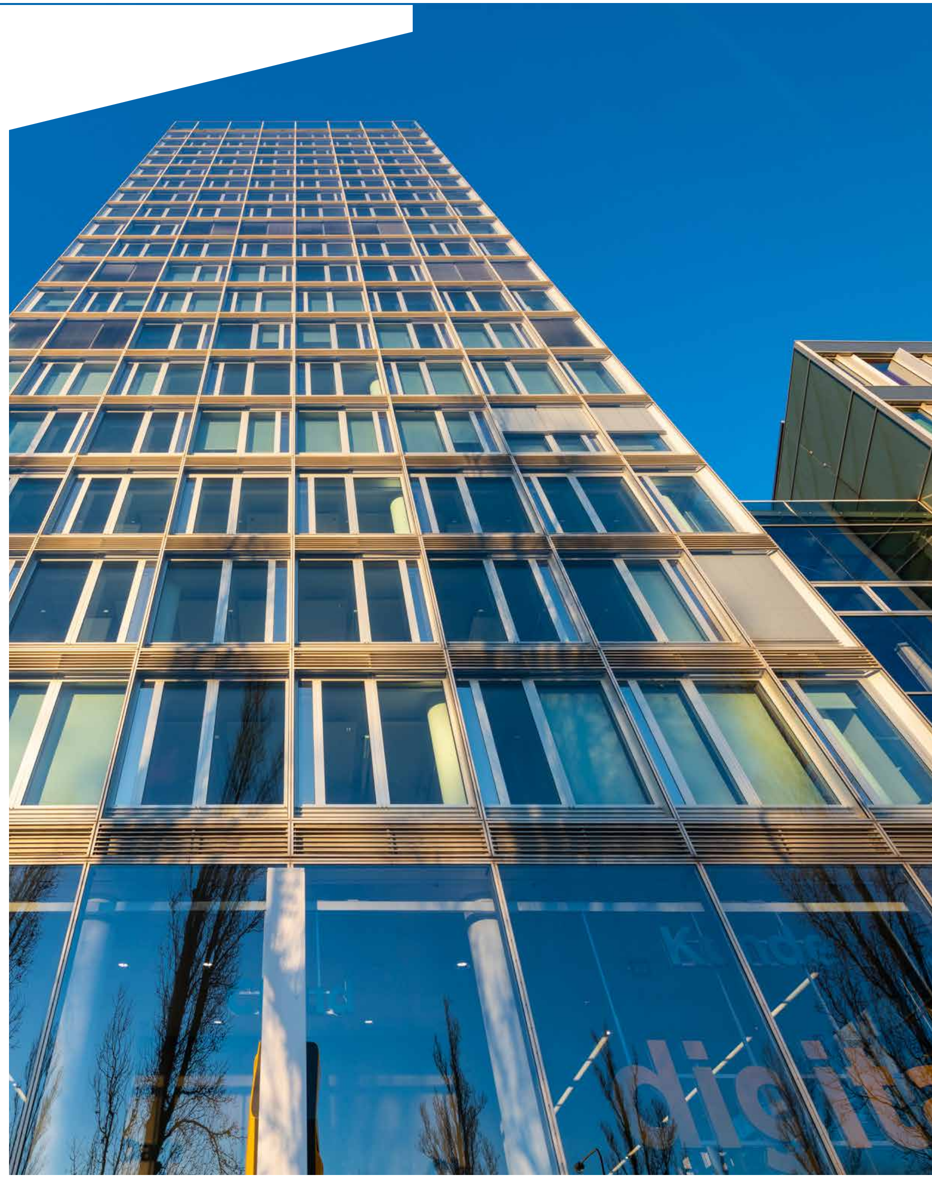
DEMIRE

ANNUAL REPORT 2021



PROFILE

82.3

RENTAL INCOME in EUR million – sales-related fall of 5.9% from EUR 87.5 million in 2020

39.8

in EUR million
FFO I (after taxes, before minority interests), +1.7% from EUR 39.2 million in 2020

49.7

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

DEMIRE Deutsche Mittelstand Real Estate AG acquires and holds commercial real estate in medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. We focus on office properties, with retail, hotel and logistics properties also featured in our portfolio. As at 31 December, we managed 64 properties with lettable floor space of around 1 million m^2 and a total market value of more than EUR 1.4 billion. The Cielo property in Frankfurt is accounted for using the equity method, so is not included in the property-specific figures.

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

KEY INDICATORS

in EUR million	2020	2021
Key earnings figures		
Rental income	87.5	82.3
Profit/loss from the rental of real estate	70.2	67.2
Profit/loss from the sale of real estate	–1.0	1.4
Profit/loss from fair-value adjustments of investment properties	–22.1	48.8
EBIT	27.7	101.9
FFO I (after taxes, before minority interests)	39.2	39.8
Key balance sheet figures (31 Dec.)		
Total assets (in EUR thousand)	1,625.3	1,705.6
Equity ratio (in %)	36.8	34.7
Net LTV (in %)	49.2	49.7
Average interest costs, p.a. (in %)	1.71	1.66
Key portfolio indicators (31 Dec.)		
Market value of the portfolio	1,441.5	1,412.5
Annualised contractual rents	85.6	78.1
Rental yield (in %)	5.9	5.5
WALT (in years)	4.8	4.7
Further indicators (31 Dec.)		
NAV (basic)	625.3	629.0
NAV per share (basic)	5.91	5.96
EPRA Vacancy Rate* (in %)	6.9	11.0

* Excluding properties held for sale and project developments

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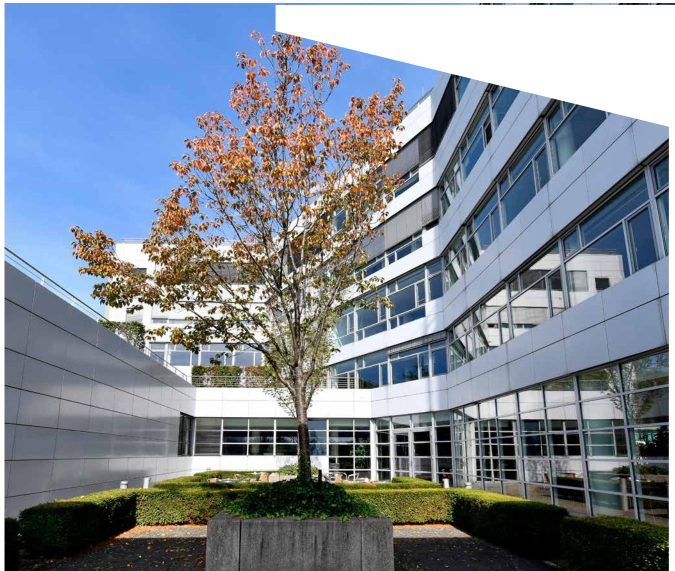


COMPANY AND SHAREHOLDERS

FOREWORD BY THE EXECUTIVE BOARD

Dear Readers,

Before we take a look at DEMIRE's performance in 2021, we need to take stock of current developments from the Executive Board's perspective. Indeed, the geopolitical situation has evolved rapidly in March 2022. The Russian war of aggression against Ukraine is a turning point in history. We are seeing images that we no longer thought were possible in Europe in the 21st century. Our thoughts are with the victims of this conflict, which will have unpredictable consequences for Ukraine, the continent of Europe and the world.

The COVID-19 pandemic, for so long the dominant topic in public debate, has been pushed into the background somewhat as a result of the war in Ukraine. This is not least due to the fact that developments in 2021 offered cause for hope, with pandemic-related restrictions being scaled back and repealed over the course of the year, both in Germany and across Europe. However, the SARS-CoV-2 virus has also significantly impacted the everyday lives of many people and businesses over the past year. The financial impact of the pandemic is becoming increasingly clear, with the economy facing challenges in the form of slower growth and the return of inflation in Europe.

"In these times of economic uncertainty, DEMIRE, with its diversified portfolio, continues to represent stability and reliability."

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG: Ingo Hartlief (FRICS), CEO (right), and Tim Brückner, CFO (left)

> “The importance of our active asset management approach has become evident in these times of huge uncertainty. Intensive dialogue with our tenants, forward-thinking tenant management and excellent letting performance were and indeed remain key elements in ensuring economic stability.”

INGO HARTLIEF (FRICS), (CEO)

In these times of economic uncertainty, DEMIRE, with its diversified portfolio, continues to represent stability and reliability. In spite of the pandemic, we managed to post a record FFO I figure (after taxes, before minority interests) of EUR 39.8 million. At EUR 101.9 million, the EBIT figure also represents a significant improvement on the previous year (EUR 27.7 million). This performance, brought about by the fair-value adjustment of investment properties, is an encouraging outcome of our active approach to asset and portfolio management. When compared to the previous year’s record value of EUR 87.5 million, rental income dropped slightly to EUR 82.3 million owing to a number of sales, but remained at a high level. The purchase of the Cielo property in Frankfurt is not included under rental income as the accruals of the joint venture are listed under investment income in the financial result owing to accounting using the equity method.

One major success factor in managing the challenges presented by the pandemic was the consistent implementation of our “REALize Potential” strategy. All four pillars (Acquisition, Asset Management, Financials and Processes) made a contribution towards making our portfolio more resilient and improving key operating and portfolio-related indicators. We have now added ESG policy areas to the four pillars of our “REALize Potential” strategy. In addition to collecting environmental inventory data, we are also working on a concept to enable the holistic and strategic advancement of DEMIRE with regard to sustainability.

The importance of our active asset management approach has become evident in these times of huge uncertainty. Intensive dialogue with our tenants, forward-thinking tenant management and excellent letting performance were and indeed remain key elements in ensuring economic stability. We have been able to strengthen our tenant base by successfully concluding tenancy agreements and extending contracts with tenants with excellent credit ratings in locations such as Leipzig, Essen and Quickborn. Overall, the previous year’s letting performance record of around 177,000 m^2 was once again beaten with a figure of around 182,700 m^2. At the portfolio level, we made some further adjustments and divested ourselves of properties that were not a good fit for our long-term strategy.

> "One major success factor in managing the challenges presented by the pandemic was the consistent implementation of our "REALize Potential" strategy."

TIM BRÜCKNER, CFO

The financial result reflects the success of our ongoing efforts to continuously improve the Company's financing structure. By refinancing several assets, we were able to lower the average nominal financing costs from 3.0% in late 2018 to 1.71% in late 2020, and 1.66% at the end of 2021. This represents an interest burden reduction of several million euros a year, which then directly benefits FFO. The intra-year downgrading of our Moody's rating to Ba3 was attributed to the distribution of a dividend rather than DEMIRE's operational performance.

We would like to once again extend our thanks to all of DEMIRE's employees for everything that has been achieved. Their exceptional commitment is the foundation for our success. At the same time, we would also like to thank our investors for their continued loyalty and support.

With this in mind, we are optimistic about the future. Following the successful streamlining of our portfolio in the past two years, DEMIRE expects to see rental income of between EUR 78.0 million and EUR 80.0 million in 2022. We expect FFO I (after taxes, before minority interests) to remain stable, totalling between EUR 38.5 million and EUR 40.5 million.

Finally, we would like to finish with a note on the current situation for our Company. Although the economic and geopolitical consequences are unpredictable, DEMIRE is not directly impacted by the war in Ukraine. The past few years of the COVID-19 pandemic have shown, however, that DEMIRE has a resilient structure, even in turbulent times. We are grateful for the loyalty and trust of all of our shareholders, employees, friends and partners, who are accompanying DEMIRE on its path towards growth.

Langen, 16 March 2022

The DEMIRE AG Executive Board

Ingo Hartlief (FRICS)	Tim Brückner
CEO	CFO

EXECUTIVE BOARD AND SUPERVISORY BOARD

EXECUTIVE BOARD

Ingo Hartlief (FRICS) (CEO)
CEO since 20 December 2018
Appointed until 31 December 2024

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

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

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

SUPERVISORY BOARD

Prof. Dr Alexander Goepfert (Chairman of the Supervisory Board)
Chairman of the Supervisory Board since 27 June 2018

Main activities outside the Company and other activities as a member of governing bodies of comparable domestic and foreign business enterprises:

— Ordinary Member of the Advisory Board of shareDnC GmbH, Cologne
— Chair of the Board of Trustees of EBS Real Estate Management Institut, Wiesbaden
— Member of the Supervisory Board of PROXIMUS Real Estate AG, Cologne
— Vice President of Institut der Deutschen Immobilienwirtschaft e. V. (iddiw), Frankfurt

Prof. Dr Alexander Goepfert (born 1956) holds a doctorate in law and, as an honorary professor at the EBS University of Business and Law in Wiesbaden/Oestrich-Winkel, he heads the Competence Center for Real Estate Law there. From 2019 to 2021, he joined Apollo Global Management, one of the world's leading private equity investors, as a senior advisor. Since 2011, Prof. Dr Alexander Goepfert has been a partner at the law firm Noerr LLP, where he headed the international Noerr Real Estate Investment Group. Prior to that, Prof. Dr Alexander Goepfert worked for many years as a partner at Freshfields Bruckhaus Deringer LLP and its predecessor firm Bruckhaus Westrick Stegemann in Düsseldorf. For many years, he has been considered one of the most important advisors to the German real estate industry, specialising in structuring complex real estate transactions with particular emphasis on financial, tax and planning aspects.

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

Main activities outside the Company and other activities as a member of governing bodies of comparable domestic and foreign business enterprises:

- Member of the Board of Directors of Grey Sky Properties AG, Basel
- Chair of the Advisory Board of clickworker GmbH, Essen
- Chair of the Supervisory Board of mobileObjects AG, Büren
- Chair of the Advisory Board of rankingCoach GmbH, Cologne
- Member of the Board of Directors of SIC Invent AG, Basel, Switzerland
- Member of the Advisory Board of sevDesk GmbH, Offenburg
- Chair of the Supervisory Board of Fair Value REIT-AG, Frankfurt
- Member of the Supervisory Board of Evana AG, Saarbrücken
- Member of the Advisory Board of KUGU Home GmbH, Berlin
- Member of the Advisory Board of Allmyhomes GmbH, Berlin

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

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

Main activities outside the Company and other activities as a member of governing bodies of comparable domestic and foreign business enterprises:

- Ordinary Member of the Supervisory Board of DWS Grundbesitz GmbH, Frankfurt
- Member of the Executive Committee of the Urban Land Institute (ULI), Washington D.C.
- Member of the Executive Board of Real Estate Brand Club, Berlin
- Member of the Advisory Board of Institutionelle Investoren Hotel, Frankfurt
- Member of the Executive Committee of Institut der Deutschen Immobilienwirtschaft e. V. (iddiw), Frankfurt
- Member of the Executive Board of ZIA Deutschland Mitte

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

REPORT OF THE SUPERVISORY BOARD

Dear Readers, Dear Shareholders,

In the 2021 financial year, the Supervisory Board continued to perform the tasks and exercise the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its Rules of Procedure.

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

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

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

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

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

Composition of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD IN THE 2021 FINANCIAL YEAR

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

SUPERVISORY BOARD COMMITTEES

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

Work of the plenum in the reporting year

In the 2021 financial year, the Supervisory Board convened for one face-to-face meeting following the Annual General Meeting on 28 April 2021. The Supervisory Board also discussed current topics in 13 telephone and video conferences, particularly in connection with holding the Annual General Meeting, the impact of the pandemic, purchasing a large property, the strategic alignment of the Company and also various purchase and sale transactions. All of the Supervisory Board members participated in each one of the 14 face-to-face and virtual Supervisory Board meetings, i.e. 100% of them.

FIRST QUARTER OF 2021

Seven Supervisory Board meetings via video conference were held during the first quarter of 2021.

On 4 March 2021, together with the Executive Board, the Supervisory Board adopted the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG as well as the Corporate Governance Report.

In the subsequent meetings, the Supervisory Board comprehensively discussed the annual and consolidated financial statements for the 2020 financial year, including the combined management report for the Company and the Group, by which it was adopted. In addition, the current business performance was elaborated on in separate meetings and the corporate planning for 2021 was discussed, as was the risk management of DEMIRE AG, particularly against the backdrop of the coronavirus pandemic. Furthermore, the Supervisory Board addressed various purchase and sales transactions presented by the Executive Board. In addition, the Supervisory Board resolved with the Executive Board that the 2021 Annual General Meeting of DEMIRE AG should be held as a purely virtual Annual General Meeting on 28 April 2021 without the physical presence of the shareholders or their authorised representatives.

SECOND QUARTER OF 2021

On 28 April, the Annual General Meeting of DEMIRE AG was held virtually once again without the physical presence of the shareholders. The agenda items proposed by the management, including the disbursement of a dividend and re-election of the Supervisory Board members, were all passed by the shareholders with a large majority.

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

THIRD QUARTER OF 2021

The future strategic alignment of DEMIRE AG was discussed during the course of two virtual meetings held in the third quarter. Furthermore, in the third quarter, the Supervisory Board was also extensively informed by the Executive Board about the reallocation of property management services as well as the current status of ongoing business processes, and was briefed on significant business transactions.

FOURTH QUARTER OF 2021

The Supervisory Board convened again for three video conferences in the fourth quarter. The Supervisory Board once again looked at the future strategic alignment of the Company, including in particular the sale of its stake, as considered by the two main shareholders. With this in mind, and following extensive discussion, it also approved a cost transfer agreement, which had been agreed between the Executive Board and the two main shareholders. The Supervisory Board also looked in detail at the audit results related to compliance, risk management, data protection and internal audit matters and also discussed the new requirements laid down by the Financial Market Integrity Strengthening Act (FISG). An Audit Committee was also constituted under the leadership of the Deputy Chairman of the Supervisory

Board, Frank Hölzle. The Supervisory Board was also informed about the current business performance and outlook for 2022.

