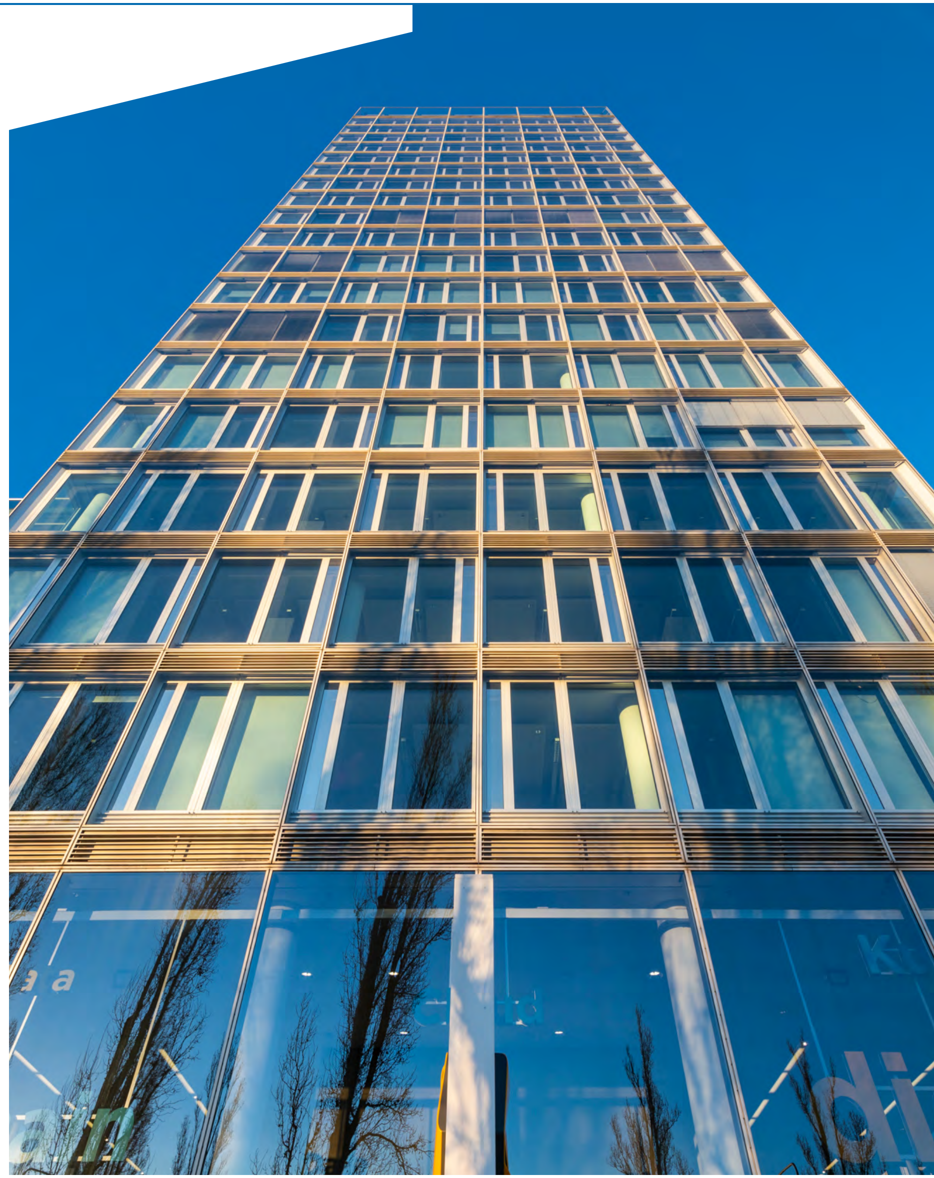
DEMIRE

2022 MANAGEMENT REPORT AND ANNUAL FINANCIAL STATEMENTS



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GROUP PRINCIPLES

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

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

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

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

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

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

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

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

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

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

Strategy and Objectives

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

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

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

3. Achieve an investment grade rating

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

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

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

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

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

Realising optimisation potential in processes and structures:

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

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

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

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

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

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

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

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

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

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

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

Corporate management

Management: key performance indicators are geared towards earnings and value development
We make use of a range of financial indicators to manage our Company. They relate to income and liquidity on the one hand, whilst also looking at value on the balance sheet.

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

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

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

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

Another key performance indicator for the Group is the net loan-to-value (LTV) ratio, which, according to the definition of the 2019/2024 corporate bond, is calculated as financial and leasing liabilities minus cash and cash equivalents as a ratio to total assets minus goodwill and cash or cash equivalents (see page 19).

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

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

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

Portfolio

Diversified portfolio with a focus on office properties

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

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

PORTFOLIO BY ASSET CLASS

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

[1] Excluding project developments and assets held for sale

Portfolio and asset management

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

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

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

Letting performance

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

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

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

DEVELOPMENT OF ANNUALISED CONTRACTUAL RENTS IN 2022

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

Active portfolio management

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

DISPOSALS 2022

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

Non-financial performance indicators

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

Personnel

KEY SPECIALISTS AND CENTRAL DEVELOPMENT DRIVERS

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

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

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

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

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

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

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

DEMIRE WELCOMES DIVERSITY AND VARIETY

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

Tenant relationship management and network maintenance

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

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

CLOSE TENANT SUPPORT

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

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

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

NETWORKING

DEMIRE is a member of the European Public Real Estate Association (EPRA), the representative body of listed European real estate companies. As part of this, we support the EPRA best practice recommendations promoting the transparent presentation of key performance indicators for listed real estate companies. We have presented detailed performance indicators as defined by EPRA since the 2020 financial year (see EPRA key performance indicators in the Annual Report starting on page 205). EPRA awarded DEMIRE a Gold Award for the implementation of the Best Practice Recommendations for this reporting. In the summer of 2022, we published the first EPRA Sustainability Report, which received the Silver Award and a special prize for the greatest improvement in reporting.

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

Sustainability

EPRA SILVER AWARD FOR THE FIRST SUSTAINABILITY REPORT

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

ESG – ENVIRONMENTAL, SOCIAL & GOVERNANCE

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

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

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

ECONOMIC REPORT

Economic environment

Macroeconomic situation

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

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

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

DEVELOPMENT OF THE REAL ESTATE AND CONSTRUCTION SECTORS

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

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

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

OFFICE REAL ESTATE MARKET

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

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

LOGISTICS REAL ESTATE MARKET

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

RETAIL REAL ESTATE MARKET

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

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

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

HOTEL REAL ESTATE MARKET

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

Implications for DEMIRE

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

General assessment of the Executive Board

General statement on the business performance and position of the Group

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

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

TARGET/ACTUAL COMPARISON

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

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

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

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

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

Results of operations, net assets and financial position

Results of operations

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

CONSOLIDATED INCOME STATEMENT[1]

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

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

DEVELOPMENT OF THE MAIN ITEMS OF THE STATEMENT OF INCOME

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

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

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

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

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

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

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

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

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

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

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

FUNDS FROM OPERATIONS (FFO)

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

FFO CALCULATION

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

FFO CALCULATION

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

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

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

SEGMENT DEVELOPMENT

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

The key segment data developed as follows in 2022:

SELECTED DISCLOSURES FROM THE CONSOLIDATED INCOME STATEMENT

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

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

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

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

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

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

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

Net assets

NET ASSET VALUE (NAV)

