the audited management report and are not intended to replace them. In particular, the "Report on the audit of the electronic versions of the annual financial statements and the management report pursuant to Section 317 (3a) HGB created for the purposes of disclosure" and the audit opinion expressed therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

Responsible auditor

The German Public Auditor responsible for the engagement is Dr Frederik Mielke.

Berlin, 16 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr Frederik Mielke
Auditor

p.p. Julian Fersch
Auditor

STATEMENT OF FIXED ASSETS

	ACQUISITION COSTS				
in EUR	**01/01/2021**	Additions	Disposals	Reclassifications	**31/12/2021**
I. Intangible assets					
Paid concessions, commercial property rights and similar rights and assets, as well as licences to such rights and assets	31,973.20	0.00	0.00	0.00	31,973.20
	31,973.20	**0.00**	**0.00**	**0.00**	**31,973.20**
II. Property, plant and equipment					
1. Land, leasehold rights and buildings, including buildings on third-party property	149,712.11	0.00	0.00	0.00	149,712.11
2. Other equipment, operating and office equipment on third-party property	375,089.11	5,606.69	63,604.95	0.00	317,090.85
	524,801.22	**5,606.69**	**63,604.95**	**0.00**	**466,802.96**
III. Financial assets					
1. Investments in affiliated companies	263,859,504.11	0.00	0.00	0.00	263,859,504.11
2. Loans to affiliated companies	627,099,250.92	18,900,150.46	89,685,884.49	0.00	556,313,516.89
3. Loans to companies in which shares are held	0.00	26,996,500.00	1,846,500.00	0.00	25,150,000.00
4. Other loans	5,448,308.29	60,000,000.00	95,856.89	0.00	65,352,451.40
	896,407,063.32	**105,896,650.46**	**91,628,241.38**	**0.00**	**910,675,472.40**
	896,963,837.74	**105,902,257.15**	**91,691,846.33**	**0.00**	**911,174,248.56**

	ACCUMULATED DEPRECIATION AND AMORTISATION				CARRYING AMOUNTS	
in EUR	01/01/2021	Additions	Disposals	31/12/2021	31/12/2021	31/12/2020
I. Intangible assets						
Paid concessions, commercial property rights and similar rights and assets, as well as licences to such rights and assets	31,969.20	0.00	0.00	31,969.20	4.00	4.00
	31,969.20	**0.00**	**0.00**	**31,969.20**	**4.00**	**4.00**
II. Property, plant and equipment						
1. Land, leasehold rights and buildings, including buildings on third-party property	100,609.11	38,517.00	0,00	139,126.11	10,586.00	49,103.00
2. Other equipment, operating and office equipment on third-party property	257,266.11	34,229.69	60,557.95	230,937.85	86,153.00	117,823.00
	357,875.22	**72,746.69**	**60,557.95**	**370,063.96**	**96,739.00**	**166,926.00**
III. Financial assets						
1. Investments in affiliated companies	24,707,815.32	650,000.00	0.00	25,357,815.32	238,501,688.79	239,151,688.79
2. Loans to affiliated companies	7,285,198.89	0.00	0.00	7,285,198.89	549,028,318.00	619,814,052.03
3. Loans to companies in which shares are held	0.00	0.00	0.00	0.00	25,150,000.00	0.00
4. Other loans	0.00	0.00	0.00	0.00	65,352,451.40	5,448,308.38
	31,993,014.21	**650,000.00**	**0.00**	**32,643,014.21**	**878,032,458.19**	**864,414,049.11**
	32,382,858.63	**722,746.69**	**60,557.95**	**33,045,047.37**	**878,129,201.19**	**864,580,979.11**

IMPRINT

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