Dependency report pursuant to Section 312 (1) AKTG

In the 2021 financial year, DEMIRE Deutsche Mittelstand Real Estate AG – via Apollo Global Management, LLC – was a dependent company of BRH Holdings GP, Ltd., as defined by Section 312 AktG. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relationships with affiliated companies ("Dependency Report") in accordance with Section 312(1) AktG, which contains the following concluding declaration:

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

The Supervisory Board received and examined the Dependency Report in a timely manner. The auditor attended the relevant meeting, reported on the main findings of the audit and was available to provide additional information. On 16 March 2022, the auditor issued the following unqualified audit opinion on the Company's Dependency Report:

"Under the terms of our mandate, we have audited the report of the Executive Board pursuant to Section 312 AktG on relationships with affiliated companies pursuant to Section 313 AktG for the 2021 financial year. As the final results of our audit did not give rise to any objections, we issue the following audit opinion in accordance with Section 313(3) Sentence 1 AktG:

Following our audit and assessment in accordance with professional standards, we confirm that

1. the factual statements in this report are correct, and

2. the consideration paid by the Company for the legal transactions listed in the report was not unreasonably high."

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

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's staff for their tremendous dedication, particularly within the scope of preparing the financial statements, managing assets during the course of the coronavirus pandemic, undertaking transactional and financing activities and their valuable cooperation in the 2021 financial year.

This report was discussed in detail and adopted by the Supervisory Board in its conference call on 16 March 2022.

Frankfurt am Main, 16 March 2022

Prof. Dr Alexander Goepfert
Chairman of the Supervisory Board

DEMIRE ON THE CAPITAL MARKET

An overview of DEMIRE shares

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

DEMIRE KEY SHARE DATA

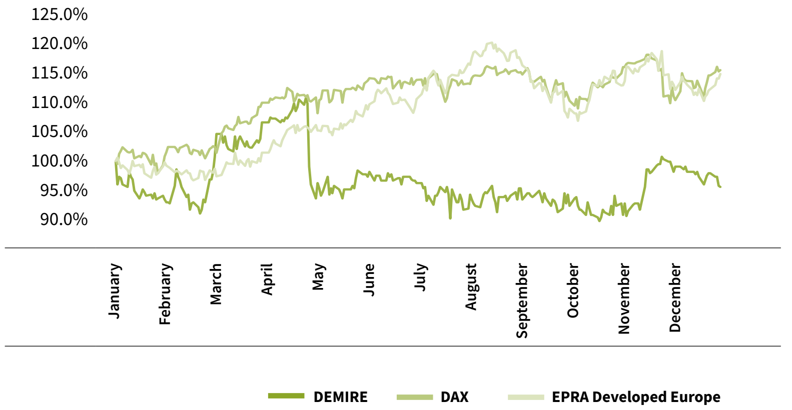
Share	31/12/2020	31/12/2021
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol/ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FSE); XETRA Open markets in Stuttgart, Berlin, Düsseldorf	Frankfurt Stock Exchange (FSE); XETRA Open markets in Stuttgart, Berlin, Düsseldorf
Market segment	Regulated Market (Prime Standard)	Regulated Market (Prime Standard)
Designated sponsors	BaaderBank, Pareto Securities AS	BaaderBank, Pareto Securities AS
Share capital	EUR 107,777,324	EUR 107,777,324
Number of shares	107,777,324	107,777,324
Closing price 31 December (XETRA)	EUR 4.51	EUR 4.30
Avg. daily trading volume 1 January to 31 December	10,625	13,565
Market capitalisation	EUR 486 million	EUR 463 million
Free float < 3% (in %)	7.39	7.15

Development of the stock market and DEMIRE shares

The 2021 stock market year was positive overall for the capital markets, with the recovery seen in the second half of 2020 continuing in 2021. With the increased availability of vaccines to combat the coronavirus, the pandemic increasingly became less of a threat to financial markets. Furthermore, central banks provided support to markets in the form of continued low interest rates and continued provision of liquidity by way of bond-buying programmes.

Many indices, such as Germany's DAX, reached all-time highs in the fourth quarter of 2021. The leading German index DAX closed the year at 15,885 points. This is an increase of 15.7% compared to the end of 2020.

SHARE PRICE DEVELOPMENT 2021



The DEMIRE share price performed more poorly than the EPRA Developed Europe index of European real estate shares and the DAX. The share price ended the year down 4.4% at a value of EUR 4.30.

With a dividend distribution of EUR 0.62 per share to be taken into account here, this results in a yield of 9.3%. This is only slightly behind the comparative indices.

Dividend

In May 2021, DEMIRE disbursed a dividend of EUR 0.62 per share to its shareholders for the financial year in accordance with the resolution of the Annual General Meeting. The dividend per share in the previous year was EUR 0.54. The dividend yield was once again significantly higher than the yield of other real estate stocks.

Development of DEMIRE bonds

Prices on European bond markets fluctuated once again in 2021 and were less volatile compared to the previous year. This was once again reflected in the sustained low interest rate policies pursued by central banks. This policy drove demand, which led to high prices and low yields. At the beginning of 2021, the DEMIRE bond was trading at 98.0%. As with the overall market volatility, the DEMIRE bond also fluctuated during the year. On 19 October, the bond was trading at a minimum of 91.9% and it closed the year at 98.8%.

2019/2024 CORPORATE BOND

Name	DEMIRE Senior Notes 2019/2024
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Rating	Ba3 (Moody's)
Stock exchange listing/trading	Open market of the Luxembourg Stock Exchange (Euro MTF)
Applicable law	German law
ISIN code	DE000A2YPAK1
WKN	A2YPA
Issue volume	EUR 600,000,000
Denomination	EUR 100,000
Coupon	1.875%
Interest payments	On 15 April and 15 October, starting on 15 April 2020
Maturity date	15 October 2024
Repayment	Non Call Life (including 3-month option for early repayment)
Distribution	Regulation S, excluding registration rights
Change of control	101% plus accrued and not yet paid interest
Closing price 31 December 2021	98.808%

Rating from Moody's

With the rating assessments, DEMIRE strengthens transparency and supports the independent assessment of its business activities. In the medium term, DEMIRE aims to position its risk profile in the "investment grade" range. Among other things, this should enable the financing of planned growth and the refinancing of the existing bond at even more favourable conditions.

Moody's carried out its regular review of its rating assessments in June 2021. DEMIRE was downgraded by one notch due to the Company's payment of a dividend rather than its operational performance. During the lockdowns in Germany, DEMIRE was in regular contact with the ratings agencies and provided information about the Company's performance during this special period in a proactive and timely manner.

The detailed rating and the update on the increase of the bond are available on the Moody's website at www.moodys.com as well as on DEMIRE's website.

As part of its general efficiency measures, DEMIRE has decided to only work with one rating agency until further notice. The contract with S&P was terminated with effect from the end of June 2021.

DEMIRE RATING – AS AT 31 DECEMBER 2021

	Company		Bonds
Rating agency	Rating	Outlook	Rating
Moody's	Ba3	stable	Ba3

Annual general meeting

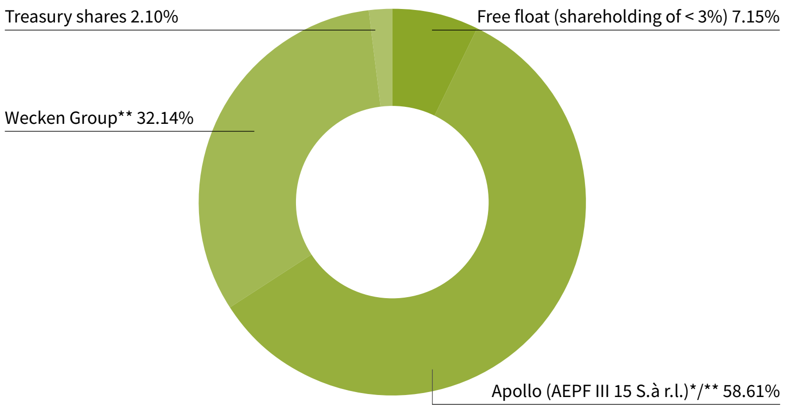
On 28 April 2021, DEMIRE's Annual General Meeting once again took place virtually due to the special circumstances. All of the agenda items proposed by the management were resolved by a large majority, including the reappointment of the current Supervisory Board for a further three years and the disbursement of a dividend for the 2020 financial year.

Shareholder structure

The DEMIRE shareholder structure slightly changed in the 2021 financial year. Apollo and the Wecken Group remain the Company's major shareholders and still hold around 90.7% of the shares in the Company between them. DEMIRE took the opportunity to buy back 259,729 shares by way of a public repurchase offer at the turn of the year when the share price was low. This decreased the free float from 7.39% as at 31 December 2020 to 7.15%.

SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2021

in %



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

IR activities

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

DEMIRE once again took part in various German and international equity and debt capital market conferences in the 2021 financial year, the majority of which were held virtually. It also regularly presented the Company's current development to existing and potential equity and bond investors and rating agencies.

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

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

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

Analyst coverage

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

DEMIRE RATING – AS AT FEBRUARY 2021

Bank/broker	Analyst	Current rating	Current target price EUR
Hauck & Aufhäuser	Philipp Sennewald	Buy	5.60
Pareto Securities	Dr Philipp Häßler	Hold	4.40
Baader Bank	Andre Remke	Reduce	4.20

CORPORATE GOVERNANCE

2021 Corporate Governance Statement pursuant to Sections 315d and 289f of the German Commercial Code (HGB) including the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG)

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

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

Commitment

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

Organisation and management

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

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

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

Composition and working practices of the Executive Board and Supervisory Board

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

Management and control structure

EXECUTIVE BOARD

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

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

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

Mr Ingo Hartlief (FRICS) is the Vice Chairman of the Supervisory Board of Fair Value REIT-AG.

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

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

SUPERVISORY BOARD

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

The Supervisory Board currently consists of three members to be elected by the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG. The Supervisory Board does not include any former members of the Executive Board. It is composed in such a way that its members as a whole have the necessary knowledge, skills and professional experience to perform their duties properly. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Supervisory Board has formed an Audit Committee.

No changes were made to the composition of the Supervisory Board in the 2021 financial year.

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

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

The Supervisory Board reports on its activities during the 2021 financial year in its Report to shareholders. The remuneration of the members of the Supervisory Board is explained in the Remuneration report chapter of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

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

DEMIRE Deutsche Mittelstand Real Estate AG had 107,777,324 shares outstanding as at 31 December 2021.

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

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

Shares owned by major shareholders at the end of the 2021 financial year: Based on the information available to the Company, Apollo (AEPF III 15 S.à r.l.) held 58.61% of the Company's outstanding shares, and the Wecken Group held 32.14% of the Company's outstanding shares.

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

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

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

ACCOUNTING AND AUDITING OF FINANCIAL STATEMENTS

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

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

The Annual General Meeting elects the auditor for DEMIRE Deutsche Mittelstand Real Estate AG and the Group as well as for the audit review of interim financial reports and statements. The Supervisory Board awards the mandate for the audit following the election by the Annual General Meeting and concludes the fee agreement with the auditor. The auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected as the auditor and Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG for the 2021 financial year, as well as the auditor for a possible audit review of condensed financial statements and interim statements. The declaration on independence required under the German Corporate Governance Code was obtained from this auditing firm.

The following arrangements have been agreed with the auditor:

- The Chairman of the Supervisory Board shall be notified immediately when potential grounds for exclusion or bias arise during the audit and these issues cannot be resolved immediately.
- The auditor reports on all findings and occurrences that arise during the audit, and which are of importance for the tasks of the Supervisory Board.
- If during the audit the auditor discovers inaccuracies in the Declaration of Conformity with the German Corporate Governance Code that was submitted by the Executive Board and the Supervisory Board, the auditor is to make a note of this in the audit report and inform the Chairman of the Supervisory Board.

COMMUNICATION AND TRANSPARENCY

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

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

INFORMATION ON CORPORATE PRACTICES

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

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

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

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

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

As a listed company that is not subject to co-determination, DEMIRE Deutsche Mittelstand Real Estate AG is legally obliged to set targets for the proportion of women on the Supervisory Board, the Executive Board and – if applicable – the two management levels below the Executive Board.

In June 2017, the targets for the proportion of women on the Supervisory Board, the Executive Board and at the first level of management below the Executive Board were set for the period from 1 July 2017 to 30 June 2022. For the Supervisory Board and the Executive Board, the target is zero. Women make up 33.3% of the Supervisory Board and 0% of the Executive Board. At the first management level below the Executive Board, a target of 25% was set. The proportion of women at the first management level below the Executive Board was 28.57% as at 31 December 2021. This means that the target was achieved in the reporting period. Due to the flat hierarchies in the Company, a target figure was not set for the second management level below the Executive Board.

DIVERSITY

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

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

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

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

Due to the Company's flat hierarchies, there is no second management level below the Executive Board so no target could be set here.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This declaration was published immediately and made available to shareholders on the website. The Declaration of Conformity with the Code of Fair Value REIT-AG, which is included in the consolidated financial statements, dated 18 January 2022, can be found on Fair Value REIT-AG's website.

Frankfurt am Main, 16 March 2022

Executive Board of DEMIRE
Deutsche Mittelstand Real Estate AG

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

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

Prof. Dr Alexander Goepfert
(Chairman of the Supervisory Board)

SUSTAINABILITY AT DEMIRE

Sustainability has become a criterion that determines competitiveness

In implementing its Financing Sustainable Growth action plan, which aims, among other things, to contribute towards meeting the legal targets set by the Paris Climate Agreement, in 2019 the European legislator adopted the Regulation on sustainability-related disclosures in the financial services sector (Disclosure Regulation). The following year saw the adoption of the Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation). Both Regulations lay down transparency obligations for financial market participants. The aim behind implementing these Regulations is to provide investors with a sound basis of information on which to make investment decisions, whilst also taking into account aspects of sustainability. The European Union is in principle pursuing three goals by stipulating these requirements, namely to reorient financial flows toward sustainable activities, to integrate sustainability risks into the risk management systems of financial market participants and to foster transparency and long-termism in investments.

The European Commission's Renewed Sustainable Finance Strategy, published on 6 July 2021, once again underscores the key role played by the financial sector and the issue of sustainability. Financial flows should be reoriented towards sustainable investments, thus making a significant contribution towards preserving a world that is worth living in, for us as well as for future generations.

These new, very specific requirements have once again emphasised the importance of sustainability within companies. Sustainability has been transformed from a fringe issue to a management-level corporate objective. The successful implementation of environment, social and governance (ESG) policies is increasingly forming the basis for companies to align themselves with the future in mind.

The range of strategic tools enabling a successful path into the future therefore includes measures that will preserve our environment for future generations. Such measures include strategies for protecting the climate, strategies regarding the use of renewable energies and strategies to enhance resource efficiency and minimise air and wastewater emissions. The social aspect of corporate performance is just as important too. This includes safeguarding the rights of employees, occupational health and safety, adequate remuneration, granting freedom of association and the right to organise, and ensuring compliance with sustainability standards in the supply chain.

Data collection: steps involved in reporting

DEMIRE takes this topic seriously. We are currently undertaking an inventory of environmental, social and governance (ESG) activities. We are also defining steps to help us make progress in this area in the coming years, both holistically and strategically. At the same time, we are currently working hard to collect environmental inventory data. The aim is for the data we collect to be used in our first sustainability report, which we intend to publish in summer 2022.

DEMIRE also applies the Sustainability Best Practices Recommendations (sBPR) of the European Public Real Estate Association (EPRA), as the interest group representing Europe's listed real estate companies, in general reporting.

Employees: looking after and supporting them to ensure corporate success

The corporate culture at DEMIRE is characterised by **flat hierarchies** and a strong focus on employees. Lean decision-making processes and direct, open communication between all levels also promote constructive cooperation. To foster employee satisfaction and a positive working atmosphere, DEMIRE organises group events, offers food and beverage options (participation in the "Lunchit" luncheon voucher scheme, free drinks, fruit and muesli) and provides attractive office premises.

Only limited numbers of face-to-face meetings and corporate events have taken place since the COVID-19 pandemic began. Nevertheless, as part of our recertification by the German Institute for Corporate Governance (Institut für Corporate Governance), DEMIRE was once again identified as having a positive **corporate culture** that creates a framework for employees in their day-to-day duties. Our corporate culture has also enabled our entire team, and thus DEMIRE itself, to successfully overcome the challenges we have faced during the pandemic. In recognition of their outstanding performance, in February 2021 all of our employees received a COVID bonus.

DEMIRE promotes an **inclusive work environment** and an open work culture in which individual differences are respected, valued and encouraged. This is laid down in our Code of Conduct, which prohibits any form of discrimination. The Company is committed to having a diverse team in which each and every individual can fully develop and utilise their individual potential and strengths. We assign positions and tasks based on merit as a general principle. Job advertisements are worded openly and employees can also opt to work part-time. Diversity is something that we actively put into practice at DEMIRE.

In order to keep our team together and attract qualified new staff members, the Company offers them a variety of responsibility-based tasks, attractive areas of activity and performance-related pay. In order to attract the attention of up-and-coming new talents to DEMIRE as a potential employer, the Company also organises booths at university careers fairs.

DEMIRE attaches a great deal of importance to enabling its employees to develop both professionally and personally. With this goal in mind, the Company earmarks an annual budget for **further training** that employees can use at any time. Further training sessions are organised based on individual agreements and are tailored to reflect personal needs. DEMIRE also enables young high potentials to finance their degree, another reason for its sponsorship of EBS Universität für Wirtschaft und Recht. These development measures serve to help ensure that our employees enjoy their work and that we as a company can meet growing market demands. Our low labour turnover rate is evidence of our success here.