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

NET ASSET VALUE (NAV/NNNAV)

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

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

Total assets down by 9.9%

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

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

SELECTED DISCLOSURES FROM THE CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET – ASSETS

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

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

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

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

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

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

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

Equity ratio remains solid at 31.7%

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

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

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

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

Contingencies

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

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

FINANCIAL POSITION

Financial management

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

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

SELECTED DISCLOSURES FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS 1

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

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

Liquidity headroom remains comfortable

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

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

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

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

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

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

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

Slight increase in net loan-to-value ratio

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

NET LOAN-TO VALUE (NET LTV)

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

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

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

MATURITIES

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

Covenants for the corporate bond adhered to

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

BOND COVENANTS 31/12/2022

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

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

Other financial obligations and contingent liabilities

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

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

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

Economic development of DEMIRE AG

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

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

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

Results of operations, net assets and financial position

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

RESULTS OF OPERATIONS

STATEMENT OF INCOME (EXCERPT)

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

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

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

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

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

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

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

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

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

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

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

NET ASSETS

BALANCE SHEET – ASSETS (EXCERPT)

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

BALANCE SHEET – EQUITY AND LIABILITIES (EXCERPT)

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

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

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

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

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

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

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

FINANCIAL POSITION

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

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

STATEMENT OF CASH FLOWS (EXCERPT)

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

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

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

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

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

OUTLOOK

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

SUBSEQUENT EVENTS

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

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

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

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

CONCLUDING STATEMENT TO THE DEPENDENCY REPORT PURSUANT TO SECTION 312 AKTG

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

Dividend

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

FURTHER LEGAL INFORMATION

Disclosures pursuant to Section 289a/315a HGB

COMPOSITION OF SUBSCRIBED CAPITAL

a) As at 31 December 2022

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

b) Development after 31 December 2022

There were no changes after the reporting date.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

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

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

a) As at 31 December 2022

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

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

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

b) Development after 31 December 2022

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

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

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

Such interests do not exist.

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

Appointment and replacement of Executive Board members

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

Amendments to the Articles of Association

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

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised Capital

a) As at 31 December 2022

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

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

b) Development after 31 December 2022

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

Conditional Capital

a) As at 31 December 2022

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

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

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

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

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

This authorisation had not been used by the reporting date.

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance Statement

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

Remuneration Report 2022

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

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

Overview of the 2022 financial year

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Detailed breakdown of Executive Board remuneration during the 2022 financial year

OVERVIEW OF "NEW REMUNERATION SYSTEM"

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

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

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

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

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

REMUNERATION ELEMENT

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

REMUNERATION ELEMENT

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

REMUNERATION ELEMENT

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

DETAILED BREAKDOWN OF FIXED REMUNERATION ELEMENTS IN THE 2022 FINANCIAL YEAR

Basic remuneration in 2022 financial year

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

Fringe benefits in 2022 financial year

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

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

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

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

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

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

Pension expenses in 2022 financial year

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

DETAILED BREAKDOWN OF VARIABLE REMUNERATION ELEMENTS IN THE 2022 FINANCIAL YEAR

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

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

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

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

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

Performance criteria

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

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

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

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

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

FOR MR TIM BRÜCKNER:

1. Qualitative targets

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

2. Quantitative targets

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

FOR MR INGO HARTLIEF:

1. Qualitative targets

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

2. Quantitative targets

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

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

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

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

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

Basic structure (2022/2026 tranche)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DETAILED BREAKDOWN OF PSUS GRANTED

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

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

OTHER REMUNERATION PROVISIONS IN THE 2022 FINANCIAL YEAR

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

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

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

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

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

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

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

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

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

TIM BRÜCKNER – CHIEF FINANCIAL OFFICER SINCE 1 FEBRUARY 2019

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

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

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

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

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

REMUNERATION UPON TERMINATION OF CONTRACT IN THE 2022 FINANCIAL YEAR

Severance payment provisions

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

> The fixed annual basic salary

> 100% of the bonus (STI)

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

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

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

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

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

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

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

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

Post-contractual non-competition clause

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

Change of control

In the event of (a) the direct or indirect acquisition of control of at least 50% of the voting rights of the Company or (b) a comparable situation that would similarly restrict the Executive Board's managerial authority over the Company, the Supervisory Board may decide to continue or bring about early termination of the virtual stock plan and settle any such early termination at its own discretion. If the Supervisory Board decides in favour of paying out the PSUs early as part of a change of control, this must be completed, where possible, either immediately or, at the very latest, three months after notification of the change of control or comparable situation is received. If, within twelve months of a change of control and in the case of the continuation of the virtual stock plan, the managerial authority of an Executive Board member is restricted or the benefits contractually assured to the Executive Board member are reduced, the Executive Board member in question will be treated as a good leaver in the event of termination within twelve months of the change of control with regard to the severance payment for instruments already granted and yet to be vested (for more information see Severance payment provisions of the Annual Report on page 88).

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

Malus/clawback

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

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

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

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

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

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

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

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

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

Third-party benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tim Brückner – Chief Financial Officer since 1 February 2019

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

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

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

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

SUPERVISORY BOARD REMUNERATION FOR THE 2022 FINANCIAL YEAR

Basic structure of the Supervisory Board remuneration

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

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

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

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

REMUNERATION GRANTED TO SUPERVISORY BOARD MEMBER IN THE 2022 FINANCIAL YEAR

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OPPORTUNITIES AND RISKS

Risk report

Basic principles of DEMIRE risk management

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

Risk management system

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

EARLY RISK WARNING SYSTEM

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

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

RISK IDENTIFICATION AND EVALUATION

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

RISK MANAGEMENT

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

Risk-bearing capacity

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

RISK REPORTING

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

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

Internal control and risk management system

IT SYSTEMS

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

KEY FEATURES OF THE ACCOUNTING-RELATED ICS

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

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

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

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

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

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

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

Other essential tools include:

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

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

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

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

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

[1] This paragraph has not been audited.

General risk situation

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

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

Individual risks

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

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

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

MACROECONOMIC, MARKET-RELATED AND SECTOR RISKS

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

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

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

FINANCIAL RISKS

Financing and liquidity risks

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

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

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

Risks from covenant obligations

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

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

Interest rate risk

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

OPERATING RISK

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

Rental and property management risks

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

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

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

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

Valuation risks

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

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

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

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

COVID-19 pandemic

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

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

Sales risks

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

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

Legal risks

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

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

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

Compliance risks

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

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

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

Tax risks

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

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

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

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

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

Personnel risks

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

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

IT risks

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

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

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

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

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

Overall assessment of the risk situation

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

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

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

Description of major individual opportunities

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

Opportunities arising from the current market situation

MACROECONOMIC AND SECTOR OPPORTUNITIES

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

[2] This paragraph has not been audited.

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

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

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

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

Business opportunities

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

FINANCIAL OPPORTUNITIES

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

Overall assessment of DEMIRE's opportunities

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

FORECAST

Expected development of the overall environment and sector

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

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

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

Anticipated development of the overall environment

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

Anticipated development of the sector

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

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

Expected development of the Group

Overall assessment

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

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

Expected development in operating business

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

Anticipated development of the key economic indicators

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

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

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

FORECAST

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

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

Prof. Dr Alexander Goepfert
(CEO)

Tim Brückner
(CFO)

BALANCE SHEET

as at 31 December 2022

ASSETS

in EUR	31/12/2022	31/12/2021
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	5.00	10,586.00
2. Other equipment, operating and office equipment	67,162.00	86,153.00
	67,167.00	**96,739.00**
III. Financial assets		
1. Investments in affiliated companies	238,621,687.79	238,501,688.79
2. Loans to affiliated companies	489,231,719.27	549,028,318.00
3. Loans to companies in which shares are held	19,710,000.00	25,150,000.00
4. Other loans	65,145,081.61	65,352,451.40
	812,708,488.67	**878,032,458.19**
	812,775,659.67	**878,129,201.19**
B. Current assets		
I. Receivables and other assets		
1. Trade accounts receivable	638,156.75	5,296,698.95
2. Receivables from affiliated companies	8,987,964.58	60,176,731.39
3. Other assets	24,715,260.26	18,274,323.09
	34,341,381.59	**83,747,753.43**
II. Cash on hand and bank balances	**3,308,226.12**	**7,299,301.71**
	37,649,607.71	**91,047,055.14**
C. Prepaid expenses	**1,172,652.57**	**2,056,576.69**
	851,597,919.95	**971,232,833.02**

BALANCE SHEET

as at 31 December 2022

EQUITY AND LIABILITIES

in EUR	31/12/2022	31/12/2021
A. Equity		
I. Subscribed capital	**107,777,324.00**	**107,777,324.00**
Treasury shares	–2,264,728.00	–2,264,728.00
Issued capital	**105,512,596.00**	**105,512,596.00**
II. Capital reserves	**159,880,547.45**	**159,880,547.45**
III. Accumulated loss (previous year: Accumulated profit)	**–25,760,645.19**	**32,912,457.40**
	239,632,498.26	**298,305,600.85**
B. Provisions		
1. Tax provisions	10,782,948.75	6,777,618.44
2. Other provisions	2,635,479.61	4,425,119.85
	13,418,428.36	**11,202,738.29**
C. Liabilities		
1. Bonds	550,000,000.00	600,000,000.00
2. Liabilities to banks	429.12	0.00
3. Trade payables	363,685.24	269,907.43
4. Liabilities due to affiliated companies	43,609,321.82	57,667,001.51
5. Other liabilities of which taxes EUR 89.363,45 (previous year: EUR 54.428,65) of which social security EUR 57.351,85 (previous year: EUR 50.613,60)	4,573,557.15	3,787,584.94
	598,546,993.33	**661,724,493.88**
	851,597,919.95	**971,232,833.02**

STATEMENT OF INCOME

For the financial year 1 January 2022 to 31 December 2022

in EUR	2022	2021
1. Revenue	3,939,739.71	4,206,099.94
2. Other operating income	16,413,643.75	1,048,705.78
	20,353,383.46	**5,254,805.72**
3. Staff costs		
a) Wages and salaries	4,951,430.94	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)	402,905.80	443,161.12
	5,354,336.74	**4,936,621.52**
4. Depreciation and amortisation of intangible fixed assets and property, plant and equipment	44,053.67	72,746.69
5. Other operating expenses	5,001,539.68	5,247,561.69
6. Income from investments	4,049,064.53	3,872,327.33
7. Profits transferred due to profit transfer agreements	3,629,874.96	35,038,983.05
8. Income from loans of financial assets	20,983,153.68	19,534,489.85
9. Other interest and similar income	56,421.82	511,626.26
10. Impairment of financial assets	15,061,254.56	650,000.00
11. Expenses from the assumption of losses	30,069,592.56	449,967.02
12. Interest and similar expenses	13,998,153.66	13,587,598.08
13. Expenses from compensation payments to minority shareholders	141,968.04	141,968.04
14. Income taxes of which income from the reversal of deferred taxes EUR 0.00 (previous year: EUR 1,066,109.29)	5,365,197.37	–6,260,379.38
15. Earnings after taxes	–25,964,197.83	32,865,389.79
16. Other taxes	0.00	22,274.39
17. Net loss (previous year: Net profit)	**–25,964,197.83**	**32,843,115.40**
18. Profit carried forward	203,552.64	949,823.31
19. Offsetting with shares acquired for redemption	0.00	880,491.31
20. Accumulated deficit (previous year: Accumulated profit)	**–25,760,645.19**	**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 2022 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. 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)(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 2022 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 for 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 three 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. Both 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 2021: 29.13%) 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 re-assessed, 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 2022 is covered on page 90 et seq. of the attached statement of fixed assets.

FINANCIAL ASSETS

Investments in affiliated companies amounted to EUR 238,622 thousand (31 December 2021: EUR 238,502 thousand). The slight increase results from a write-up of shares in affiliated companies, as the grounds for permanent impairment no longer exist.

Loans to affiliated companies of EUR 489,232 thousand (31 December 2021: EUR 549,028 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.

Impairments in the amount of EUR 15,061 thousand (2021 financial year: EUR 650 thousand) were recognised on financial assets in order to reflect an adjustment to the fair value. No reversals were recognised in the reporting year.

The decrease in loans to affiliated companies in the amount of EUR 59,797 thousand is due, among other things, to repayments from affiliated companies (mainly at DEMIRE Holding X GmbH in the amount of EUR 54,088 thousand). This also includes impairments of EUR 15,061 thousand. Running counter to this, loans were increased to affiliated companies (mainly DEMIRE AN BN R PM FR FL GmbH in the amount of EUR 3,739 thousand, DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH in the amount of EUR 3,278 thousand and DEMIRE Frankfurt Gutleutstraße 85 GmbH in the amount of EUR 2,300 thousand).

For information on shareholdings, please refer to page 92 et seq. and the schedule of shareholdings as at 31 December 2022 attached to the Notes in accordance with Section 285 nos. 11, 11a and 11b HGB.

Loans to companies in which shares are held amount to EUR 19,710 thousand (31 December 2021: EUR 25,150 thousand) and relate to loan receivables from a company in which there is a shareholding of less than 50%. The decrease is the result of impairment.

Other loans include loan receivables from minority shareholders of affiliated companies in the amount of EUR 5,145 thousand (31 December 2021: EUR 5,352 thousand). Furthermore, a loan of EUR 60,000 thousand was granted to a sister company in 2021 by 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 37,650 thousand as at the reporting date (31 December 2021: EUR 91,047 thousand).

Impairments on receivables due from affiliated companies were recognised in the amount of EUR 193 thousand (31 December 2021: EUR 142 thousand), to align the carrying amounts to their lower fair values.

Receivables and other assets

Trade accounts receivable of EUR 638 thousand (31 December 2021: EUR 5,297 thousand) concern claims from service agreements with affiliated companies.

Receivables due from affiliated companies of EUR 8,988 thousand (31 December 2021: EUR 60,177 thousand) mainly relate to receivables from profit and loss transfer agreements, settlement transactions, passed-on expenses as well as current loans. The year-on-year decrease results from the repayment of receivables arising from the profit and loss transfer agreements between consolidated tax group subsidiaries.