DEMIRE once again paid particular attention to the issues of **health and safety** last year. The Company followed the German government's recommendations during the ongoing COVID-19 pandemic and took extensive measures to ensure the safety of its employees (working from home, masks, hand and surface sanitisers). Employees were also given the opportunity to receive COVID-19 and flu vaccinations.

But even aside from the COVID-19 crisis, DEMIRE ensures that its employees' ability to perform is maintained in the long term and that any health problems are prevented. To support the health and fitness of its employees, DEMIRE pays subsidies towards the costs of gym memberships. Offers such as mobile working and the option to work part-time take into account the individual life circumstances of our employees. DEMIRE collaborates with the occupational health and safety service provider MediTüV on everyday health issues. Occupational health and safety relating to COVID-19 is a regular topic of discussion at the weekly all-staff meetings.

Commitment to responsible corporate governance

The basis for our Company's success is provided by our corporate governance, which our stakeholders perceive to be trustworthy and reliable. We achieve this by implementing corporate governance measures that are embraced throughout the entire Company and implemented in day-to-day work duties.

DEMIRE understands **corporate governance** as the responsible management and control of the Company, geared to long-term value creation. Alongside adherence to compliance principles, this forms the basis for the trust that our shareholders, customers, employees, business partners and also the general public place in the Company. The Executive Board and Supervisory Board are committed to good corporate governance and communicate this understanding throughout the organisation on a day-to-day basis, both in practical terms and in the form of documentation and policies. They systematically focus their corporate management and supervision on national and international principles, as well as on stringent internal regulations and guidelines.

DEMIRE is committed to complying with the principles set out in the German Corporate Governance Code (GCGC). These principles serve as the benchmark and guide for all employees in everyday management and business life. The Executive Board and Supervisory Board underscore the significance of these principles every year by issuing the **Corporate Governance Statement** pursuant to Sections 315d and 289f of the German Commercial Code (HGB) and the Declaration of Conformity with the GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG). Both declarations are published on our Company's website.

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

In 2021, a code of conduct was also sent to our service providers for the first time and they were required to confirm that they would comply with this code of conduct. DEMIRE is working on drafting a separate code of conduct for other business partners in the current year.

Compliance with laws and regulations

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

A compliance officer is responsible for firmly establishing the topic of compliance in day-to-day business life and ensuring that employees remain familiarised with compliance issues through annual training sessions. Employees can contact the compliance officer at any time if they have any questions or concerns regarding compliance. The Executive Board can also be approached at any time. Anyone wanting to report a suspicious case can also do so using an anonymised reporting address. DEMIRE systematically follows up on all reports and suspicious cases. The internal procedure provides for the involvement of the Executive Board, the Audit department and the Legal department.

The Supervisory Board is provided with regular, timely and comprehensive information on compliance within the Company by the Executive Board. If breaches are identified, the Company looks into the option of taking employment law measures or, if necessary, criminal law measures, and imposes appropriate sanctions. If necessary, external legal experts are also consulted to coordinate the action to be taken. No compliance breaches were reported in the reporting period.

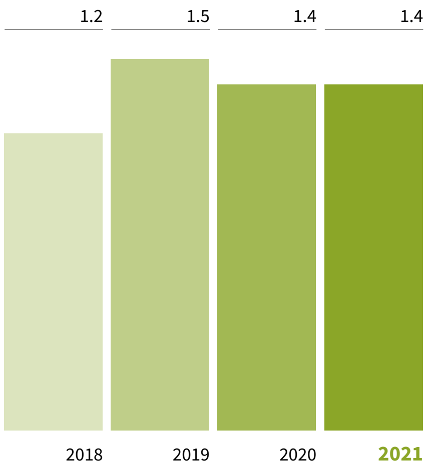
OVERVIEW OF OUR PORTFOLIO

We focus on commercial properties that we expect to still be happy to have in our portfolio in many years' time. Our top priority is location, location, location. In addition to the micro- and macro-location, we also take a very close look at the location's long-term prospects. When making our investment decisions, we also rely on support from external experts in local and regional real estate markets.

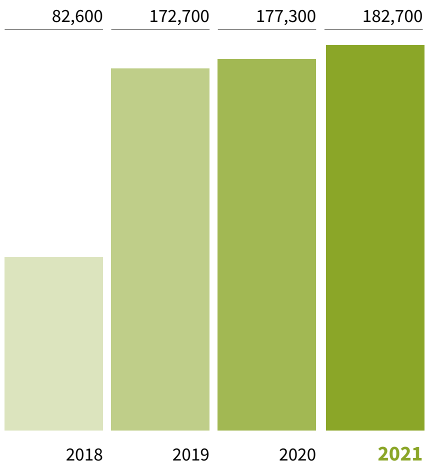
The fact that we align our portfolio in the best possible way for the long term is also reflected in our ABBA strategy, which guides us in selecting our locations. ABBA stands for A locations in B cities and B locations in A cities. We also add a small number of properties in prime locations to our portfolio. The joint study conducted with bulwiengesa in October 2021 (Office Real Estate Market Study – Investment Opportunities in Secondary Locations) confirms we are positioning ourselves correctly by focusing on B locations. According to this study, office properties in secondary locations in particular boast comparatively high potential returns and are subject to lower volatility than A cities.

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

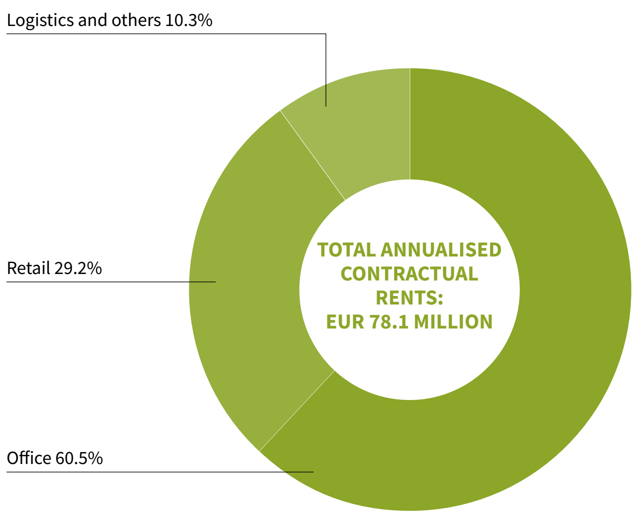
MARKET VALUE (IN EUR BILLION)



LETTING PERFORMANCE (IN M²)

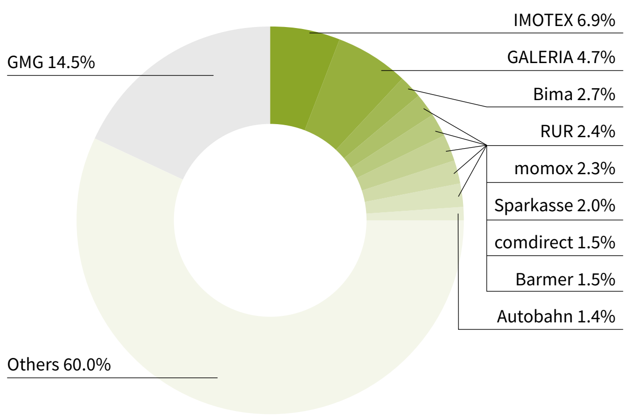


ANNUALISED CONTRACTUAL RENTS BY ASSET CLASS



This broad expertise in real estate allows us to cover a wide range of asset classes in our search for suitable properties. We embrace diversification in geographical terms, too. Investment candidates can be located in all German regions, allowing us to exploit regional real estate cycles. Our properties are consistently used by solvent tenants with good reputations and predominantly stable business prospects. Of our entire rental income, 40.0% comes from our ten biggest tenants. The mix of a small number of large tenants and a large number of medium-sized tenants allows us to strike a good balance between management expenses and the resulting benefits.

DISTRIBUTION OF RENTAL INCOME BY TENANT



PORTFOLIO BREAKDOWN BY REGION

ON THE RIGHT TRACK

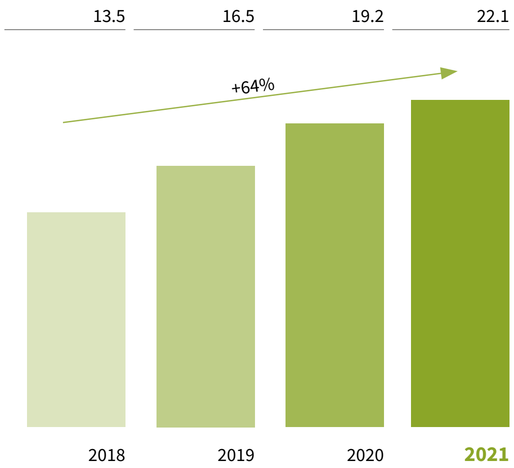
GREATER SIZE PER PROPERTY

We were able to optimise our portfolio structure in 2021 by successfully selling a range of smaller, non-strategic commercial properties. Our aim is to have fewer, albeit larger, properties in our portfolio. This will reduce our administrative expenditure and improve leverage in implementing value-enhancing measures. The revenue generated from sales in the last year significantly exceeded the market value. We can use the funds we received to optimise our portfolio further.

In July, we sold an office complex in the Bavarian city of Ansbach for EUR 18 million. The former Telekom property had been in our portfolio since 2015. After the single tenant, Telekom, had left the property at the end of 2019, we comprehensively repositioned the property and increased its value by around EUR 5 million by the time it was sold. We attracted Ansbach University of Applied Sciences and the District of Mittelfranken as new long-term anchor tenants, with a combined rental space of 6,000 m². These long-term anchor tenants from the public sector significantly improve the risk profile for the building complex. The rental agreements were carried over from the former sub-tenants, who occupied a further 5,000 m² of space, and were optimised in terms of the rent amount and term.

AVERAGE MARKET VALUE PER PROPERTY

in EUR million



Ansbach office complex – an example of successful asset management

Transaction successes
— Making the portfolio more dynamic through purchases and sales, increasing the average property size on the whole
— Developing the acquisition pipeline by strategically expanding the network (owners, estate agents, solicitors etc.)
— Acquisition of 12 assets with a value of approximately EUR 631 million completed since 2019
— 33 assets were sold above the market value (average premium of 12.5% since 2019)

In the fourth quarter, as part of one such series of transactions, we sold office buildings in Regensburg with rental space of 29,219 m², in Potsdam with rental space of approximately 3,800 m² and in Bad Bramstedt with rental space of approximately 1,000 m². Sales proceeds from these three properties amounted to more than EUR 46 million and are in some instances significantly above the most recently calculated market value. Given that no financing is to be repaid using the sales proceeds, we can use the entire liquidity to make strategic purchases and conduct asset management activities to optimise the Core Portfolio.

We also stayed true to our strategy with the sale of the property in Potsdam

The office building in Regensburg with 29,219 m² of space was successfully sold in the financial year

+4.8%

The market value of the properties sold in 2021 was, on average, 4.8% above the most recently calculated market value.

GREATER EARNINGS POTENTIAL

The best fit in our strategic portfolio is the Cielo property, worth in excess of a quarter of a billion euros, which we completed in July 2021 in partnership with the German-American company, RFR Group. To date, this is the largest single transaction in our company's history.

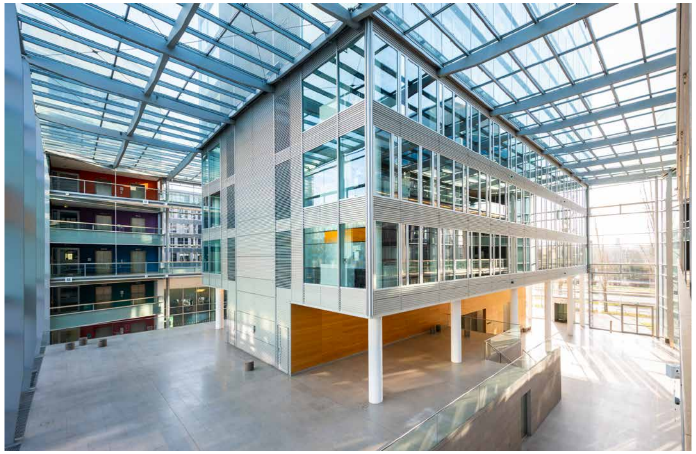
It looks the part – the Cielo property

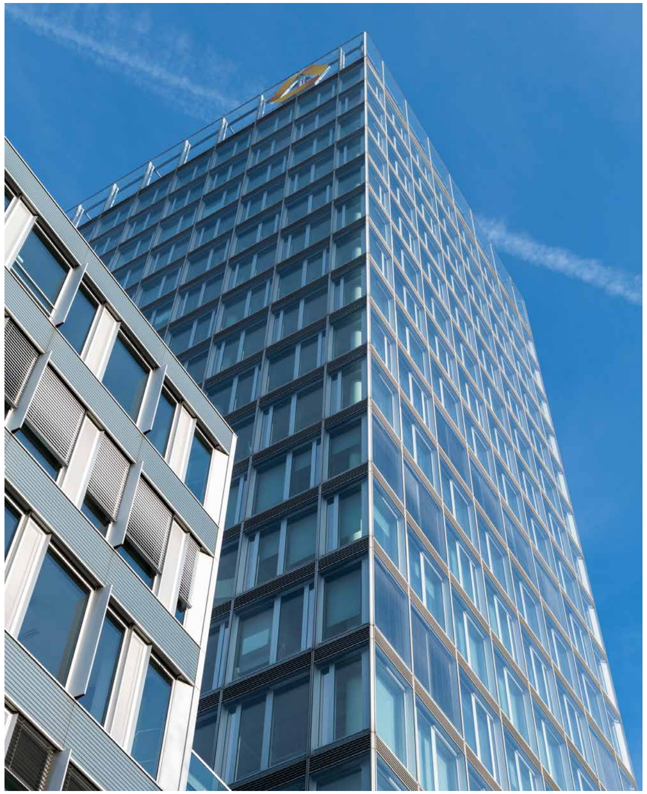
+EUR 9.8 MILLION

In annualised rental income p.a. as at 31 December 2021

The Cielo office complex, located in Theodor-Heuss-Allee in Frankfurt am Main, is within walking distance of Messe Frankfurt and therefore enjoys a prominent position in the city. The property, built in 2003 and completely renovated between 2018 and 2020, is leased to Commerzbank AG on a long-term basis. Cielo covers a total area of approximately 37,000 m² and features state-of-the-art technical equipment and modern floor layouts.

The value of the entire transaction comes to approximately EUR 275 million. The purchase was completed using a mixture of available cash and favourable mortgage financing. Over the coming years, this acquisition will generate an FFO I contribution of more than EUR 5 million per year for us.





Reaching great heights – the Cielo property has more than 29 floors

EUR 275.6 MILLION

Valuation result at end of 2021

FINGER ON THE PULSE

The strategy of incorporating the logistics asset class into repositioning and asset management activities is paying dividends. Logistikpark Leipzig (LogPark Leipzig), which was purchased in 2015, is now home to tenants whose business models offer excellent performance prospects. The highly attractive nature of the location and our active asset management approach are reflected in significant gains.

Logistikpark Leipzig was formerly a logistics complex that belonged to Quelle AG. It is located on a plot of land measuring some 340,000 m² in size, approximately 10 km north of Leipzig city centre. The area is next to the Leipzig Trade Fair (Messe Leipzig), enjoys excellent links to local and long-distance public transport as well as its own rail link, and is located in direct proximity to the airport. The building complex located on the site, built in 1994 and covering a total area of approximately 179,000 m², is currently occupied at a rate of over 90%.

By successfully realigning to cater to the more stringent demands of modern logistics companies and e-commerce companies, we have been able to attract additional tenants for whom the site represents an excellent hub for advancing their businesses. In November 2019, for example, we agreed to lease 10,000 m² of logistics space to the Korean automobile supplier Mobis Parts Europe. Logistikpark Leipzig is also in immediate proximity to the BMW plant.

Building for the future

Particularly successful leases to Amazon followed in 2020 and 2021. After the online retailer agreed in 2020 to lease 20,000 m² of space to establish one of its modular distribution centres, a contract was then concluded in 2021 to establish a new distribution centre measuring approximately 26,000 m², including floor space and parking. Following completion of this distribution centre in autumn 2022, Amazon will be the exclusive tenant of this energy-efficient building for an initial period of 15 years. A vehicle access concept tailored to Amazon’s needs, an employee car park, and parking spaces with charging stations for electric delivery vehicles will serve to future-proof transport logistics operations at this location.

LogPark highlights
- Industrial/logistics property in a strategic location
- Repositioned and repurposed from single-tenant to multi-tenant use
- Technical building management available on-site
- Strong, diverse mix of tenants
- On-site development with Amazon

EUR 5.2 MILLION

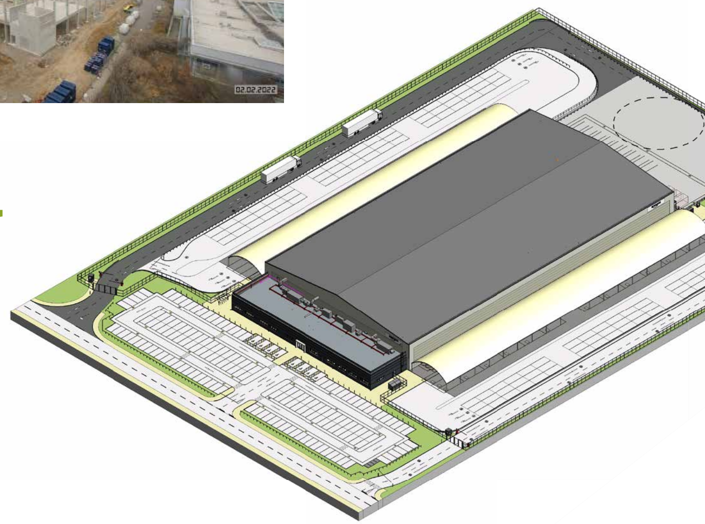
In annualised rental income p.a. as at 31 December 2021

In January 2022, we further strengthened the tenancy relationship with our biggest tenant at Logistikpark Leipzig, the recommerce company momox. We expanded the existing tenancy to include a logistics hall and integrated office space measuring 10,000 m², and we also extended the existing leases for spaces covering approximately 76,000 m² until 2026. Since it was formed 18 years ago, momox has enjoyed successful growth and also anticipates outstanding growth prospects in the future.