Other assets in the amount of EUR 24,715 thousand (31 December 2021: EUR 18,274 thousand) increased by EUR 6,441 thousand year-on-year. The increase was mainly due to an increase in interest receivables from affiliated companies in the amount of EUR 7,078 thousand. Other assets include interest receivables from affiliated companies in the amount of EUR 21,583 thousand.

Other assets include interest receivables from affiliated companies in the amount of EUR 21,583 thousand.

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

Cash and cash equivalents

Cash and cash equivalents in the amount of EUR 3,308 thousand (31 December 2021: EUR 7,299 thousand) include cash on hand and current bank deposits.

Prepaid expenses

Prepaid expenses in the amount of EUR 1,173 thousand (31 December 2021: EUR 2,057 thousand) primarily include a discount of EUR 1,142 thousand from the issue of the 2019 / 2024 corporate bond (31 December 2021: EUR 1,957 thousand), which is amortised over the remaining term of the bond.

Equity

SUBSCRIBED CAPITAL

On 31 December 2022, the Company had fully paid in subscribed capital in the amount of EUR 107,777,324 divided into 107,777,324 no-par value bearer shares with a notional interest of EUR 1.00. The shares of DEMIRE AG have been admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange.

Subscribed capital remained unchanged at EUR 107,777 thousand in the period under review. There were also no changes in the same period last year. No treasury shares were acquired in 2022. 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. 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 0.31 per share with dividend entitlement, or EUR 32,709 thousand, was distributed from the accumulated profit of the previous year during the reporting period, following on from a dividend of EUR 0.62 per share with dividend entitlement, or a total of EUR 65,418 thousand, in 2021.

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)(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 during the reporting period:

in EUR thousand	2022	2021
As at 1 January	53,888.66	53,888.66
Utilisation of authorised capital	0.00	0.00
As at 31 December	**53,888.66**	**53,888.66**

The shareholders are generally entitled to subscription rights. The Executive Board is 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 2019/I had not been utilised by the reporting date.

CONDITIONAL CAPITAL 2020/I

At the ordinary Annual General Meeting of 22 September 2020, Conditional Capital 2019/I was cancelled and Conditional Capital 2020/I was created in the amount of up to EUR 53,328,662.00, divided into up to 53,328,662 new no-par value bearer shares with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights or profit participation bonds (or combinations of these instruments) which were issued or will be issued on the basis of the authorisation resolved by the Annual General Meeting on 11 February 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect subsidiaries and grant a conversion or option right to new no-par value bearer shares of the Company or establish a conversion or option obligation. The new shares shall be issued at the exercise or conversion price to be determined in each case in accordance with the respective authorisation resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with conversion or option obligations fulfil their conversion or option obligations, unless cash compensation is granted or treasury shares or shares created from authorised capital are used to service this obligation. The new shares participate in the profit from the beginning of the financial year in which they are issued, and for all subsequent financial years. Provided it is legally permissible, and with the approval of the Supervisory Board, the Executive Board may decide to amend the profit entitlement schedule for the new shares, particularly, that the new shares may participate in the profit from the start of a past financial year for which no resolutions on the appropriation of profits had been made by the Annual General Meeting at the time at which the new shares were issued. The Executive Board is authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase. The Conditional Capital 2020/I had not been utilised by the reporting date.

Authorisation to purchase treasury shares

The Company was authorised by the Annual General Meeting, for a period of five years from the date of the resolution on 22 September 2020, to acquire its own shares up to a total of 10% of the share capital existing on the date of the resolution or – if lower – on the date the authorisation is exercised. The authorisation may be exercised in whole or in part, once or several times.

The Company's Annual General Meeting on 28 April 2021 cancelled the existing resolution of 22 September 2020 to authorise the purchase of treasury shares and made a new resolution to authorise the purchase of treasury shares. According to this resolution and where legally permissible, the Company is authorised to acquire, by 27 April 2026, treasury shares up to 10% of the share capital existing on the date of the resolution or – if lower – up to 10% of the share capital existing at the time the authorisation is exercised. Together with other treasury shares acquired and owned by the Company or attributable to the Company, the treasury shares acquired on the basis of this authorisation may at no time exceed 10% of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. Acquisition for the purpose of trading in treasury shares is excluded.

Stock option programme

2015 Stock Option Programme

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

Subscription rights resulting from the 2015 stock option programme as defined by Section 192 (2) No. 3 AktG are not accounted for upon issuance. When options are exercised from conditional capital, subscribed capital is increased by the number of exercised shares multiplied by the shares' nominal value. The premium paid is allocated to capital reserves.

The dilutive effect of the outstanding stock options is taken into account as an additional dilution in the calculation of earnings per share, provided that the stock options and the underlying conditions result in a calculated dilution for the existing shareholders.

The exercise of subscription rights is subject to the Company's share price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) being at least 10% higher than the basic price on the trading day preceding the exercise of the subscription rights.

A total of 1,000,000 stock options were allocated. 800,000 were granted in the first tranche to members of the Executive Board and 200,000 to selected DEMIRE AG and Group employees. The fair value of each option from the first tranche was EUR 2.74. In a second tranche, adjusted for those stock options returned by employees who left (90,000 share options), a total of 60,000 new options were issued. The fair value of each option from the second tranche was EUR 1.99 on the reporting date. As at the reporting date, the first tranche still contains an entitlement to 400,000 stock options for one former member of the Executive Board and to 110,000 stock options for selected employees. In the period under review, there were no changes in the number of shares issued in comparison to the previous period.

In the reporting period, no further expenses arose from this stock option programme. In the previous year, these expenses amounted to EUR 0 thousand.

2019 virtual stock option programme

In addition to the bonus, annual virtual stock options (otherwise known as "performance share units" or "PSUs") are granted as part of a long-term, share-based variable remuneration package in the form of a virtual stock plan (performance share plan). The virtual stock option programme is capped by way of an annual allotment defined in the contract. There is no provision for vesting of more than 100% of the granted PSUs. Regardless of the target achievement or number of vested PSUs, the maximum payment per PSU is capped at 250% of the price when granted.

Accounting for the share-based payments issued within the Group is in accordance with IFRS 2 Share-based Payment. The virtual stock options are share-based remuneration transactions that are settled using cash and are measured at the fair value as at the balance sheet date. The remuneration expense is aggregated in instalments under consideration of the work performance completed on a pro-rata basis during the vesting period and is recognised in profit and loss as a provision until vesting.

This stock option programme was issued to Mr Ingo Hartlief (FRICS) with effect from 1 January 2019 and to Mr Tim Brückner with effect from 1 February 2019. Under this stock option programme, each member of the Executive Board is granted performance share units (PSUs) every year. The number of PSUs granted per year is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. The grant is made annually, with the first grant made on the date mentioned above.

The PSUs are paid out after a performance period of four years from the grant date, depending on whether performance targets are reached. The performance targets consist of 50% annual share price increases and 50% relative total shareholder return (TSR). The relative TSR compares the development of DEMIRE's TSR with the return of the EPRA/NAREIT Developed Europe ex UK Index over the four-year performance period. The entitlement is forfeited if the respective member of the Executive Board resigns from office during the performance period.

The maximum value and the threshold for the share price increase are determined in advance by the Supervisory Board. The same applies to the maximum value and the threshold for relative total shareholder return performance.

The liabilities arising from cash-settled share-based payment transactions are recognised as provisions and measured at fair value once again on each reporting date. The expenditure is also recognised as personnel expenses over the vesting period. As at 31 December 2022, the provision for the virtual stock option programme valid as of 2019 amounts to EUR 259 thousand (previous year: EUR 627 thousand). In addition to the 2019 tranche, the 2020, 2021 and 2022 tranches were also taken into account. The 60-day average price before granting the tranches is as follows: EUR 4.21 for the 2019 tranche, EUR 5.13 for the 2020 tranche, EUR 4.09 for the 2021 tranche and EUR 4.29 for the 2022 tranche.

CAPITAL RESERVES

As at 31 December 2022, capital reserves amounted to EUR 159,881 thousand (31 December 2021: EUR 159,881 thousand).

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

ACCUMULATED PROFIT/LOSS

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

In EUR thousand	2022	2021
Accumulated profit carried forward from the previous year	32,912	66,367
Dividend payments	–32,709	–65,418
Net profit/loss for the period	–25,964	32,843
2021 share buy-back	0	–880
Accumulated profit as at 31 December	**–25,761**	**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/loss
As at 1 January 2022	**107,777**	**–2,265**	**159,881**	**32,912**
Distribution in 2022	0	0	0	–32,709
2022 net profit	0	0	0	–25,964
As at 31 December 2022	**107,777**	**–2,265**	**159,881**	**–25,761**

PROVISIONS

Tax provisions include the tax burden determined for the taxable income of DEMIRE as at 31 December 2022. There were additions for a corporate income tax provision in the amount of EUR 3,652 thousand and additions to the trade tax provision in the amount of EUR 1,989 thousand for the 2022 financial year. Provisions for previous years were not utilised.

Other provisions amounted to EUR 2,635 thousand (31 December 2021: EUR 4,425 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 2022, the 2019/2024 unsecured corporate bond issued in October 2019 is pending for the full nominal amount of EUR 550,000 thousand (31 December 2021: EUR 600,000 thousand). In November 2022, a nominal amount of EUR 50,000 thousand relating to the 2019/2024 corporate bond was repurchased in an open market repurchase (OMR).

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 2022 as a whole or as at the reporting date of 31 December 2022. The planning for DEMIRE also indicates that compliance with these ratios will be maintained.

Liabilities due to affiliated companies

As at the reporting date, liabilities due to affiliated companies came to EUR 43,609 thousand (31 December 2021: EUR 57,667 thousand). The year-on-year decrease primarily results from the repayment of loans to affiliated companies amounting to EUR 35,210 thousand. The increase in liabilities arising from the profit transfer had a counteracting effect here; this amounted to EUR 30,274 thousand at year-end. During the 2022 financial year, loan liabilities due to affiliated companies totalled EUR 11,031 thousand (31 December 2021: EUR 46,242 thousand).

Other liabilities

Other liabilities amounting to EUR 4,574 thousand (31 December 2021: EUR 3,788 thousand) mainly include interest liabilities from the 2019/2024 bond in the amount of EUR 2,191 thousand (31 December 2021 from the 2019/2024 bond: EUR 2,504 thousand) as well as liabilities due to minority shareholders from affiliated companies in the amount of EUR 142 thousand (31 December 2021: EUR 142 thousand). Other liabilities include liabilities to affiliated companies in the amount of EUR 2,091 thousand (31 December 2021: EUR 1,034 thousand).

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

31/12/2022 (31/12/2021)

in EUR	up to 1 year	over 1 year	of which more than 5 years	Total
1. Bonds	0.00 (0.00)	550,000,000.00 (600,000,000.00)	0.00 (0.00)	**550,000,000.00** (600,000,000.00)
2. Liabilities to banks	429.12 (0.00)	0.00 (0.00)	0.00 (0.00)	**429.12** (0.00)
3. Trade payables	363,685.24 (269,907.43)	0.00 (0.00)	0.00 (0.00)	**363,685.24** (269,907.43)
4. Liabilities due to affiliated companies	43,609,321.82 (11,425,203.36)	0.00 (46,241,798.15)	0.00 (0.00)	**43,609,321.82** (57,667,001.51)
5. Other liabilities	4,573,557.15 (3,787,584.94)	0.00 (0.00)	0.00 (0.00)	**4,573,557.15** (3,787,584.94)
Total	**48,546,993.33** (15,482,695.73)	**550,000,000.00** (646,241,798.15)	**0.00** (0.00)	**598,546,993.33** (661,724,493.88)

Contingencies

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

As at the reporting date, the contingent liabilities existed from the provision of collateral for third-party liabilities with a value of EUR 940 thousand (31 December 2021: 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 totalling EUR 455 thousand (31 December 2021: EUR 341 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	455	230	225	0
of which from affiliated companies	379	198	181	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: 29.13%). 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	–1,279
Loans to affiliated companies	219
Fixed assets of affiliated companies (profit and loss transfer agreement)	3,073
Surplus of deferred tax assets	**2,013**

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 2022	6,639
Investments in affiliated companies	–35
Loans to affiliated companies	161
Fixed assets of affiliated companies (profit and loss transfer agreement)	–4,737
Receivables and other assets	–15
Deferred tax assets as at 31 December 2022	**2,013**

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 3,940 thousand (previous year: EUR 4,206 thousand) relate to services in the amount of EUR 3,877 thousand (2021 financial year: EUR 4,118 thousand) to German companies and in the amount of EUR 63 thousand (previous year: EUR 88 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 16,414 thousand (previous year: EUR 1,049 thousand) mainly comprises income from the below-par repayment of the 2019/24 corporate bond in the amount of EUR 13,845 thousand (previous year: EUR 0 thousand), the reversal of write-downs on receivables from affiliated companies in the amount of EUR 1,093 thousand (previousyear: EUR 0) and the reversal of provisions in the amount of EUR 941 (previous year: EUR 509 thousand).

Other operating income includes non-periodic income of EUR 2,234 thousand (previous year: EUR 1,215 thousand).

Other operating expenses

Other operating expenses in the amount of EUR 5,002 thousand (previous year: EUR 5,248 thousand) comprise mainly legal and consulting fees in the amount of EUR 1,176 thousand (previous year: EUR 803 thousand), expenses in conjunction with the bond buyback in the amount of EUR 583 thousand (previous year: EUR 0 thousand), expenses for accounting, preparation and audit of the annual and consolidated financial statements in the amount of EUR 556 thousand (previous year: EUR 569 thousand) and third-party services and work in the amount of EUR 457 thousand (previous year: EUR 242 thousand).

Income from investments

Income from investments of EUR 4,049 thousand (previous year: EUR 3,872 thousand) relates to the allocation of earnings of FVR Beteiligungsgesellschaft Erste bis Neunte mbH & Co. KG in the amount of EUR 4,049 thousand (previous year: EUR 2,685 thousand). In the previous year, distributions from DEMIRE Holding II GmbH in the amount of EUR 650 thousand, DEMIRE Holding XIII GmbH in the amount of EUR 300 thousand and DEMIRE HB HZ B HST GmbH in the amount of EUR 237 thousand were included.