Great things are to come at this Leipzig construction site

EUR 141.6 MILLION

Market value as at 31 December 2021



COMBINED MANAGEMENT REPORT

GROUP PRINCIPLES

This combined management report reports on business development at DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt am Main, and the Group ("DEMIRE" or "the DEMIRE Group") for the financial year from 1 January to 31 December 2021. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU pursuant to Section 315e of the German Commercial Code (HGB). The composition of the scope of consolidation, which forms an integral part of the consolidated financial statements, is shown in the Notes to the consolidated financial statements starting on page 185.

Set-up and orientation

Business activities

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

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

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

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

The business approach is fundamentally geared towards portfolio growth, and the Company disposes of any properties that are not consistent with its strategy.

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

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

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

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

Following the profitable sale of smaller, non-core properties, DEMIRE has a real estate portfolio of 64 properties with lettable space of around 1.0 million m² and a market valuation of around EUR 1.4 billion as at the reporting date. The Cielo office property in Frankfurt am Main, which was acquired in the period under review, is not included in these figures as it is held within a joint venture and accounted for using the equity method.

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

Strategy and Objectives

REALIZE POTENTIAL

In 2019, DEMIRE drafted a strategic medium-term plan for its subsequent development, summarising it under the concept of "REALize Potential". This plan also provided guidance during the year under review. It consists of the following objectives:

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

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

3. Achieve an investment grade rating

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

1. **Acquisition** – Realising economies of scale through the continued purchase of properties in ABBA locations ("A" locations in "B" cities and "B" locations in "A" cities)

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

3. **Financials** – Realising cost savings potential

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

In detail, these levers can be described as follows:

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

To further improve the risk structure, DEMIRE diversifies the portfolio according to a mix of uses appropriate to the German commercial property market. These are office, retail, logistics and other (including hotel). The Company is currently focused on office properties.

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

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

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

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

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

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

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

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

Processes
DEMIRE's corporate culture includes the continuous improvement of existing processes, procedures and structures. The DEMIRE Group continued to optimise and standardise its processes in 2021. A fundamental aspect of this was the reallocation of asset and property management services to FVR.

From 2022, Group-wide property management will be conducted by STRABAG, while Group-wide asset management will be conducted by DEMIRE AG. This will be a starting point for further efficiency gains, in terms of both property management and administrative processes.

Corporate management

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

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

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

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

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

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

Corporate governance: Executive Board and Supervisory Board
The Group's parent company is DEMIRE AG. It is controlled by the Executive Board, which assumes responsibility for managing the business and determining the Company's strategic direction. The strategy is implemented in close coordination with the Supervisory Board. The Supervisory Board monitors the activities of the Executive Board and receives regular information from the latter regarding business developments, strategy and potential opportunities and risks. In the financial year under review, the Executive Board consisted of two members: Chairman of the Executive Board Ingo Hartlief (FRICS) and Chief Financial Officer Tim Brückner. During the period under review, the contracts with both executives were extended to the end of 2024.

The Executive Board is monitored by the Supervisory Board. It was made up of three members, whose positions were confirmed at the 2021 Annual General Meeting. Prof. Dr Alexander Goepfert assumed the role of Chairman, with Frank Hölzle as Deputy and Prof. Dr Kerstin Hennig as the other member. An Audit Committee was also constituted in November 2021, with Frank Hölzle as its Chairman.

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

Portfolio

Diversified portfolio with a focus on office properties

As at 31 December 2021, the portfolio comprised 64 commercial properties (previous year: 75) with total lettable floor space of around 912,724 m² (previous year: 989,050 m²).

The **market value** of the properties totalled EUR 1,412.5 million (previous year: EUR 1,441.5 million). Office properties accounted for the largest share of this portfolio in terms of market value, at around 60% (31 December 2020: 65%). Retail properties account for approximately 25% (31 December 2020: 25%). Around 15% of the portfolio is made up of logistics and other properties, including hotels (31 December 2020: 10%). The market value per square metre averages EUR 1,548 and is below the replacement cost, i.e. the cost of constructing a comparable new building, across all property classes.

PORTFOLIO BY ASSET CLASS

	Number of properties	Market value** in EUR million	Share in %	Lettable space in thousand m²	Value per m²	Contractual rent in EUR million p.a.	Contractual rent per m²	Rental yield in %	EPRA Vacancy Rate* in %	WALT in years
Office	42	843.7	59.7	516.7	1,633	47.2	8.9	5.6	12.6	3.9
Retail	17	357.1	25.3	220.1	1,623	22.8	9.4	6.4	7.1	5.4
Logistics and others	5	211.6	15.0	176.0	1,202	8.0	4.3	3.8	12.0	7.3
Total 31 December 2021	**64**	**1,412.5**	**100**	**912.7**	**1,548**	**78.1**	**8.0**	**5.5**	**11.0**	**4.7**
Total 31 December 2020	**75**	**1,441.5**	**100**	**989.1**	**1,457**	**85.6**	**8.0**	**5.9**	**6.9**	**4.8**
Change (in units/%/bp)	–11	–2.0	–	–7.7	+6.2	–8.8	+0.4	–40	410	–2.5

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

Portfolio and asset management

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

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

The last valuation of the entire portfolio was carried out by the independent real estate appraiser Savills Immobilien Beratungs-GmbH as at the reporting date, 31 December 2021. The change in value compared to the previous year, from EUR 1,441.5 million to EUR 1,412.5 million, is due to the sale of 11 properties with a total market value of EUR 99.2 million and a gross valuation result of EUR 70.2 million.

Letting performance

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

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

The annualised rental income generated from the real estate portfolio fell by 1.4% in like-for-like terms in the financial year. If we take a more differentiated look at rental growth by asset class, the following picture emerges:

DEVELOPMENT OF ANNUALISED CONTRACTUAL RENTS IN 2021

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

Active portfolio management

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

DISPOSALS IN 2021

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

Non-financial performance indicators

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

Personnel

KEY SPECIALISTS AND CENTRAL DEVELOPMENT DRIVERS

The Group employed a total of 32 employees, excluding the Executive Board, as at 31 December 2021 (31 December 2020: 34 employees). These figures include all consolidated and non-consolidated entities.

DEMIRE embraces and promotes diversity throughout the Company. The age structure of our employees is widely distributed. Around 13% of our employees are younger than 30 years of age, around 65% are between 30 and 50 years old, and another 22% are over 50.

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

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

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

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

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

DEMIRE WELCOMES DIVERSITY AND VARIETY

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

Tenant relationship management and network maintenance

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

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

CLOSE TENANT SUPPORT

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

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

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

NETWORKING

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

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

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

TRANSPARENCY

DEMIRE is a member of the European Public Real Estate Association (EPRA), the representative body of listed European real estate companies. As part of this, we support the EPRA best practice recommendations promoting the transparent presentation of key performance indicators for listed real estate companies. We have presented detailed performance indicators as defined by EPRA since the 2020 financial year (link to EPRA key performance indicators). DEMIRE's reporting was commended by EPRA, receiving its Gold Award for implementing Best Practice Recommendations and Special Prize for Most Improved Reporting.

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

Sustainability

PREPARING OUR FIRST SUSTAINABILITY REPORT

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

ESG – ENVIRONMENTAL, SOCIAL & GOVERNANCE

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

Our Company strives to further anchor sustainability in the Group by implementing guidelines. In 2019, our Company underwent an external audit to document and apply the principles of good corporate governance based on the standards of the Institute for Corporate Governance (ICG) and was admitted as a member following successful certification in 2020. ICG certification was confirmed once again by way of an audit in 2021.

ECONOMIC REPORT

Economic environment

Macroeconomic situation

As was the case for the majority of the previous year, 2021 was also characterised by the coronavirus pandemic. The SARS-CoV-2 virus had a sustained impact on the German economy. The January lockdown in particular had a significant impact on economic output. The second quarter saw the start of a notable economic recovery, which can in particular be attributed to the gradual easing of pandemic-related restrictions. The German Federal Statistical Office (destatis) reported growth in price, season and calendar-adjusted gross domestic product (GDP) of 2.8% for 2021 compared to the previous year. This meant economic output was still around 1.5% below the pre-crisis level. 2021 saw a slight recovery in the labour market. At 5.7%, the unemployment rate was 0.2 percentage points below the previous year's figure.

Of particular note is the large increase in the inflation rate when compared to the long-term figure. There was an increase of 3.1% compared to 2020, based on the consumer price index. Alongside temporary effects (such as raising the VAT rate that had been temporarily reduced), this impact is primarily attributable to effects related to the crisis, such as supply shortages. Energy prices in particular have become significantly more expensive in 2021.

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

DEVELOPMENT OF THE REAL ESTATE AND CONSTRUCTION SECTORS

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

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

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

OFFICE REAL ESTATE MARKET

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

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

LOGISTICS REAL ESTATE MARKET

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

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

RETAIL REAL ESTATE MARKET

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

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

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

HOTEL REAL ESTATE MARKET

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

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

Implications for DEMIRE

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

General assessment of the Executive Board

General statement on the business performance and position of the Group

As in previous years, DEMIRE ended the 2021 financial year very successfully, especially given the continued adverse circumstances. Rental income and FFO as key management indicators, as well as numerous other key figures, showed positive development in line with, or even outstripping, our expectations. As was the case in 2020, even though the pandemic has not had any significant impact on the 2021 figures, the situation has once again tied up extensive management capacities. Even though the pandemic continued to dominate the headlines and everyday life in early 2022, DEMIRE nevertheless expects to see a certain easing in the current year or, at the very least, an increasing level of routine in dealing with the pandemic at a business level. Our close contact with tenants is, however, not only due to the pandemic, but rather has been an integral part of our strategy since 2019, and has once again also made a significant contribution to our very strong letting performance in 2021. In 2021, we also managed to push forwards in another key strategic area, namely our efforts to make our portfolio more dynamic by selling 11 properties that were no longer consistent with our strategy. Although this slightly reduced the value of the portfolio to EUR 1,412.5 million as at the reporting date, numerous other key portfolio figures improved as a result. The Cielo office property in Frankfurt, which was purchased together with an equal partner in a joint venture during the period under review, is not included in the property-specific indicators owing to the fact it is accounted for using the equity method, so is instead treated as a financial investment.

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

TARGET/ACTUAL COMPARISON

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

The 2021 results also reflect the success achieved with the "REALize Potential" strategy in numerous respects. The strategy, which was developed back in early 2019 and was then put into practice, has proven to be the right approach, and an efficient one, in an environment characterised by unusual circumstances caused by the coronavirus pandemic. This strategic orientation and the focus on a diversified portfolio with a balanced risk/opportunity profile is a key factor differentiating DEMIRE from competitors. The active management approach will continue to help us leverage valuation potential, generate increasing rental income and reduce our costs in the future. It is also easy to add any future acquisitions to this effective platform with low marginal costs. The resulting improved profitability forms the basis for DEMIRE's ability to pay sustainable dividends.

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

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

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

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

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

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

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

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

Results of operations, net assets and financial position

Results of operations

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

CONSOLIDATED INCOME STATEMENT

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

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

DEVELOPMENT OF THE MAIN ITEMS OF THE STATEMENT OF INCOME

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

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

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

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

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

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

General and administrative expenses fell significantly in 2021 to EUR 11.2 million (previous year: EUR 13.4 million). This figure reflects the annualised efficiency measures taken at the start of the pandemic in 2020 and highlights the Company's earnings potential and its ability to improve its operating results despite exercising cost discipline.

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

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

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

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

FUNDS FROM OPERATIONS (FFO)

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

FFO CALCULATION

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

FFO CALCULATION

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

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

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

SEGMENT DEVELOPMENT

The segment reporting in the consolidated financial statements is in accordance with IFRS 8 “Operating Segments” and is based on the internal alignment of the strategic business segments. The segment information presented represents the information to be reported to DEMIRE’s Executive Board. Segment information is presented on a net basis, minus consolidation entries.

The key segment data developed as follows during the 2021 financial year:

SELECTED DISCLOSURES FROM THE CONSOLIDATED BALANCE SHEET

	Core Portfolio		Fair Value REIT		Corporate Functions/Others		Group	
in EUR thousand	2020	2021	2020	2021	2020	2021	2020	2021
External revenue	144,340	168,116	53,382	38,521	0	0	197,722	206,637
Total revenue	144,340	168,116	53,382	38,521	0	0	197,722	206,637
Profit/loss from fair value adjustments of investment properties	–19,900	42,325	–2,234	6,452	0	0	–22,134	48,777
Other income	486	470	412	586	592	132	1,490	1,188
Segment revenue	**124,926**	**210,911**	**51,560**	**45,559**	**592**	**132**	**177,078**	**256,601**
Expenses relating to the sale of real estate	–59,775	–88,806	–30,157	–13,859	0	0	–89,932	–102,665
Other expenses	–37,677	–32,398	–13,750	–9,903	–8,065	–9,768	–59,492	–52.71
Segment expenses	**–97,452**	**–121,205**	**–43,907**	**–23,762**	**–8,065**	**–9,768**	**–149,424**	**–154,736**
EBIT	**27,474**	**89,706**	**7,652**	**21,797**	**–7,473**	**–9,636**	**27,654**	**101,866**
Financial income	260	217	4	0	1,022	2,950	1,286	3,167
Financial expenses	–17,118	–17,028	–1,629	–1,148	–340	–154	–19,086	–18,331
Profit/loss from companies accounted for using the equity method	0	1,084	0	0	0	0	0	1,084
Interests of minority shareholders	0	0	–3,371	–6,972	0	0	–3,371	–6,972
Income taxes	5,347	–5,476	–1,628	–747	–1,034	–13,004	2,685	–19,227
Net profit/loss for the period	**15,963**	**68,502**	**1,028**	**12,930**	**–7,824**	**–19,845**	**9,166**	**61,587**
Significant non-cash items	**14,743**	**–37,221**	**4,638**	**–7,825**	**1,160**	**13,111**	**20,541**	**–31,934**
Impairment losses in net profit/loss for the period	**4,564**	**1,336**	**1,127**	**85**	**459**	**2,055**	**6,150**	**3,475**

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

Revenue in the “Core Portfolio” segment amounted to EUR 168.1 million in 2021 compared to EUR 144.3 million in the previous year. Net profit/loss for the period totalled EUR 68.5 million in 2021 (previous year: EUR 16.0 million).

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

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

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

Further information on segment reporting can be found in the Notes to the consolidated financial statements on page 160.

Net assets

NET ASSET VALUE (NAV)

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

NET ASSET VALUE (NAV/NNNAV)

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

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

Total assets increase by 4.9%

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

For the real estate portfolio (investment properties), the external real estate appraiser Savills Immobilien Beratungs-GmbH determined a total market value of EUR 1,412.5 million (31 December 2020: EUR 1,441.5 million). The difference compared to the property value shown in the balance sheet is due to accounting accruals, deferrals and capitalisations. This is explained in the Notes to the consolidated financial statements (section E.1.1.3).

SELECTED DISCLOSURES FROM THE CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET – ASSETS

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

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

Loans to companies accounted for using the equity method were reported for the first time at EUR 26.5 million (previous year: EUR 0 million). This relates to an interest-bearing shareholder loan to the joint venture in conjunction with the purchase of the Cielo property. Loans and financial assets also increased by EUR 56.7 million to EUR 64.3 million, mainly driven by a loan to the vendor in conjunction with the Cielo property transaction.

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

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

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

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

Equity ratio remains strong at 34.7%

Group equity fell slightly during the 2021 financial year to EUR 592.4 million (previous year: EUR 598.0 million). The net profit/loss for the period under review of EUR 61.6 million almost managed to offset the distribution of a dividend in 2021 in the amount of EUR 65.4 million. Due to the increased total assets, the equity ratio came to 34.7% compared to 36.8% at the end of 2020. Non-controlling minority interests of EUR 82.9 million were also reported in non-current liabilities and not under equity in accordance with IFRS, primarily due to the legal form of a partnership. The corresponding adjusted Group equity totalled EUR 675.2 million or 39.6% of total equity and liabilities (31 December 2020: EUR 676.9 million or 41.6%).

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

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

As at 31 December 2021, trade payables and other liabilities dropped to EUR 17.7 million (31 December 2020: EUR 20.2 million).

Contingencies

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

The contingent liabilities as at the end of the period under review consist of mortgages under Section 1191 BGB in the amount of EUR 346.9 million (previous year: EUR 275.0 million). The maximum liability for these properties is limited to the carrying amount as at the reporting date of EUR 346.9 million (previous year: EUR 275.0 million).

FINANCIAL POSITION

Financial management

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

Providing regular information on the financial position to the Supervisory Board is an essential part of DEMIRE's risk management system. The principles and objectives of capital management and control are presented in the Notes to the consolidated financial statements. Cash and cash equivalents in the amount of EUR 139,619 thousand (previous year: EUR 101,620 thousand) includes cash on hand and bank balances carried at their nominal value. Of this, cash and cash equivalents in the amount of EUR 3,286 thousand (previous year: EUR 6,735 thousand) remained earmarked for maintenance costs as at 31 December 2021 and are subject to restrictions on disposal.