Income from profit and loss transfer agreements

Income from profit and loss transfer agreements in the amount of EUR 3,630 thousand (previous year: EUR 35,039 thousand) relate to the profit and loss transfer agreements concluded with DEMIRE Holding X GmbH, Frankfurt am Main, in the amount of EUR 2,730 thousand (previous year: EUR 30,879 thousand), DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig, in the amount of EUR 900 thousand (previous year: EUR 4,057 thousand) and DEMIRE Holding IV GmbH, Frankfurt am Main, in the amount of EUR 0 thousand (previous year: EUR 112 thousand).

Income from loans of financial assets

Income from loans of financial assets in the amount of EUR 20,983 thousand (previous year: EUR 19,534 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 15,975 thousand) and income from other loans (EUR 5,008 thousand).

Interest result

Interest income consists predominantly of EUR 38 thousand (previous year: EUR 74 thousand) in accordance with Section 233a of the Fiscal Code of Germany (AO) and interest income from affiliated companies in the amount of EUR 11 thousand (previous year: EUR 6 thousand) for interest on the limited partner account of DEMIRE AG.

Interest and similar expenses of EUR 13,998 thousand (previous year: EUR 13,588 thousand) concern mainly the interest payments from the existing 2019/2024 corporate bond.

Interest and similar expenses due to affiliated companies amounted to EUR 2,091 thousand (previous year: EUR 1,630 thousand).

Impairment of financial assets

Impairment of financial assets relates to impairment losses in the amount of EUR 15,061 thousand (previous year: EUR 650 thousand) on loans to affiliated companies and other loans (previous year: investments in affiliated companies).

Expenses from the assumption of losses

Expenses from the assumption of losses in the amount of EUR 30,070 thousand (2021 financial year: EUR 450 thousand) relate to the assumption of losses from existing control and profit and loss transfer agreements with subsidiaries. Of this amount, EUR 8,551 thousand (2021 financial year: EUR 0 thousand) is attributable to DEMIRE Holding IV GmbH, Frankfurt am Main, EUR 21,516 thousand (2021 financial year: EUR 444 thousand) is attributable to DEMIRE Holding XI GmbH, Frankfurt am Main, and EUR 4 thousand (2021 financial year: EUR 6 thousand) is attributable to DEMIRE Holding III 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.

OTHER DISCLOSURES

Governing bodies

EXECUTIVE BOARD MEMBERS AND REMUNERATION

The following are Executive Board members:

Mr Tim Brückner (since 1 February 2019), CFO

Mr Ingo Hartlief (FRICS) (since 20 December 2018 until 31 December 2022), CEO

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.

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, since 20 May 2019. 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.

Ingo Hartlief stepped down from the Executive Board effective 31 December 2022. Prof. Dr Alexander Goepfert is the new CEO with effect from 1 January 2023.

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

For the 2022 financial year, performance-related remuneration of EUR 457 thousand (previous year: EUR 610 thousand), fixed remuneration of EUR 731 thousand (previous year: EUR 699 thousand) and share-based remuneration of EUR 316 thousand (previous year: EUR 376 thousand) was granted for the Executive Board of DEMIRE AG. As at the reporting date, EUR 316 thousand (previous year: EUR 244 thousand) of share-based payments and EUR 457 thousand (previous year: EUR 610 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 2022	Total 2021
Ingo Hartlief	430	285	198	913	1,031
Tim Brückner	301	172	118	591	654
Total	**731**	**457**	**316**	**1,504**	**1,685**

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.

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.

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

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

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

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

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

Adjustments made to the target remuneration of the Executive Board members in the 2022 financial year in comparison to the previous year are presented below.

Furthermore, the Supervisory Board laid down the performance criteria with regard to performance-related variable remuneration elements for the 2022 financial year. Details on the Executive Board members' bonuses which were vested in the 2022 financial year are reserved for the remuneration report for the 2023 financial year.

The performance-related variable remuneration for the Executive Board consists of one-year variable remuneration (short-term incentive [STI] = bonus) and multi-year variable remuneration (long-term incentive [LTI] = virtual stock option programme). The amount of variable remuneration is therefore based on the achievement of specific targets laid down in advance.

The following performance criteria are to be used to assess whether or not, and in what amount, a bonus is to be granted:

— 25%-50% Key performance indicators for the Company: Forecast values (rental income & FFO)
— 25%-50% Operational performance criteria: Transaction and letting targets
— 10%-30% Non-financial performance criteria: Strategic targets for the Company, environmental, social and governance policy targets

The bonus is capped at double the target amount.

The STI for the 2022 financial year amounts to EUR 198 thousand and was approved by the Supervisory Board at the beginning of 2023. This will be paid out in 2023.

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 (previous year: EUR 240 thousand). In addition, Supervisory Board members were reimbursed by the Company for travel expenses of EUR 1 thousand (previous 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), Lawyer (since 27 June 2018 until 31 December 2022)	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, Care4 Holding AG, IRESI AG, Basel	Member of the Board of Directors
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Allmyhomes GmbH, Berlin	Member of the Advisory 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
	pbb Deutsche Pfandbrief AG, Munich	Ordinary Member of the Supervisory 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 2022 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 Declaration of Conformity with the German Corporate Governance Code required under Section 161 of the German Stock Corporation Act (AktG) has been made permanently available to shareholders on the website of DEMIRE Deutsche Mittelstand Real Estate AG under the section titled "Company".

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 deficit for the year.

Responsibility Statement under Section 264 (2)(3) HGB

The Executive Board, as the legal representatives of DEMIRE AG, hereby confirms that, to the best of its knowledge and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company, and the combined management report includes a fair review of the development of the business including the results and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Subsequent events

The Supervisory Board appointed Prof. Dr Alexander Goepfert as a new member of the Executive Board with effect from 1 January 2023 and at the same time appointed him as CEO. Prof. Dr Goepfert informed the Supervisory Board that he would resign from his position as Chairman of the Supervisory Board with effect from 31 December 2022 and leave the Supervisory Board. The vacancy in the Supervisory Board resulting from Prof. Dr Goepfert's resignation as of 1 January 2023 was filled with effect from 1 January 2023 by the court replacement appointment of Mr Markus Hofmann. Mr Hofmann was elected as the new Chairman of the Supervisory Board on 25 January 2023. In addition, the Supervisory Board appointed Mr Ralf Bongers as an additional member of the Executive Board with effect from 1 April 2023.

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

Frankfurt am Main, 16 March 2022

DEMIRE Deutsche Mittelstand Real Estate AG

Prof. Dr. Alexander Goepfert
(CEO)

Tim Brückner
(Chief Financial Officer)

STATEMENT OF FIXED ASSETS

	Acquisition and production costs				
in EUR	01/01/2022	Additions	Disposals	Reclassifications	31/12/2022
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	2,807.66	0.00	146,904.45
2. Other equipment, operating and office equipment on third-party property	317,090.85	17,363.67	3,744.56	0.00	330,709.96
	466,802.96	**17,363.67**	**6,552.22**	**0.00**	**477,614.41**
III. Financial assets					
1. Investments in affiliated companies	263,859,504.11	0.00	23,012,885.55	0.00	240,846,618.56
2. Loans to affiliated companies	556,313,516.89	75,612,284.13	133,072,828.19	0.00	498,852,972.83
3. Loans to companies in which shares are held	25,150,000.00	600,000.00	600,000.00	0.00	25,150,000.00
4. Other loans	65,352,451.40	93,279.35	300,649.14	0.00	65,145,081.61
	910,675,472.40	**76,305,563.48**	**156,986,362.88**	**0.00**	**829,994,673.00**
Total	**911,174,248.56**	**76,322,927.15**	**156,992,915.10**	**0.00**	**830,504,260.61**

	Accumulated depreciation and amortisation						Carrying amounts	
in EUR	01/01/2022	Depreciation and amortisation financial year	Disposals	Reclassifications	Write-ups	31/12/2022	31/12/2022	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	31,969.20	0.00	0.00	0.00	0.00	31,969.20	4.00	4.00
	31,969.20	**0.00**	**0.00**	**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	139,126.11	9,376.00	1,602.66	0.00	0.00	146,899.45	5.00	10,586.00
2. Other equipment, operating and office equipment on third-party property	230,937.85	34,677.67	2,067.56	0.00	0.00	263,547.96	67,162.00	86,153.00
	370,063.96	**44,053.67**	**3,670.22**	**0.00**	**0.00**	**410,447.41**	**67,167.00**	**96,739.00**
III. Financial assets								
1. Investments in affiliated companies	25,357,815.32	1.00	23,012,885.55	0.00	120,000.00	2,224,930.77	238,621,687.79	238,501,688.79
2. Loans to affiliated companies	7,285,198.89	9,621,253.56	7,285,198.89	0.00	0.00	9,621,253.56	489,231,719.27	549,028,318.00
3. Loans to companies in which shares are held	0.00	5,440,000.00	–	0.00	0.00	5,440,000.00	19,710,000.00	25,150,000.00
4. Other loans	0.00	0.00		0.00	0.00	0.00	65,145,081.61	65,352,451.40
	32,643,014.21	**15,061,254.56**	**30,298,084.44**	**0.00**	**120,000.00**	**17,286,184.33**	**812,708,488.67**	**878,032,458.19**
Total	**33,045,047.37**	**15,105,308.23**	**30,301,754.66**	**0.00**	**120,000.00**	**17,728,600.94**	**812,775,659.67**	**878,129,201.19**

SCHEDULE OF SHAREHOLDINGS

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

Company	Share in capital in %	Equity 31/12/2022 in EUR	2022 net profit in EUR
GERMANY			
DEMIRE Apolda Wurzen GmbH, Berlin	94.90	1,713,362.10	–174,931.34
DEMIRE HB HZ B HST GmbH, Berlin	94.90	13,551,403.95	1,545,918.45
DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig	94.90	3,282,959.28	0.00
Panacea Property GmbH, Berlin [1]	51.00	2,778.77	–3,342.37
Fair Value REIT-AG, Frankfurt am Main	84.35	87,111,877.40	1,619,583.11
IC Fonds & Co. SchmidtBank-Passage KG, Langen (Hesse) [2]	48.00	6,988,498.03	90,960.03
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, München [2]	43.99	15,175,878.64	2,811,247.71
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, München [2]	50.72	7,404,279.09	1,036,885.05
GP Value Management GmbH, Frankfurt am Main	84.35	69,128.72	32,761.17
BBV 10 Geschäftsführungs-GmbH & Co. KG, Langen (Hesse)	84.35	25,000.00	0.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Langen (Hesse)	84.35	25,000.00	0.00
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, München [2]	45.19	8,656,461.65	1,693,784.31
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, München [2]	41.07	13,734,895.27	829,969.09
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt am Main	100.00	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt am Main	100.00	8,750,356.15	0.00
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main	100.00	100.00	0.00
DEMIRE Holding II GmbH, Frankfurt am Main	100.00	43,697,049.37	106,994.85
DEMIRE Meckenheim Merl GmbH, Frankfurt am Main	100.00	10,171,667.71	0.00
Schwerin Margaretenhof 18 GmbH, Frankfurt am Main	94.90	421,062.88	255,701.15
DEMIRE Holding III GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Worms Liebenauer Straße GmbH, Frankfurt am Main	100.00	331,754.47	48,903.54
DEMIRE Schwerin Am Margaretenhof 22–24, Berlin	94.00	656,273.97	178,415.04
DEMIRE Holding IV GmbH, Frankfurt am Main	100.00	78,301.00	0.00

Company	Share in capital in %	Equity 31/12/2022 in EUR	2022 net profit in EUR
GERMANY			
DEMIRE Holding V GmbH, Frankfurt am Main	100.00	53,300.00	0.00
DEMIRE Holding VI GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Holding VII GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Holding VIII GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Eschborn Frankfurter Straße GmbH, Frankfurt am Main	94.00	1,562,759.41	832,678.71
DEMIRE Bad Kreuznach Brückes Hochstr. GmbH, Frankfurt am Main	94.00	75,376.69	0.00
DEMIRE Holding IX GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Düsseldorf Wiesenstraße 70 GmbH, Frankfurt am Main	94.00	1,149,633.15	668,746.25
DEMIRE Bad Oeynhausen Dr. Neuhäußer Straße 4 GmbH, Frankfurt am Main	94.00	37,528.89	0.00
DEMIRE Lichtenfels Bamberger Straße 20 GmbH, Frankfurt am Main	94.00	206,863.96	0.00
DEMIRE Holding I GmbH, Frankfurt am Main	100.00	444,194.20	117,823.97
DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf [1]	47.50	2,000.00	0.00
G+Q Effizienz GmbH, Berlin [1]	49.00	535,992.81	55,835.90
DEMIRE Kassel Kölnische Str. Mauerstr. Spohrstr. GmbH, Leipzig	94.90	888,575.24	0.00
DEMIRE Betriebsvorrichtungen Nr. 2 GmbH, Düsseldorf	100.00	263,884.04	92,419.76
DEMIRE Limbach Oberfrohna Moritzstraße 13 GmbH, Frankfurt am Main	94.00	25,000.00	0.00
DEMIRE Betriebsvorrichtungen Nr. 1 GmbH, Frankfurt am Main	100.00	–273,390.16	–33,041.35
DEMIRE Holding XI GmbH, Frankfurt am Main	100.00	18,980.41	0.00
DEMIRE Holding X GmbH, Frankfurt am Main	100.00	25,000.00	0.00
DEMIRE Holding XII GmbH, Frankfurt am Main	100.00	–8,610,357.08	–641,617.65
DEMIRE Holding XIII GmbH, Frankfurt am Main	100.00	24,333.34	–26,331.44
DEMIRE AN BN R PM FR FL GmbH, Frankfurt am Main	94.90	39,400,967.78	0.00
DEMIRE Ulm Bahnhofplatz Olgastr. Zeitblomstr. GmbH, Frankfurt am Main	94.00	–16,991,043.42	766,761.88
DEMIRE Kempten Bahnhofstr. Hirschstr. Alpenstr. GmbH, Frankfurt am Main	94.00	–3,496,603.94	129,271.83
DEMIRE Köln Max-Glomsda-Straße 4 GmbH, Frankfurt am Main	100.00	328,190.02	227,827.99
DEMIRE Bad Vilbel Konrad Adenauer Allee 1–11 GmbH, Frankfurt am Main	100.00	–2,291,003.67	557,879.27
DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH, Frankfurt am Main	100.00	–3,059,225.69	–3,568,301.22
DEMIRE Aschheim Max-Planckstraße GmbH, Frankfurt am Main	100.00	–1,843,855.15	–431,827.59