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

SELECTED DISCLOSURES FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Liquidity headroom remains comfortable

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

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

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

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

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

The detailed consolidated statement of cash flows precedes the Notes 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 the carrying amount of investment properties and non-current assets held for sale. The net LTV as at the reporting date was as follows:

NET LOAN-TO-VALUE (LTV)

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

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

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

MATURITIES

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

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

BOND COVENANTS 31/12/2021

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

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

Other financial obligations and contingent liabilities

The following other financial obligations existed as at the reporting date: The real estate purchase agreements concluded in the 2021 financial year that were not still in effect as at the reporting date resulted in no financial obligations as at 31 December 2021. There were no financial obligations arising from purchase agreements as at the reporting date in the previous year either.

Obligations for modification and expansion measures, as well as maintenance and modernisation work on the properties, totalled EUR 33.2 million (previous year: EUR 20.5 million). These obligations are fixed in terms of their scope. The purchase order commitment from commissioned maintenance amounted to EUR 12.0 million (previous year: EUR 5.5 million) as at the reporting date.

As at 31 December 2021, unused credit lines in the amount of EUR 5.0 million (previous year: EUR 5.0 million) were available for general corporate financing, including the financing of capital expenditure and reletting measures.

Economic development of DEMIRE AG

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

The Company is the operational management unit of the DEMIRE Group and does not hold any of its own properties. In the 2021 financial year, it generated revenue from management services rendered for the project companies. The number of employees, excluding Executive Board members, remained constant with an average of 30 in the year under review (2020 financial year: 30 employees).

DEMIRE's financial statements as at 31 December 2021 were prepared in accordance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). Supplementary provisions from the Articles of Association did not arise.

Results of operations, net assets and financial position

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

RESULTS OF OPERATIONS

STATEMENT OF INCOME (EXCERPT)

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

The Company's **revenue** results mainly from management fees related to the provision of internal Group services to the subsidiaries and sub-subsidiaries of DEMIRE. Since this group of subsidiaries and sub-subsidiaries has not materially changed, revenues generated by DEMIRE only increased slightly by EUR 0.2 million to EUR 4.2 million.

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

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

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

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

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

Income from **loans of financial fixed assets** amounting to EUR 19.5 million (previous year: EUR 18.7 million) resulted primarily from loans granted to affiliated companies in order to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries of the Company.

Financial expenses in the 2021 financial year came to EUR –13.6 million (2020 financial year: EUR –12.3 million). Impairment on financial assets in the 2021 financial year equalled EUR 0.7 million (2020: EUR 0.4 million). Expenses from compensation payments to minority shareholders amounted to EUR –0.1 million, as was the case the previous year.

The **result from ordinary activities** amounted to EUR 39.1 million in 2021, compared to EUR 29.8 million in 2020.

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

NET ASSETS

BALANCE SHEET – ASSETS (EXCERPT)

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

BALANCE SHEET – EQUITY AND LIABILITIES (EXCERPT)

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

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

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

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

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

Provisions of EUR 11.2 million as at 31 December 2021 (31 December 2020: EUR 6.3 million) primarily relate to other staff costs, legal and consulting fees, as well as costs for the preparation and audit of the annual and consolidated financial statements.

The Company's liabilities increased from EUR 645.7 million as at 31 December 2020 to EUR 661.7 million as at 31 December 2021 due to the taking out of a loan by a subsidiary.

FINANCIAL POSITION

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

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

STATEMENT OF CASH FLOWS (EXCERPT)

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

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

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

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

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

FORECAST

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

SUBSEQUENT EVENTS

No significant events occurred after the reporting date.

CONCLUDING STATEMENT TO THE DEPENDENCY REPORT PURSUANT TO SECTION 312 AKTG

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

Dividend

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

FURTHER LEGAL INFORMATION

Disclosures pursuant to Section 289a/315a HGB

COMPOSITION OF SUBSCRIBED CAPITAL

a) As at 31 December 2021

As at 31 December 2021, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; DEMIRE AG itself held 2,264,728 of these shares as at the reporting date. DEMIRE shares have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

b) Development after 31 December 2021

There were no changes after the reporting date.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

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

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

a) As at 31 December 2021

In 2021, the Company received a voting rights notification from BRH Holdings GP, Ltd., which are published on the English version of DEMIRE's website. As at 31 December 2021, the following shareholders held interests in the Company, representing more than 3%, 5% or 10% of the voting rights:

- AEPF III 15 S. à r. l. held a total of 58.61% of the shares.
- The Wecken Group of Mr Klaus Wecken, Basel, Switzerland held a total of 32.14% of the shares through various subsidiaries.

b) Development after 31 December 2021

The Company did not receive additional voting right notifications with regard to direct or indirect interests that exceeded 3%, 5% or 10% of the voting rights, up to the date of this Annual Report's publication. There has been a reorganisation at Company level within the existing shareholder structure without changes to the shareholding, as notified by the Company on 7 January 2022. Accordingly, BRH Holding GP, Ltd. is no longer the holding company of AEPF III 15 S.á.r.l., but rather Apollo Global Management, Inc. is instead.

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

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

Such interests do not exist.

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

Appointment and replacement of Executive Board members

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

Amendments to the Articles of Association

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

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised capital

a) As at 31 December 2021

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

Authorised Capital I/2019 had not yet been utilised by 31 December 2021.

b) Development after 31 December 2021

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

Conditional capital

a) As at 31 December 2021

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

Conditional Capital I/2020 had not yet been utilised by 31 December 2021.

b) Development after 31 December 2021

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

Authorisation to issue convertible bonds or bonds with warrants

a) As at 31 December 2021

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

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

This authorisation had not been used by the reporting date.

Authorisation to purchase treasury shares

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance Statement

On 18 January 2022, the Executive Board of the Company issued its Corporate Governance Statement in accordance with Sections 315d and 289f of the German Commercial Code (HGB) and made it generally and permanently accessible on the Company's website at www.demire.ag in the "Company" section under the heading "Corporate Governance".

Remuneration Report 2021

The Remuneration Report, pursuant to Section 162 of the German Stock Corporation Act (AktG), provides details regarding the individual remuneration of current and former Executive Board and Supervisory Board members of DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG") during the 2021 financial year.

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

Overview of the 2021 financial year

REMUNERATION SYSTEM FOR THE EXECUTIVE BOARD MEMBERS IN THE 2021 FINANCIAL YEAR

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

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

Given that the agreed changes to the remuneration of the Executive Board in accordance with the extension agreements dated 26 May 2021, as well as the agreements themselves, do not enter into force until **1 January 2022**, the Executive Board members were granted remuneration for the 2021 financial year in accordance with the requirements of the previous remuneration system (**"Old remuneration system"**). Accordingly, the Old remuneration system is presented below.

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

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

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

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

REMUNERATION SYSTEM FOR THE SUPERVISORY BOARD MEMBERS IN THE 2021 FINANCIAL YEAR

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

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

Detailed breakdown of Executive Board remuneration during the 2021 financial year

OVERVIEW OF OLD REMUNERATION SYSTEM

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

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

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

In order to provide better insight, there is a corresponding table below that summarises the key features of the Old remuneration system.

Key elements of the remuneration system applicable in 2021 financial year ("Old remuneration system")

REMUNERATION ELEMENT

Fixed remuneration	Basis for calculation/parameter
Basic remuneration	Contractually agreed fixed remuneration paid in twelve monthly instalments.
Fringe benefits	Provision of a company car, continued cover under the existing directors' and officers' liability insurance policy (D&O insurance), taking out of accident and disability insurance within the framework of a Group accident insurance policy, and continued remuneration in the event of illness or accident and payment of death benefits. In addition, the Company shall also reimburse the Executive Board member for the costs incurred for a private pension scheme, up to the value of the maximum voluntary monthly contribution to the statutory pension insurance scheme.
Pension expenses	Pension expenses consist of payment of contributions to voluntary statutory or private health insurance and nursing care insurance schemes subject to corresponding application of Section 257 of Volume V of the German Social Code (SGB V) and Section 61 of Volume XI of the German Social Code (SGB XI).

REMUNERATION ELEMENT

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

REMUNERATION ELEMENT

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

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	2019 tranche (LTI 2019/2023) **Cap:** Capped by way of an annual allotment defined in the contract. Furthermore, the actual payment amount depends on the long-term performance of the Company's share price and is capped at a maximum amount determined on an individual basis for the respective Executive Board member (a maximum amount of EUR 220,000 gross for Mr Ingo Hartlief and a maximum amount of EUR 75,000 gross for Mr Tim Brückner).
	Performance criteria: A threshold of 7% p.a. and a maximum value of 14% p.a. applies to the annual share price increase sub-target. A maximum value of 10 percentage points and a threshold of minus 10 percentage points applies to the relative total shareholder return sub-target.
Virtual stock option programme (Long-term incentive)	**Payment:** After a period of four years, depending on the achievement of performance targets defined beforehand and the share price.

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	2020 tranches (LTI 2020/2024) (LTI 2021/2025) **Cap:** Capped by way of an annual allotment defined in the contract. There is no provision for vesting of more than 100% of the granted stock options (also referred to as "performance share units" or "PSUs"). Regardless of the target achievement or number of vested PSUs, the maximum payment per PSU is capped at 250% of the price when granted.
	Performance criteria: — 50% annual share price increase — 50% relative total shareholder return A threshold of 7% p.a. and a maximum value of 14% p.a. applies to the annual share price increase sub-target. A maximum value of 10 percentage points and a threshold of minus 10 percentage points applies to the relative total shareholder return sub-target.
Virtual stock option programme (Long-term incentive)	**Payment:** After a period of four years, depending on the achievement of performance targets defined beforehand and the share price.

REMUNERATION ELEMENT

Variable remuneration	Basis for calculation/parameter
	2020 tranches (LTI 2020/2024) (LTI 2021/2025) **Cap:** Capped by way of an annual allotment defined in the contract. There is no provision for vesting of more than 100% of the granted stock options (also referred to as "performance share units" or "PSUs"). Regardless of the target achievement or number of vested PSUs, the maximum payment per PSU is capped at 250% of the price when granted.
	Performance criteria: — 50% annual share price increase — 50% relative total shareholder return A threshold of 7% p.a. and a maximum value of 14% p.a. applies to the annual share price increase sub-target. A maximum value of 10 percentage points and a threshold of minus 10 percentage points applies to the relative total shareholder return sub-target.
Virtual stock option programme (Long-term incentive)	**Payment:** After a period of four years, depending on the achievement of performance targets defined beforehand and the share price.

REMUNERATION ELEMENT

Other remuneration provisions	Basis for calculation/parameter
Maximum remuneration	Provision initially as part of amended agreements dated 26 May 2021.
Severance payment cap	The severance payment must not exceed an amount equating to two years' annual salary and must not provide remuneration for more than the remaining term of the contract ("severance payment cap"). The severance payment cap is calculated based on the total remuneration for the past financial year and, where applicable, the expected total remuneration for the current financial year.
Malus and clawback provision	Possible to partially or fully reduce or claw back variable remuneration.
Remuneration for other mandates both within and external to the DEMIRE Group	Any remuneration benefits paid to undertake intra-Group Supervisory Board mandates or similar functions are accounted for against the fixed annual salary. No provision is in place for separate remuneration for assuming an Executive Board mandate at Fair Value REIT-AG.

DETAILED BREAKDOWN OF FIXED REMUNERATION ELEMENTS IN THE 2021 FINANCIAL YEAR

Basic remuneration in 2021 financial year

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

Fringe benefits in 2021 financial year

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

The Company also provides continued cover for Executive Board members under its directors' and officers' liability insurance policy (D&O insurance). The D&O insurance includes the minimum deductible, as stipulated by law, of 10% of the loss up to the annual amount of one-and-a-half times the fixed annual remuneration pursuant to Section 93(2)(3) AktG.

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

In addition, the Company shall also reimburse the Executive Board member Tim Brückner for the costs incurred for a private pension scheme, up to the value of the maximum voluntary monthly contribution to the statutory pension insurance scheme.

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

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

Pension expenses in 2021 financial year

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

DETAILED BREAKDOWN OF VARIABLE REMUNERATION ELEMENTS IN THE 2021 FINANCIAL YEAR

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

One-year performance-based remuneration paid out in the 2021 financial year (2020 bonus)

Basic structure

The bonus (short-term incentive) is used as a variable remuneration element with an incentivising effect in the short term. The term is therefore limited to one year. As stated above, this remuneration report focuses exclusively on the bonus vested in the 2020 financial year, which was paid out in the 2021 financial year.

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

Performance criteria

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

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

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

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

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

The bonus vested in the 2020 financial year was paid to the Executive Board members at the end of the month in which the Company's annual financial statements for the 2020 financial year were adopted, i.e. at the end of April 2021. This payment must therefore be attributed to remuneration granted for the 2021 financial year pursuant to Section 162(1) AktG.

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

FOR MR TIM BRÜCKNER:

1. Qualitative targets

— Development of digitalisation within the company, including in terms of reporting and the treasury management system

— Continued stabilisation of the team, including under conditions imposed by COVID-19

— Commencement of the EPRA Sustainability Rating Project with the aim of receiving a sustainability rating in the future

— Optimisation of the service provider and cost structure

— Accounting optimisation

— Optimisation of shareholder structures

2. Quantitative targets

— FFO increase of at least 10% compared to 2019

— Reduction of DEMIRE financing costs

FOR MR INGO HARTLIEF:

1. Qualitative targets

— Implementation of an effective COVID-19 crisis management procedure (e.g. continuous monitoring of tenancies)

— Cost structure optimisation (real estate, financing, structure-related and administrative costs)

— Continued development of receivables management processes

— Risk management improvements; ICG certification

— Successful repositioning of single-tenant properties

2. Quantitative targets

— FFO increase of at least 10% compared to 2019

— Continued development of the company with the aim of being able to distribute a dividend

— Achievement of liquidity of at least EUR 200 million

— Leases of at least 100,000 m^2 in size (new contracts and extensions of old leases)

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

Both the bonus and the PSUs granted are in line with the remuneration system, which provides both short-term and long-term incentives to the Executive Board. By providing these incentives, the remuneration system helps to promote the long-term development of the Company, generating growth, improving operational and financial key figures and increasing the Company's value over the long term.

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

Basic structure (2021/2025 tranche)

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

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

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

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

The performance share plan also ensures that the Executive Board is committed to the Company in the long term and increases its motivation level.

Performance criteria for performance share plan for the 2021/2025 tranche

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

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

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

At the start of a given year, i.e. the grant date (see above), the maximum value and the threshold for the annual DEMIRE AG share price increase are defined by the Supervisory Board. With regard to the 2021 tranche, the maximum value is 14% per annum and the corresponding threshold is 7% per annum.

Likewise, the maximum value and the threshold for the relative TSR performance are also defined in advance by the Supervisory Board. With regard to the 2021 tranche, the maximum value for the relative TSR is 10 percentage points and the corresponding threshold is minus 10 percentage points.

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

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

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

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

If, during the LTI term, DEMIRE AG undertakes corporate actions that impact the value of its real shares, the Executive Board member shall be treated in the same way as the owner of real shares in relation to the PSUs granted to him or her. If shares are split or consolidated during the LTI term, the number of PSUs shall be increased or reduced in accordance with the respective rules for the share split or share consolidation. If, during the LTI term, shareholders are granted shares out of the Company's own funds ("bonus shares"), the number of PSUs shall be increased in accordance with the acquisition rules for the real bonus shares.

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

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

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

PSUs granted in the 2021 financial year (2021/2025 tranche)
In total, 121,027 (75,795 + 45,232) PSUs were provisionally granted to the Executive Board members in the 2021 financial year [contractually agreed annual allotment divided by the average share price 60 trading days prior to the grant date (for more information see the explanation of "grant date" above)]:

DETAILED BREAKDOWN OF PSUS GRANTED

	Contractually agreed annual allotment	Allotment price (Average DEMIRE share price 60 trading days prior to the grant date)	Number of provisionally allotted PSUs
Ingo Hartlief	EUR 310,000 gross	EUR 4.09	75,795
Tim Brückner	EUR 185,000 gross	EUR 4.09	45,232

OTHER REMUNERATION PROVISIONS IN THE 2021 FINANCIAL YEAR

Details regarding the defined maximum remuneration amounts for Executive Board members and compliance with said amounts in the 2021 financial year

The remuneration for Executive Board members is capped by value. The variable remuneration elements are subject to upper limits.

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

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

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

With regard to the 2020/2024 and 2021/2025 tranches, it is not just the allotment that is capped by way of an annual amount stipulated in the contract. There is also no provision for vesting of more than 100% of the granted PSUs. Thirdly, the maximum payment per PSU is capped at 250% of the share price as at the grant date, regardless of the target achievement or number of vested PSUs.

The following illustration shows that these maximum limits were all complied with in relation to the variable remuneration granted and owed in the 2021 financial year:

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

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

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

TIM BRÜCKNER – CHIEF FINANCIAL OFFICER SINCE 1 FEBRUARY 2019

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

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

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

REMUNERATION UPON TERMINATION OF CONTRACT IN THE 2021 FINANCIAL YEAR

Severance payment provisions

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

— The fixed annual basic salary

— 100% of the bonus (STI)

— 100% of the allotment of the virtual stock option programme (LTI)

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

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

Post-contractual non-competition clause

No post-contractual non-competition clauses have been agreed in the employment contracts. As a result, there is no provision in place in the remuneration system for payment of compensation for restrictions on competition.

Change of control

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

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

Malus/clawback

In line with the Old remuneration system, the Supervisory Board has the option under Section 87(2) AktG to reduce the payments or other benefits.

Furthermore, in the event of a clear and unequivocal gross breach by the Executive Board member in his or her capacity as an Executive Board member, of one of his or her material duties to exercise skill and care within the meaning of Section 93 AktG or of one of his or her other material duties under the terms of his or her employment contract, the Supervisory Board may also exert its reasonable discretion (under Section 315 BGB) in reducing the bonus granted for the financial year in which the breach occurred and the PSUs granted for the financial year in question, either in part or in full to zero.

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

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

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

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

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

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

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

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

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

As part of a reclassification agreement with Fair Value REIT-AG, it was agreed that salary expenses (fixed remuneration) for Mr Tim Brückner, including incidental personnel expenses and additional remuneration such as a company car, are to be passed on to Fair Value REIT-AG on a pro-rata basis. A reallocation was charged at a ratio of 30%.

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

Detailed breakdown of Executive Board member remuneration during the 2021 financial year
Illustration of remuneration (including respective relative proportion) granted or owed to Executive Board members Ingo Hartlief and Tim Brückner for the 2021 financial year pursuant to Section 162 AktG
The tables below show the fixed and variable remuneration elements granted and owed to the Executive Board members Ingo Hartlief and Tim Brückner for the 2021 financial year. This illustration also includes the respective relevant proportion pursuant to Section 162 AktG. This includes the basic remuneration paid during the financial year, the fringe benefits incurred, the pension expenses paid out and the bonus paid out in the 2021 financial year, which was vested in the 2020 financial year.

The virtual stock option programme is also shown for the sake of completeness. However, given that the four-year period has yet to finish, none of the relevant amounts was granted or owed in the 2021 financial year.

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

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

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

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

Tim Brückner – Chief Financial Officer since 1 February 2019

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

Remuneration granted and owed to former Executive Board members during the 2021 financial year

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

Virtual stock option programmes were set up for the Executive Board member Ralf Kind back in 2017 and 2018. A provision was formed to the amount of the potential outstanding compensation. This is because the parties are still in litigious discussions about this.

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

SUPERVISORY BOARD REMUNERATION FOR THE 2021 FINANCIAL YEAR

Basic structure of the Supervisory Board remuneration

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

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

Details regarding the specific Supervisory Board remuneration for the 2021 financial year

The table below shows the remuneration granted to the current Supervisory Board members for the 2021 financial year, including the respective relative proportion pursuant to Section 162 AktG. Former Supervisory Board members are not included as they did not receive any remuneration for the 2021 financial year. Pursuant to Section 16(3) of the Company’s Articles of Association, the Supervisory Board remuneration is due within one month of the end of the financial year in question. The illustration below includes the fixed annual remuneration for Supervisory Board activities during the 2020 financial year, which was paid out in the 2021 financial year. The payment of an attendance fee in line with the remuneration alternative selected herein is provided solely for committee members. No attendance fees were accrued in either the 2020 financial year or the 2021 financial year.

REMUNERATION GRANTED TO SUPERVISORY BOARD MEMBERS IN THE 2021 FINANCIAL YEAR

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

Comparative presentation pursuant to Section 162(1) No. 2 AktG
The following table illustrates the annual change in remuneration granted and owed to current and former Executive Board and Supervisory Board members, the Company's earnings performance and the remuneration of employees on a full-time equivalent basis, with the latter based on the average wages and salaries earned by employees of DEMIRE AG in the respective financial year, namely including any benefits in kind, bonuses, cars, statutory pension scheme contributions, maternity allowances, housing allowances and so on.

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

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

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

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

OPPORTUNITIES AND RISKS

Risk report

Risk management system

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

EARLY RISK WARNING SYSTEM

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

The early risk warning system is being developed on an ongoing basis. In 2020, these developments were conducted in collaboration with a renowned auditor. They were also continued in 2021. In this project, the risk assessment methodology in particular was completely revised initially in order to improve the comprehensibility and quality of the risk quantification. The focus in 2021 was on implementing the new requirements of the latest version of IDW PS 340 (new version). As part of this work, the action management system was revised and a process to determine the risk-bearing capacity was implemented based on the existing quantified risks.

RISK IDENTIFICATION AND EVALUATION

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

RISK MANAGEMENT

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

Risk-bearing capacity

A completely new process to determine the risk-bearing capacity was established in 2021. The Monte Carlo method was chosen for the purpose of risk aggregation. This means extremely detailed results regarding the actual bearing capacity of risks by the Company can now be obtained, including in extreme scenarios.

RISK REPORTING

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

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

Internal control and risk management system

IT SYSTEMS

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

FINANCIAL REPORTING PROCESS

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

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

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

As the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG also prepares the consolidated financial statements. Impairment tests carried out centrally, particularly the market valuation of all properties by independent external experts, ensure the uniform and standardised application of the valuation criteria. The aggregation and preparation of required data for the Notes 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 to eliminate any control weaknesses

General risk situation

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

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

Individual risks

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

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

MACROECONOMIC, MARKET-RELATED AND SECTOR RISKS

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

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

Risks of macroeconomic changes and those from negative development of the real estate market and other environmental and industry risks with indirect effects on the net assets, financial position and results of operations are currently classified as **low** on average.

FINANCIAL RISKS

Financing and liquidity risks

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

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

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

Risks from covenant obligations

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

As at the reporting date, the LTVs of all of the Group's financial liabilities were below the levels stipulated in the respective financing agreements. The 2019/2024 corporate bond stipulates the following covenants: LTV (net loan-to-value ratio) based on financial and leasing liabilities minus cash and cash equivalents as a ratio to total assets minus goodwill and cash or cash equivalents; ICR (interest-coverage ratio) based on Group EBITDA as a ratio to net cash interest (interest expenses to third parties minus interest income from third parties, net of one-time financing costs and early repayment penalties). Please refer to page 62 for the value of the individual covenants, as well as the status as at 31 December 2021 for the corporate bond. In April 2021, the internationally renowned rating agency Moody's cut its rating for the corporate bond to Ba3. This decision was taken in particular in conjunction with the scheduled dividend payment for the 2020 financial year that took place at a later date. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies. Compliance with the relevant covenants and rating conditions is monitored and reported to the Executive Board on an ongoing basis. The Executive Board estimates the risk from the deterioration of the covenants and the rating and the resulting effects on net assets, financial position and results of operations to be **very low**.

Interest rate risk

The DEMIRE Group uses outside capital to finance German commercial real estate. This involves loans with exclusively fixed interest rates, bank financing secured using real estate and tradable instruments such as corporate bonds as described above. The interest rate policy is evaluated at regular intervals in close coordination with the Supervisory Board. Due to the fixed interest rate agreements, no derivatives are used. The interest rate level also has an impact on the purchase prices of newly acquired properties. The Executive Board estimates the Group's interest rate risk to be **very low**.

OPERATING RISK

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

Rental and property management risks

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

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

Based on the Group's tenant structure, at the time of this report's preparation there was no significant rental risk that would have a direct impact on the Group's earnings situation. Default risks from rent receivables are taken into account by recognising impairments. We also generally try to avoid depending on large tenants. In the 2021 financial year, the ten largest tenants accounted for 40.0% (31 December 2020: 39.05%; 31 December 2019: 43.2%) of contractual leases. These are reputable tenants, especially from the public sector, telecommunications and retail. However, there is a dependency on a few tenants who account for a significant share of rental income. The largest tenant, with a cumulative share of 14.5% (31 December 2020: 15.3%; 31 December 2019: 19.1%) of total contractual rents in the real estate portfolio across several leases and real estate locations, is Deutsche Telekom (GMG Generalmietgesellschaft GmbH). Should it not be possible to find subsequent tenants for this property or other key tenants from the ten largest tenants after the end of the contract or extraordinary termination of the contract, this would lead to a considerable decline in rental income and, consequently, to a material negative effect on the Company's net assets, financial position, and results of operations. Thanks to our own well-executed asset and portfolio management, we are positioned close to our tenants and maintain long-term tenant loyalty. Through the change from single-tenant properties for Telekom to multi-tenant properties, we have been able to significantly reduce our dependence on our main tenant. Subsequent lettings were mainly to tenants from the public sector.

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

Valuation risks

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

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

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

Coronavirus pandemic

The coronavirus pandemic hit Germany in early 2020, resulting in several lockdowns in 2020 and 2021. By government order, a large number of shops, hotels, leisure facilities etc. were required to close. Tenants either did not pay their rent or paid it late. In spite of the current high number of daily new infections and the associated restrictions (including restricted access for businesses and restaurants), the day-to-day economy is continuing largely undisturbed.

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

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

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

Sales risks

We are using property sales from the existing portfolio to reduce cluster risk in the sectoral and regional portfolio structure, achieve profit and reduce debt, thereby lowering financial risks. Following the sale of properties, the buyer could assert warranty claims if the properties do not have the features promised, e.g. state of modernisation, no contamination, occupancy rate. These could have a negative impact on the Company's net assets, financial position and results of operations.

Due to the relatively low volume of divestments – in terms of the absolute value of the properties sold – at DEMIRE in recent financial years, the Executive Board estimates the sales risk and the resulting effects on the net assets, financial position and results of operations to be **low**.

Legal risks

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

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

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

Compliance risks

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

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

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

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

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

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

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

Personnel risks
Competent, committed and motivated employees are an essential prerequisite for DEMIRE's successful development. The DEMIRE Group may lose members of the Executive Board or other key personnel, or may not be able to replace them in a timely manner, nor with sufficiently qualified personnel. The Executive Board is convinced that the current personnel structure also means that the positions will be filled on a longer-term basis. This was confirmed once again in the 2021 financial year, when there were significantly fewer changes in personnel.

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

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

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

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

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

Overall assessment of the risk situation

In spite of the ongoing coronavirus pandemic, and unlike the previous year, the risk situation faced by the DEMIRE Group and the Company has continued to improve during the reporting period. The operational successes, the sustained improvement in corresponding key figures, and the refinancing in 2019, 2020 and 2021 are contributing to DEMIRE being better equipped to withstand external shocks than in the past. This is clearly shown by the earnings of the 2021 financial year. The Executive Board also monitors the risks as described on an individual and combined basis and regularly assesses the resulting probability of occurrence. The newly introduced process for determining the risk-bearing capacity also supports the Executive Board in conducting a comprehensive assessment of DEMIRE's risk situation.

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

Description of major individual opportunities

Opportunities arising from the current market situation

MACROECONOMIC AND SECTOR OPPORTUNITIES

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

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

DEMIRE is therefore cautiously optimistic as it looks ahead to 2022. Internally, once again in 2021, the Company's strategy and structure survived their baptism of fire brought about by the special circumstances imposed by the coronavirus pandemic. With regard to the German real estate market, opportunities are expected to arise in terms of both purchases and sales. The DEMIRE Group intends to use this environment to further increase its enterprise value by carefully and professionally selecting additional properties and continuing to actively manage the existing portfolio.

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

Business opportunities

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

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

FINANCIAL OPPORTUNITIES

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

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

Overall assessment of DEMIRE's opportunities

Since 2019, DEMIRE has laid the essential foundations for its long-term success as one of the leading listed portfolio owners of German commercial real estate with a balanced risk/reward profile and attractive cash flows. As a result, DEMIRE intends to offer its shareholders not only the prospect of an increase in value in the medium term, but also regular dividend distributions. The Executive Board considers DEMIRE's opportunities favourable enough to further increase its portfolio's size and its profitability in the years ahead through planned growth and the optimisation of the property management platform.

FORECAST

Expected development of the overall environment and sector

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

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

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

Anticipated development of the overall environment

Macroeconomic environment

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

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

Anticipated development of the sector

Transaction market for commercial real estate

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

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

Rental market

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

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

Expected development of the Group

Overall assessment

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

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

Expected development in operating business

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

Anticipated development of the key economic indicators

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

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

With regard to non-financial performance indicators, DEMIRE's primary objectives are to keep staff turnover stable at a low level, to reduce vacancy rates by engaging in targeted network maintenance activities and to keep outstanding rents at a low level. DEMIRE is also planning to publish a sustainability report for the first time.

FORECAST

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

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

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

For the financial year 1 January 2021 to 31 December 2021

in EUR thousand	NOTE	2020	2021
Rental income		87,509	82,325
Income from utility and service charges		21,327	20,206
Operating expenses to generate rental income		–38,608	–35,350
Profit/loss from the rental of real estate	**D 1**	**70,228**	**67,181**
Income from the sale of real estate and real estate companies		88,887	104,106
Expenses related to the sale of real estate and real estate companies		–89,932	–102,665
Profit/loss from the sale of real estate and real estate companies	**D 2**	**–1,045**	**1,441**
Profit/loss from fair value adjustments of investment properties	D 3	–22,134	48,777
Impairment of receivables	D 4	–6,150	–3,475
Other operating income	D 5	1,490	1,188
General and administrative expenses	D 6	–13,368	–11,244
Other operating expenses	D 7	–1,368	–2,002
Earnings before interest and taxes		**27,653**	**101,866**
Financial income*		1,046	3,167
Financial expenses		–19,086	–18,331
Profit/loss from companies accounted for using the equity method*		240	1,084
Minority interests		–3,371	–6,972
Financial result	**D 8**	**–21,171**	**–21,052**
Earnings before taxes		**6,482**	**80,814**
Current income taxes	D 9	–712	–6,663
Deferred taxes	D 9	3,397	–12,564
Net profit/loss for the period		**9,167**	**61,587**
of which attributable to:			
Non-controlling interests		**664**	**3,089**
Parent company shareholders		**8,503**	**58,499**
Basic/diluted earnings per share	D 10	0.08	0.55

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year 1 January 2021 to 31 December 2021

in EUR thousand	2020	2021
Net profit/loss for the period	**9,167**	**61,587**
Other comprehensive income	**0**	**0**
Total comprehensive income	**9,167**	**61,587**
of which attributable to:		
Non-controlling interests	**664**	**3,089**
Parent company shareholders	**8,503**	**58,499**

CONSOLIDATED BALANCE SHEET

as at 31 December 2021

ASSETS

in EUR thousand	NOTE	31/12/2020	31/12/2021
ASSETS			
Non-current assets			
Intangible assets	E 1.1	6,880	6,783
Property, plant and equipment	E 1.2	303	228
Investment property	E 1.3	1,426,291	1,433,096
Shares in companies accounted for using the equity method*	E 1.4	596	1,025
Loans to companies accounted for using the equity method*	E 1.5	0	26,505
Loans and financial assets*	E 1.6	7,563	64,264
Other assets*	E 1.7	9,492	11,917
Total non-current assets*		**1,451,125**	**1,543,819**
Current assets			
Trade accounts receivable	E 2.1	7,346	8,671
Financial assets*	E 2.2	23,590	3,925
Other assets*	E 2.1	3,140	3,191
Tax refund claims	E 2.3	7,490	6,369
Cash and cash equivalents	E 2.4	101,620	139,619
Total current assets		**143,186**	**161,775**
Non-current assets held for sale	**E 3**	**31,000**	**0**
TOTAL ASSETS		**1,625,311**	**1,705,594**

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2021

EQUITY AND LIABILITIES

in EUR thousand	NOTE	31/12/2020	31/12/2021
Equity and liabilities			
Equity			
Subscribed capital		105,772	105,513
Reserves		452,184	443,510
Equity attributable to parent company shareholders		**557,956**	**549,023**
Non-controlling interests		40,085	43,339
TOTAL EQUITY	**E 4**	**598,041**	**592,362**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	E 5.1	72,122	84,692
Minority interests	E 5.2	78,881	82,882
Financial liabilities	E 5.3	817,342	874,417
Lease liabilities	E 7.2	18,355	24,285
Other liabilities	E 5.4	535	305
Total non-current liabilities		**987,235**	**1,066,581**
Current liabilities			
Provisions	E 6.1	2,995	4,012
Trade payables	E 6.2	10,681	10,571
Other liabilities	E 6.2	9,558	7,114
Tax liabilities	E 6.3	4,060	8,670
Financial liabilities	E 5.3	12,370	16,097
Lease liabilities	E 7.2	371	187
Total current liabilities		**40,035**	**46,651**
TOTAL LIABILITIES		**1,027,270**	**1,113,232**
TOTAL EQUITY AND LIABILITIES		**1,625,311**	**1,705,594**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2021 to 31 December 2021

in EUR thousand	NOTE	31/12/2020	31/12/2021
Group profit/loss before taxes		**6,482**	**80,814**
Financial expenses	D 8	19,086	18,331
Financial income	D 8	–1,286	–4,251
Interests of minority shareholders	D 8	3,371	6,972
Change in trade accounts receivable		–5,670	–4,800
Change in other receivables and other assets		–11,611	14,352
Change in provisions		791	1,017
Change in trade payables and other liabilities*		1,931	–4,261
Profit/loss from fair value adjustments of investment properties	D 3	22,134	–48,777
Profit/loss from the sale of real estate and real estate companies	D 2	1,046	–1,441
Interest proceeds from loans and receivables		42	2,897
Interest proceeds from loans to companies accounted for using the equity method		0	464
Income tax payments		–7,560	–926
Change in reserves		0	–38
Depreciation and amortisation and impairment		7,225	4,056
Distributions to minority shareholders/dividends		–60,125	–67,658
Distributions from companies accounted for using the equity method		0	666
Other non-cash items		43	142
Cash flow from operating activities		**–24,101**	**–2,441**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2021 to 31 December 2021

in EUR thousand	NOTE	31/12/2020	31/12/2021
Payments for the acquisition of/investments in investment properties, incl. prepayments, refurbishment measures and prepayments for property, plant and equipment		–65,426	–24,724
Payments for the acquisition of interests in fully consolidated companies, less net cash equivalents acquired		–65	0
Payments for investments in/loans to companies accounted for using the equity method	E 1.5	0	–29,146
Proceeds from loans to companies accounted for using the equity method		0	2,442
Disbursements from the granting of loans to third parties		0	–60,000
Proceeds from the repayment of a purchase price receivable for an investment accounted for using the equity method		0	8,069
Proceeds from the sale of real estate		100,473	103,121
Cash flow from investing activities		**34,982**	**–238**
Payments for borrowing costs		–828	–671
Proceeds from borrowings	E 5.3	89,925	69,700
Interest paid on financial liabilities		–16,622	–15,922
Payments for the purchase of additional shares in a subsidiary		–5,059	–355
Sale of shares in a subsidiary		0	3
Payments for the redemption of financial liabilities*	E 5.3	–69,377	–10,575
Buyback of treasury shares	E 4	–8,956	–1,178
Payment for the redemption of lease liabilities*	E 5.3	–483	–324
Cash flow from financing activities		**–11,400**	**40,678**
Net change in cash and cash equivalents		**–519**	**37,999**
Cash and cash equivalents at the start of the period	E 2.4	102,139	101,620
Cash and cash equivalents at the end of the period	**E 2.4**	**101,620**	**139,619**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year 1 January 2021 to 31 December 2021