Company	Share in capital in %	Equity 31/12/2022 in EUR	2022 net profit in EUR
GERMANY			
DEMIRE Neuss Breslauer Straße GmbH, Frankfurt am Main	100.00	2,040,585.46	633,788.61
DEMIRE Frankfurt Gutleutstraße 85 GmbH, Frankfurt am Main	100.00	–5,939,951.61	–3,576,151.53
DEMIRE Trier Simeonstraße 46 GmbH, Frankfurt am Main	89.90	–3,834,596.33	–3,610,797.79
DEMIRE Ankauf 8 GmbH, Frankfurt am Main	100.00	–35,742.40	–12,453.67
DEMIRE Ankauf 9 GmbH, Frankfurt am Main	100.00	–38,558.70	–12,458.87
DEMIRE Ankauf 10 GmbH, Frankfurt am Main	100.00	–36,965.34	–12,456.74
DEMIRE Trier Celle GmbH, Frankfurt am Main	94.90	–11,384,329.49	–2,750,571.72
DEMIRE Goslar, Rosentorstraße 1 GmbH, Frankfurt am Main	94.90	379,220.27	210,903.61
DEMIRE Memmingen, Königsgraben 3 GmbH, Frankfurt am Main	94.90	54,478.99	225,453.73
DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main	94.90	397,893.25	387,141.89
DEMIRE BT HB DO H CLZ KS KO GmbH, Frankfurt am Main	94.00	–2,495,182.07	142,737.84
DEMIRE Darmstadt Artillerie Str. 9 GmbH, Frankfurt am Main	94.00	107,528.85	343,418.97
DEMIRE Leonberg Neue Ramtelstraße GmbH, Frankfurt am Main	94.00	–1,765,302.36	–51,130.54
DEMIRE Ludwigsburg Uhlandstraße 21 GmbH, Frankfurt am Main	94.00	–1,469,084.49	1,836,579.84
DEMIRE GO HB GmbH, Frankfurt am Main	94.00	634,080.26	13,489.03
Cielo BVO GmbH, Frankfurt am Main	100.00	138,878.18	–91,825.15
JV Theodor-Heuss-Allee GmbH, Frankfurt am Main	49.50	1,920,037.94	1,493,513.42
DEMIRE Bayreuth Nürnberger Straße 38 GmbH, Frankfurt am Main (vorher DENSTON INVESTMENTS LIMITED, Nikosia) [3]	94.00	–2,791,334.99	–252,651.34
SWITZERLAND			
Sihlegg Investments Holding GmbH, Wollerau	94.0	–2,101,337.97	189,169.18

[1] Not fully consolidated due to its insignificance for the Group
[2] Fully consolidated because de facto control is exercised through quorum majority at the shareholder meeting
[3] Since 2022 in Germany

INDEPENDENT AUDITOR'S REPORT[1]

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 OPINIONS

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 2022, and the statement of profit and loss for the financial year from 1 January to 31 December 2022 and notes to the financial statements, including the presentation of the recognition 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, including the remuneration report pursuant to § [Article] 162 AktG [Aktiengesetz: German Stock Corporation Act], including the related disclosures, included in section „Vergütungsbericht 2022“ for the financial year from 1 January to 31 December 2022.

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

— the accompanying 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 2022 and of its financial performance for the financial year from 1 January to 31 December 2022 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 OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the 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) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

[1] Translation – the German text is authoritative

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the 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 shares in and loans to affiliated companies and and to 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 shares in and loans to affiliated companies and to companies in which shares are held

1. In the Company's annual financial statements shares in affiliated companies amounting to EUR 238,622 thousand (28.0% of total assets), loans to affiliated companies amounting to EUR 489,232 thousand (57.4% of total assets) and loans to affiliated companies and to companies in which shares are held amounting to EUR 19,710 thousand (2.3% of total assets) are reported under the "Financial assets" balance sheet item.

Shares 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 shares in and loans to affiliated companies and investees are based primarily on the fair values of the properties held by the respective affiliated companies and investees. The fair values for the properties held by the 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 assistance from an external consulting 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 liabilities of the affiliated companies are included by addition in the fair value measurement of the shares in and loans to affiliated companies and investees. On the basis of the values determined and supplementary documentation, impairments totaling EUR 15,061 thousand were required in the financial year in relation to shares in and loans to affiliated companies and investments. Reversals of impairments on shares in affiliated companies amounting to EUR 120 thousand were recognized.

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 scope for judgment. Against this background and due to the highly complex nature of the valuation and the 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 measuring the shares in and loans to affiliated companies and investees, among other things. In particular, we assessed whether the fair values of the 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 employees from the external consulting firm engaged regarding the key value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate applied and the growth rates can have material effects on the fair value calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied and on the determination of the growth rates, and assessed the calculation model. Finally, we assessed for each affiliated company whether the values of the properties calculated in this way had been correctly compared against the respective carrying amount of the financial investment, taking into account the other assets and liabilities, in order to determine any possible need for impairments or reversals of impairments on shares in and 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 accurately measuring shares in and loans to affiliated companies and investees.

3. The Company's disclosures relating to shares in and loans to affiliated companies and investees are contained under "Financial assets" in the section " Information on accounting and valuation principles" and under "Financial assets" in the section " Notes to the balance sheet disclosures" of the notes to the financial statements.

OTHER INFORMATION

The other information comprises the disclosures marked as unaudited in the section contained in the "Opportunities and risks" section of the management report that are marked as an unaudited and constitute a part of the management report not subject to a substantive audit.

The other information comprises the statement on corporate governance pursuant to § 289f HGB 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 management report disclosures audited in terms of content or with our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE 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 (i.e., fraudulent financial reporting and misappropriation of assets) 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.

The executive directors and the supervisory board are further responsible for the preparation of the remuneration report, including the related disclosures, which is included in a separate section of the management report and complies with the requirements of § 162 AktG. They are also responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE 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 § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

REFERENCE TO AN OTHER MATTER – FORMAL AUDIT OF THE REMUNERATION REPORT PURSUANT TO § 162 AKTG

The audit of the management report described in this auditor's report comprises the formal audit of the remuneration report required by § 162 Abs. 3 AktG, including the expression of an opinion on this audit. As we express an unqualified opinion on the management report, this opinion includes the opinion that the information required by § 162 Abs. 1 and 2 AktG has been disclosed in all material respects in the remuneration report.

Other legal and regulatory requirements

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

ASSURANCE OPINION

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the electronic file DEMIRE_AG_JAuLB_ESEF-2022-12-31 and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2022 contained in the "Report on the Audit of the Annual Financial Statements and on the Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

BASIS FOR THE ASSURANCE OPINION

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

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

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF-documents as part of the financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

— Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

— Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

— Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the annual financial statements on the technical specification for this electronic file.

— Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and to the audited management report.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on 18 May 2022. We were engaged by the supervisory board on 11 November 2022. We have been the auditor of the DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, without interruption since the financial year 2018.

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

Reference to an other matter – Use of the auditor's report

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German public auditor responsible for the engagement

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

Berlin, 15 March 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr Frederik Mielke
Auditor

p.p. Julian Fersch
Auditor

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