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year 1 January 2020 to 31 December 2020

	Share capital	Reserves				
in EUR thousand	Subscribed capital	Capital reserves	Retained earnings incl. Group profit/loss	Equity attributable to parent company shareholders	Non-controlling interests	**Total equity**
01/01/2020	**107,777**	**129,852**	**375,722**	**613,351**	**47,431**	**660,783**
Net profit/loss for the period			8,503	8,503	664	9,167
Other comprehensive income			0	0	0	0
Total comprehensive income	**0**	**0**	**8,503**	**8,503**	**664**	**9,167**
Stock option programme		0		0		0
Dividend payments/distributions			–57,117	–57,117	–1,268	–58,385
Increase in shareholdings in subsidiaries		2,270		2,270	-7,170	–4,900
Acquisition of treasury shares	–2,005	–6,978		–8,983		–8,983
Other changes		–36,740	36,672	–68	428	359
31/12/2020	**105,772**	**88,404**	**363,780**	**557,956**	**40,085**	**598,041**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year 1 January 2021 to 31 December 2021

A. General information

1. Basis of preparation

DEMIRE Deutsche Mittelstand Real Estate AG (hereafter "DEMIRE AG") is recorded in the commercial register in Frankfurt am Main, Germany, the location of the Company's headquarters, under the number HRB 89041. As at 31 December 2021, the Company's scope of consolidation pursuant to Section 313 (2) HGB includes DEMIRE AG as the parent company and the companies listed in the schedule of shareholdings ("DEMIRE" or "the DEMIRE Group"). The Company's registered office is located in Frankfurt am Main, Germany, and the Company's business address is Robert-Bosch-Straße 11, Langen, Germany. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

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

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

ADJUSTMENT OF PREVIOUS YEAR'S FIGURES

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

Accordingly, EUR 8,159 thousand was reclassified from the non-current item "Other assets" to the items "Shares in companies accounted for using the equity method" (EUR 596 thousand) and "Loans and financial assets" (EUR 7,563 thousand). The non-current item "Other assets" now only includes non-current non-financial assets.

At the same time, the current balance sheet item "Other receivables" of EUR 26,730 thousand was reversed and distributed between the items "Financial assets" (EUR 23,590 thousand) and "Other assets" (EUR 3,140 thousand). The current item "Other assets" now only includes current non-financial assets.

The item "Profit/loss from companies accounted for using the equity method" was included in the consolidated statement of income. Accordingly, the disclosure of the previous year's "Financial income" item was reduced by the amount of profit/loss from companies valued using the equity method (EUR 240 thousand), as this is now shown in the item "Profit/loss from companies accounted for using the equity method".

In the consolidated statement of cash flows, payments for the redemption of lease liabilities are shown separately and no longer under the line item "Payments for the redemption of financial liabilities". Accordingly, the item "Payments for redemption of financial liabilities" was reduced by EUR 483 thousand, as these are now shown separately in the item "Payments for redemption of lease liabilities".

The explanatory notes/tables and the segment reporting in the notes were also adjusted accordingly.

The consolidated financial statements of DEMIRE AG for the financial year ended 31 December 2021 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), pursuant to Section 315e of the German Commercial Code (HGB). All International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations of the IFRS Interpretations Committee (IFRS IC) – formerly the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) – that were mandatory for the 2021 financial year have been taken into consideration. Furthermore, all statutory disclosure and explanation requirements of the German Commercial Code (HGB) that are in addition to the provisions of the IASB have been fulfilled, particularly those for the preparation of a group management report, which is contained with the management report of the separate financial statements.

These consolidated financial statements were prepared by the Executive Board and were approved on 16 March 2022 by the Supervisory Board.

2. New and amended standards and interpretations

2.1 FIRST-TIME APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN THE 2021 FINANCIAL YEAR

The accounting policies applied to the consolidated financial statements are the same as those applied in the 2020 financial year except for the changes mentioned below. The following new and amended standards and interpretations were applied for the first time in the 2021 financial year.

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS IN THE 2020 FINANCIAL YEAR

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IFRS 7, IFRS 9 and IAS 39, IFRS 4, IFRS 16	Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	13 January 2021	1 January 2021	No effect
Amendments to IFRS 4	Insurance Contracts – Extension to exemption of application of IFRS 9 (issued on 25 June 2020)	15 December 2020	1 January 2021	No effect
Amendments to IFRS 16	COVID-19-Related Rent Concessions (issued on 31 March 2021)	30 August 2021	1 April 2021	No effect

Amendments to IFRS 7, IFRS 9, IAS 39, IFRS 4 and IAS 16 allow for certain simplifications in the accounting of hedging relationships in the context of reference rate reform. These amendments have no effect on the consolidated financial statements of DEMIRE.

The amendments to IFRS 16 relate to facilitation measures for lessees with regard to amendments to rent concessions owing to the coronavirus pandemic. This amendment has no effect on the consolidated financial statements of DEMIRE.

2.2 STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

The following IASB standards have been endorsed by the EU but are only mandatory after 31 December 2021:

STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	28 June 2021	1 January 2022	No effect
Amendments to IFRS 3	Reference to the Conceptual Framework	28 June 2021	1 January 2022	No effect
Amendments to IAS 37	Onerous Contracts – Costs of Fulfilling a Contract	28 June 2021	1 January 2022	No effect
Annual improvements	Annual improvements 2018 - 2020	28 June 2021	1 January 2022	No material effect
IFRS 17	Insurance Contracts	19 November 2021	1 January 2023	No effect

The amendments to IFRS 16, IFRS 3, IFRS 37 and IFRS 17 will not have any effect on the consolidated financial statements of DEMIRE.

DEMIRE has not made use of the early application option.

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

STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current (issued on 23 January 2020 and/or 15 July 2020)	Pending	1 January 2023	No material effect
Amendments to IAS 1	Disclosure of Accounting Policies (published on 12 February 2021)	Pending	1 January 2023	No material effect
Amendments to IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	Pending	1 January 2023	No material effect
Amendments to IAS 12	Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (published on 7 May 2021)	Pending	1 January 2023	No material effect
IFRS 17	Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (published on 9 December 2021)	Pending	1 January 2023	No effect
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate/joint venture	Pending	Date of first-time application postponed indefinitely	The effects are currently being analysed

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

3. Key discretionary decisions, judgements and assumptions

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

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

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

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

Inclusion method of the structured company JV Theodor-Heuss-Allee GmbH: Taking into account future risks and the associated fluctuations in the value of the investment, it is necessary for DEMIRE to make regular assumptions regarding the type of inclusion (equity consolidation/full consolidation).

Insofar as the rights from a purchase option of the land within the JV are considered insubstantial and thus an exercise of the land purchase option as well as the subsequent acquisition of the minority interests by DEMIRE is always to be assumed, there are no further relevant activities within the meaning of IFRS 10. Since DEMIRE is also exposed to variable returns as defined by IFRS 10.7(b) without any problems and can also influence these by exercising its control as defined by IFRS 10.7(c), DEMIRE would therefore exercise control over the JV as defined by IFRS 10.

However, DEMIRE estimates the rights to be substantial as at 31 December 2021. The decision to exercise the land purchase option constitutes a relevant activity. This is also jointly managed. Accordingly, this constitutes a joint arrangement within the meaning of IFRS 11.3 f. and therefore the structured entity JV Theodor-Heuss-Allee GmbH is included in the consolidated financial statements as a joint venture. For more information, see Section B (IFRS 12 Disclosures).

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

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

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

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

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

Income taxes	Note D. 9
Goodwill impairment test	Note E. 1.1.1
Investment property	Note E. 1.3
Impairment of receivables	Note C/D.4
Deferred tax assets and liabilities	Note E. 5.1
Accounting using the equity method/call option	Note 1.4
Leases	Note 7.2

B. Scope and principles of consolidation

The consolidated financial statements include DEMIRE AG and all its controlled subsidiaries. The scope of consolidation is shown in the schedule of shareholdings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHANGES TO THE SCOPE OF CONSOLIDATION IN THE PREVIOUS YEAR

BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich, was deconsolidated during the previous period due to its liquidation. IC Fonds & Co. Büropark Teltow KG, Munich, was deconsolidated due to its insignificance for the Group. The company has since been liquidated. This did not have any significant effects on the net assets, financial position and results of operations.

An accrual of BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich ("FV03") and BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich ("FV09") to Fair Value REIT-AG also took place. The companies DEMIRE Köln Leverkusen-Opladen GmbH, Frankfurt am Main, DEMIRE Hamburg Kandinskyallee GmbH, Frankfurt am Main, and DEMIRE Wismar Wuppertal GmbH, Frankfurt am Main, were also merged with DEMIRE Meckenheim Merl GmbH, Frankfurt am Main. DEMIRE Rendsburg Jungfernstieg 15 GmbH, Frankfurt am Main, merged with DEMIRE Lichtenfels Bamberger Straße 20, Frankfurt am Main.

Disclosures according to IFRS 12

A) DISCLOSURES RELATING TO FULLY CONSOLIDATED SUBSIDIARIES

Fair Value REIT-AG, Frankfurt am Main and its subsidiaries were fully consolidated for the first time in DEMIRE AG's consolidated financial statements as at 31 December 2015, as the Fair Value REIT subgroup. In the period under review, dividend distributions of EUR 574 thousand were allocated to the non-controlling shareholders of Fair Value REIT-AG (previous year: EUR 735 thousand).

The carrying amount of the non-controlling interests of Fair Value REIT-AG minorities amounted to EUR 21,935 thousand as at 31 December 2021 (previous year: EUR 21,842 thousand). A share in the Group profit for the period in the amount of EUR 2,111 thousand was attributable to non-controlling shareholders for the 2021 financial year pursuant to the IFRS consolidated financial statements (previous year: EUR 641 thousand).

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

FAIR VALUE REIT-AG SUBGROUP FINANCIAL STATEMENTS

in EUR thousand	31/12/2020	31/12/2021
Non-current assets	297,254	300,125
Current assets	24,059	35,394
Of which cash and cash equivalents	20,014	30,005
Non-current borrowing	154,733	158,765
Of which non-controlling interests	78,881	82,882
Current borrowing	6,711	7,112
Of which financial liabilities	2,711	2,749
Net assets	**159,869**	**169,642**
Statement of income		
Revenue	24,196	22,719
Financial income	4	0
Financial expenses	–1,717	–1,147
Net profit/loss for the period/total comprehensive income	**4,098/4,098**	**13,489/13,489**
Cash flow information		
Cash flow from operating activities	**9,907**	**10,170**
Cash flow from investing activities	**25,828**	**5,765**
Cash flow from financing activities	**–33,365**	**–5,944**
Net change in cash and cash equivalents	**1,870**	**9,991**
Cash and cash equivalents at the end of the period	**20,014**	**30,005**

During the previous period for 2020, DEMIRE AG acquired 700,000 shares in Fair Value REIT-AG for a price of EUR 7.00 per share. This led to a 4.96% decrease in the proportion held by non-controlling interests. The EUR 2,270 thousand difference between the EUR 4,900 thousand purchase price for shares acquired and the net assets correspondingly attributed to the non-controlling interests amounting to EUR 7,170 thousand was offset against capital reserves. As a result, the proportion held by non-controlling interests since the 2020 financial year amounts to 15.65%. In the 2021 financial year, there was no change in the share of non-controlling interests.

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

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

B) DISCLOSURES ON ASSOCIATES AND JOINT VENTURES

Joint venture

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

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

ANNUAL FINANCIAL STATEMENTS OF JV THEODOR-HEUSS-ALLEE GMBH

in EUR thousand	31/12/2020	**31/12/2021**
Non-current assets	0	283,213
Current assets	0	3,214
Cash and cash equivalents	0	1,825
Current liabilities	0	2,520
Current financial liabilities included under current liabilities	0	2,124
Non-current liabilities	0	282,878
Non-current financial liabilities included under non-current liabilities	0	163,034
Revenue	0	6,056
Net profit/loss for the period	**0**	**2,004**
Other comprehensive income	**0**	**0**
Total comprehensive income	**0**	**2,004**
Interest income	0	7,830
Interest expenses	0	–2,699
Income tax expenditure or revenue	0	–414
Dividends received	0	0
Reconciliation of carrying amount of investment		
Equity of JV Theodor-Heuss-Allee GmbH	0	1,029
of which 49.5%	0	509
Carrying amount of investment in the DEMIRE Group	0	509

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

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

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

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

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

Options and assumptions for action in the event of moderate development in the market value of the property
This case occurs if there is no or only a moderate change in the value of the property in 2021 compared to 2026 - within the penalty. In this constellation, the land purchase option of the joint venture is exercised at an exercise price of EUR 122,813 thousand after a unanimous resolution by the shareholders of DEMIRE and RFR. If the property's value develops within the scope of the aforementioned penalties, it can be assumed that the purchase option will be exercised by both parties.

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

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

Assessment regarding consolidation
The assessment as to whether full consolidation or accounting using the equity method is to be carried out is subject to various discretionary powers and estimates on the part of the company. Although moderate development in the market value is currently the most probable scenario in the option price models, the other

scenarios are also still substantial in light of the remaining term of 4.5 years until the decision regarding the purchase option for the property. Due to the substantial value of the call option, which results from the relatively long term until the possible exercise date of approximately 4.5 years, the company accounts for the joint venture using the equity method as at the reporting date. There is relatively high volatility in the commercial property market, especially given the current market risks. For more information, see the sections on COVID-19 and the Ukraine/Russia conflict in the management report. Furthermore, follow-up financing cannot be assumed. DEMIRE will regularly review these assumptions in the future.

The key basic assumptions for the calculation of this purchase option and the sensitivity analysis versus the assumptions made
Fair value is measured using the established valuation model, taking into account observable market data (Monte Carlo method). The valuation factors for this purpose are the basic price and volatility, the risk-free interest rate and the remaining term. Cash flows arising from the rental of offices are a key valuation factor for the base price (shares in JV Theodor-Heuss-Allee GmbH). Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. As at the reporting date, the value of the call option is currently not favourable. In the event of both a 10% downturn or increase in cash flows, there would be no change to the advantageousness of the call option as at 31 December 2021.

Associates
In addition to the interests in joint ventures listed above, the Group holds interests in several individually immaterial associates accounted for using the equity method. These include DEMIRE Assekuranzmakler GmbH & Co. KG, based Düsseldorf, and G+Q Effizienz GmbH, based in Berlin.

The table below provides an aggregated breakdown of the carrying amount and share of profit and other comprehensive income of these associates.

in EUR thousand	31/12/2020	**31/12/2021**
Total carrying amounts of individually immaterial associates	596	516
Total Group share in:		
Profit or loss from continuing operations	245	123
Profit or loss after taxes from discontinued operations	0	0
Other comprehensive income	0	0
Total comprehensive income	**245**	**123**

C. Accounting policies

The consolidated financial statements were prepared based on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue business activities.

Assets and liabilities are presented according to their terms (due in more than/up to one year). Deferred taxes are generally reported as non-current.

Assets are generally measured at amortised acquisition or production costs, except for the fair value measurement of investment properties pursuant to IAS 40. According to IFRS 5.5(d), real estate held for sale is also carried at fair value. The fair value in this case is the agreed selling price.

Assets, equity and debt instruments, excluding share-based payments under IFRS 2, that are measured at fair value based on other standards are valued uniformly according to the provisions of IFRS 13.

If fair value is determined using a valuation method, the fair value should be assigned to one of the following three levels of the fair value hierarchy, depending on the available observable parameters and the respective importance of these parameters for the overall measurement.

Level 1: Input factors are quoted prices in active markets for identical assets or liabilities that are available as at the valuation date.

Level 2: Other input factors than the quoted prices in Level 1 and factors which are either directly observable or can be indirectly derived for the asset or liability.

Level 3: Input factors for the asset or liability are not observable.

The following table shows the measurement hierarchy, measurement methods and significant input factors for determining the fair values of the various measurement categories of financial assets and liabilities. A special feature results from the fact that the fair value of the 2019/2024 corporate bond was determined on the basis of the stock exchange price on 31 December 2021 and was thus determined using the Level 1 measurement method.

Type	Hierarchy	Measurement methods and significant input factors
Financial receivables and other financial assets	Level 3	Discounted cash flows based on risk-free interest rates observable on the market at the valuation date, Counterparty risk premiums not observable on the market
Non-current financial liabilities	Level 3	Discounted cash flows based on risk-free interest rates observable on the market at the valuation date, DEMIRE-specific risk premium

No transfers between the different levels of the measurement hierarchy took place during the period under review or comparative periods.

Financial assets and financial liabilities are classified and recognised in accordance with the categories of IFRS 9. Accordingly, financial assets are classified in the categories at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. As at the reporting date, the Company only holds financial instruments in the category at amortised cost and at fair value through profit or loss. Financial instruments are classified as at amortised cost if they are held as part of a business model and the objective is to hold them to collect the contractual cash flows, and if the contractual terms and conditions of the financial asset result in cash flows at specified dates, which represent exclusively principal and interest payments on the outstanding principal. Financial instruments classified as measured at fair value relate to derivative financial instruments. These are measured at fair value both when accounted for initially as well as during subsequent periods. The measurement of fair value is based on established valuation models that take into account observable market data, such as the Black Scholes model or the Monte Carlo simulation. The valuation factors for this purpose are the basic price and its volatility, the risk-free interest rate and the remaining term.

Financial assets and financial liabilities are recognised in the consolidated balance sheet for the first time when a Group company becomes a party to a financial instrument. The initial recognition of a financial instrument is at fair value including any transaction costs. The maximum default risk is reflected by the amortised carrying amounts of the receivables and other financial assets recognised in the balance sheet. Credit risk and default risk are the risk that counterparties – essentially the tenants of the properties held by DEMIRE – will not be able to meet their contractual payment obligations, which could result in a loss for the Company. In order to mitigate and manage default risks as much as possible, DEMIRE reviews the creditworthiness of tenants for new lettings. Default risks exist for all classes of financial instruments, but especially for trade accounts receivable and purchase price receivables. There is no significant default risk for other financial instruments.

DEMIRE mainly has receivables from letting and purchase price receivables from properties located in Germany, as well as loans to third parties and companies accounted for using the equity method. The credit risk is classified at the level of each counterparty, as some of them have different default rates and require different methods for determining the need for impairment.

Impairment of trade accounts receivable, contractual assets and lease payments receivable according to the simplified model
In accordance with the requirements of IFRS 9.5, the simplified model of expected credit losses is used over the lifetime for impairments of trade accounts receivable, contractual assets and lease payments receivable. In order to determine the expected credit loss or impairment, appropriate and reliable information on past events, current circumstances and forecasts on future economic developments are determined with a reasonable effort. DEMIRE uses a two-level process here.

In the simplified model, the credit losses expected over the term are taken into account for all relevant items. Trade accounts receivable and contract assets were combined on the basis of credit risk features to measure expected credit losses. The expected default rates are based on the payment profiles of the last five years before the reporting date. In addition, late payments or non-payments of outstanding receivables are usually considered a significant increase in the credit risk and are subject to an individual review. Usually there has already been correspondence with the tenant, the outstanding claim is subject to a legal dispute, or insolvency proceedings have been opened. Based on the available information, the credit risk of the receivable is assessed individually and an individual value adjustment is recognised.

Impairments of loans to third parties and companies accounted for using the equity method and other financial assets according to the three-stage model
With regard to impairments of loans to third parties and companies accounted for using the equity method and other financial assets, the three-stage model of expected credit losses is applied in accordance with the requirements laid down by IFRS 9.5. The basic principle behind this model is to map progress of the deterioration or improvement in the credit quality of financial instruments, whereby losses that are already expected are taken into account. Accordingly, impairment losses were recognised for loans (see Sections E 1.5 and 1.6). In contrast, no impairments were recognised for bank balances or other financial assets as a result of their minor significance. The approach used in IFRS 9 includes the following measurement levels:

Stage 1: Twelve-month credit defaults, applicable to all items (since initial recognition) provided the credit quality has not deteriorated significantly. The future expected credit loss is determined by taking into account any prospective information regarding the probability of default and the loss ratio. Given there is no rating information at a counterparty level, the probabilities of default and loss ratios are derived from the statistical data from unsecured bonds with an adequate default risk so as to measure expected credit losses. The corresponding (historical) recovery rates are also taken into account. From the Group's perspective, a financial asset poses a low default risk if its credit risk rating is "Investment Grade", based on the global definition. The Group considers this to be the case for a BB rating or higher from Moody's Corporation, New York, USA.

Stage 2: Credit defaults over the lifetime to be applied if the credit risk for individual financial instruments or a group of financial instruments has increased significantly. A transfer from Stage 1 to Stage 2 is made if the contractual payments are more than 30 days past due. If an item has been past due for more than 90 days, there is a rebuttable presumption that there is objective evidence of a credit default and the financial instrument must therefore be transferred to Stage 3.

Stage 3: Credit losses over the lifetime (when considered on an individual basis): Where there is objective evidence (e.g. past-due contractual payments, signs of insolvency, etc.) that an asset would be impaired when considered on an individual basis, consideration of the lifetime of the financial instrument is decisive here.

Environmental, Social and Governance
In addition to the relevant standards, environmental, social and governance (ESG) issues are playing an increasingly important role in considerations regarding accounting and valuation principles. DEMIRE is constantly monitoring developments in this area and examining the effects on IFRS reporting. In order to estimate future effects, DEMIRE is currently taking stock of its ESG activities. We are also in the process of defining steps to help us make progress in this area in the coming years. Furthermore, we are currently working hard to collect environmental inventory data.

Other accounting policies for the individual balance sheet items and items in the statement of income are presented in the Notes to the consolidated statement of income (section D) and the consolidated balance sheet (section E).

D. Notes to the consolidated statement of income

DEMIRE has entered into commercial property lease agreements for its investment properties. These agreements stipulate that DEMIRE shall retain all the significant risks and opportunities connected with the ownership of properties rented and therefore classifies these lease contracts as operating leases. The income from these contracts is recognised as rental income and is generally free from seasonality. However, the sale and/or acquisition of one or several properties can have a significant influence on the net rental income. Revenue from ancillary rental costs is allocable ancillary costs that are passed on to tenants.

Revenues include rental income, income from ancillary rental costs and revenue from the sale of real estate and real estate companies. Pure rental income is accounted for according to IFRS 16, with income from utility and service charges and the sale of real estate accounted for according to IFRS 15.

DEMIRE generates revenue both based on a point in time and over a period of time in the following areas:

2021

in EUR thousand	Income from utility and service charges	Revenue from sale of IAS 40 real estate
Point in time	0	104,106
Period	20,206	0
TOTAL	**20,206**	**104,106**

2020

in EUR thousand	Income from utility and service charges	Revenue from sale of IAS 40 real estate
Point in time	0	88,887
Period*	21,327	0
TOTAL	**21,327**	**88,887**

* The previous year's figures were adjusted based on reporting changes during the period under review. Rental income is no longer reported here as it constitutes revenue in accordance with IFRS 16.

When real estate companies and real estate are sold, income is realised when

— the risks and rewards (ownership, benefits and encumbrances) associated with ownership have been transferred to the buyer;
— DEMIRE does not retain any right of disposal or effective power of disposal over the object of sale;
— the amount of revenue and the costs incurred or to be incurred in connection with the sale can be measured reliably;
— it is sufficiently probable that an economic benefit will flow to DEMIRE from the sale.

1. Profit/loss from the rental of real estate

Rental income is generated in connection with leases classified as operating leases and is recognised as rental income over time. The average monthly rent per square metre at the reporting date was EUR 8.22 (previous year: EUR 7.91). This figure is calculated by dividing the monthly net rent, excluding service charges, by the floor space. Properties and project developments already registered as being for sale are not included in this calculation. The property taxes and insurance settled as part of service charges do not constitute a separate performance obligation and are allocated to the rents accordingly. They are accounted for as other lease components in accordance with IFRS 16. In the case of other costs (gas, electricity, water, etc.), the Company has come to the conclusion that it is acting in the role as principal and continues to bear significant risks. Accordingly, revenues and related costs continue to be presented on a gross basis. Revenue and other operating costs are accounted for according to IFRS 15. Under this standard, prepayments made by tenants for allocable operating costs are recognised as income from utility and service charge allocations in the year in which they are incurred and in the amount that is included in the allocable operating costs.

The profit/loss from the rental of real estate in the amount of EUR 67,181 thousand (previous year: EUR 70,228 thousand) consists of the following:

in EUR thousand	2020	2021
Net rent	87,509	82,325
Income from utility and service charges	21,327	20,206
Rental revenue from real estate	**108,836**	**102,531**
Allocable operating expenses to generate rental income	– 28,944	– 28,235
Non-allocable operating expenses to generate rental income	– 9,664	– 7,115
Operating expenses to generate rental income	**– 38,608**	**– 35,350**
PROFIT/LOSS FROM THE RENTAL OF REAL ESTATE	**70,228**	**67,181**

The reduction in profit from the rental of real estate to EUR 67,181 thousand (previous year: EUR 70,228 thousand) and lower income from utility and service charges of EUR 20,206 thousand (previous year: EUR 21,327 thousand) primarily result from the disposal of properties in Cologne, Ansbach, Regensburg, Garbsen, Barmstedt, Bad Bramstedt and Potsdam that were sold during the period under review. In addition, the properties held for sale in Bremen at the end of 2020 were recognised as disposals in the 2021 financial year due to the transfer of benefits and obligations.

Of the operating expenses, an amount of EUR –28,235 thousand (previous year: EUR –28,944 thousand) is generally allocable and can be charged on to tenants. The main reason for the decrease in allocable operating expenses include in particular the disposals of real estate in the 2021 financial year.

Operating expenses amounting to EUR –7,115 thousand (previous year: EUR –9,664 thousand) are non-allocable. Lower expenditure on maintenance and the aforementioned property sales contributed in particular to this decrease.

Assets and liabilities from contracts with customers were as follows:

ASSETS AND LIABILITIES FROM CONTRACTS WITH CUSTOMERS

in EUR thousand	31/12/2020	31/12/2021
Current contract assets from operating costs	4,466	2,582
TOTAL CONTRACT ASSETS	**4,466**	**2,582**
Current contract liabilities from operating costs	484	1,361
TOTAL CONTRACT LIABILITIES	**484**	**1,361**

Contract assets include service charge payments by the DEMIRE Group to tenant, while contract liabilities include payments already made by the tenant for outstanding service charges.

Impairment losses of EUR 237 thousand (previous year: EUR 1,378 thousand) were recognised for operating costs in the period under review. The high impairment losses on operating costs in the previous year result from the overall higher impairment losses in 2020 due to tenants experiencing economic difficulties as a result of the COVID-19 pandemic and thus becoming insolvent or at risk of insolvency. In particular, this includes two tenants of hotels as well as retail property tenants.

2. Profit/loss from the sale of real estate and real estate companies

In the financial year, the Group generated profit/loss of EUR 1,441 thousand (previous year: EUR –1,046 thousand) from the sale of real estate. The profit from the sale of real estate was mainly due to the figure of EUR 1,179 thousand generated in connection with the sale of the property in Potsdam. During the previous year, the negative profit/loss from disposals resulted primarily from the sale of real estate in Eisenhüttenstadt (EUR –748 thousand).

Please refer to sections E.1.3 and E 3 for more information about the properties which were sold.

3. Profit/loss from fair value adjustments of investment properties

The profit/loss from the fair value adjustment of investment properties amounted to EUR 48,777 thousand as at 31 December 2021 (previous year: EUR –22,134 thousand).

The positive valuation result in the year under review was primarily attributable to the successful letting of numerous properties, as well as the completion of contracts at the Leipzig logistics park.

The conclusion of the 15-year lease with the well-known tenant Amazon raises the standard of the entire property. As a result, the property is generating more user and investor interest, which has already led two institutional investors to express interest. The indicative offers are above the currently determined market value as at 31 December 2021. Furthermore, the tenancy agreement will serve to reduce vacancies, increase the rent level and lead to a higher WALT. In general, successful letting leads to an increase in actual rents, a reduction in vacancies and stabilisation of the cash flows of the valuation properties.

The outbreak of the pandemic in 2020 has impacted, and indeed will continue to impact many aspects of day-to-day life and economic activity – certain property markets experienced reduced transaction activity and liquidity in 2020, before seeing a partial rebound in 2021. Restrictions on travel, movement and businesses were effected in the first half of 2021, resulting in lost sales for retailers, restaurants and hotels. Any rent losses and reductions in rent obligations were taken into account in the measurement. There were also those who profited during the pandemic, however. The logistics market in particular has continued to perform well, as reflected by increased prime yields and market rents in the logistics regions. Furthermore, the office markets have proven to be fundamentally stable.

The pandemic and the measures implemented to contain COVID-19 continue to have an impact on economies and property markets around the world. As at the measurement date, property markets were largely fully functional again. Transaction volumes and other relevant market data are at a level that is able to provide a sufficient level of market evidence to serve as the basis for appraisals.

The fair value of real estate is based on the valuation report of the external independent expert Savills Advisory Services Germany GmbH & Co. KG, a company with its registered office based in Frankfurt am Main. Please refer to Section E.1.3 for details on the valuation method applied.

4. Impairment of trade accounts receivable and loans

Impairment of trade accounts receivable and loans amounted to EUR 3,475 thousand in the period under review (previous year: EUR 6,150 thousand).

EUR 316 thousand (previous year: EUR 1,475 thousand) is attributable to two hotel tenants who are either insolvent, or at risk of insolvency, as a result of the pandemic. Of this, EUR 32 thousand is attributable to retail property tenants who are also subject to protective shield proceedings or insolvency proceedings as a result of the coronavirus pandemic (previous year: EUR 1,958 thousand).

This also includes the reversal of deferral interest for a purchase price receivable amounting to EUR 1,127 thousand (previous year: EUR 0 thousand).

EUR 295 thousand (previous year: EUR 222 thousand) was recorded as expected credit losses for trade accounts receivable by applying the expected credit loss model.

In addition, impairments of loans in accordance with IFRS 9.5 were taken into account in the reporting year for the expected credit loss according to the three-stage model in the amount of EUR 632 thousand (previous year: EUR 0 thousand), and are assigned to risk level 1. Please refer to Section C 'Accounting policies' for more information on accounting principles and the expected credit loss model.

The previous year includes the reversal of capitalised rent-free periods for a department store in Trier amounting to EUR 1,565 thousand.

5. Other operating income

in EUR thousand	2020	2021
Insurance compensation	350	391
Derecognition of liabilities	93	234
Compensation and indemnity payments	0	180
Other non-period income	146	103
Benefits in kind	43	38
Income from agency agreements with companies accounted for using the equity method	0	37
Income from passing on of expenses	0	11
Impairment of receivables in the legacy portfolio	496	0
Reservation fees	100	0
Income from default interest	83	0
Other	179	193
TOTAL	**1,490**	**1,188**

Insurance compensation amounting to EUR 391 thousand primarily involves reimbursements as a result of storm, water, hail and snow damage. Insurance compensation in the previous year includes reimbursements in the amount of EUR 70 thousand due to storm damage.

Legacy liabilities in the amount of EUR 234 thousand were written off in the year under review, primarily owing to the fact they were time-barred (previous year: EUR 93 thousand).

Indemnity payments include, among others, a major effect in the amount of EUR 150 thousand, resulting from the settlement of a legal dispute with a former lessee.

Other non-periodic income in the amount of EUR 103 thousand resulted primarily from the write-off of a construction cost subsidy issued in 2017, as well as a rent incentive. During the previous year, this item included the derecognition of an accrual to the amount of EUR 60 thousand, and a value-added tax correction from 2018 amounting to EUR 45 thousand.

The previous period also included reservation fees arising from a pre-emptive right in the amount of EUR 100 thousand as well as impairment of receivables in the legacy portfolio in the amount of EUR 496 thousand, relating to a receivable owed by MAGNAT AM GmbH, Vienna, Austria.

6. General and administrative expenses

in EUR thousand	2020	2021
Staff costs	– 5,861	– 5,247
Accounting and audit costs	– 1,678	– 1,745
Legal and consulting fees	– 2,093	– 1,711
Fund administration costs	– 642	– 418
IT costs	– 369	– 283
Fees and incidental costs from monetary transactions	– 305	– 254
Supervisory Board remuneration	– 213	– 248
Advertising and travel expenses	– 233	– 229
Custodial compensation	– 184	– 225
Annual General Meeting and shareholder advisory expenses	– 83	– 107
Expenses for real estate expert opinions	– 157	– 106
Investor relations expenses	– 187	– 90
Amortisation of rights-of-use	– 78	– 87
Insurance	– 78	– 85
Cost of premises	– 46	– 53
Recruitment costs	– 55	– 39
Non-deductible input taxes	– 445	– 22
Other	– 661	– 295
TOTAL	**– 13,368**	**– 11,244**

Staff costs for the staff employed at the level of the ultimate parent company and Fair Value REIT-AG are included in general and administrative expenses only.

The year-on-year reduction primarily resulted from the remaining compensation to which a former member of the Executive Board was entitled, which was recorded in 2020. For more information, see Section G. 2.

Legal and consulting fees mainly relate to tax consulting fees, consulting fees for financing and transactions, as well as other legal and consulting fees. The fall in legal and consulting fees resulted primarily from the reversal of a provision for consulting and transaction fees for the investment in the Cielo office property. Given the purchase was still pending during the 2020 financial year, this meant the establishment of a provision was necessary here. The provision in question was reversed with an effect on earnings during the 2021 financial year.

IT costs include software costs and ongoing IT consulting service fees. The fall compared to the previous period resulted from one-off implementation costs incurred in 2020 for software required for asset and portfolio management purposes (previous year: EUR 100 thousand).

7. Other operating expenses

in EUR thousand	2020	2021
Other non-period expenses	– 629	– 701
Addition to provision for legal disputes	0	– 452
Fines	0	– 298
Further education, trade literature	– 32	– 84
Depreciation/amortisation	– 214	– 52
Membership fees	– 49	– 47
Facility management expenses	– 41	– 34
Write-off of receivables	0	– 31
Deconsolidation effects	0	– 17
Expenses for the early termination of an asset management agreement	– 119	0
Other	– 284	– 284
TOTAL	**– 1,368**	**– 2,002**

Other non-period expenses related primarily to expenses incurred in connection with a debtor warrant (EUR 315 thousand), which resulted from the sale of a property in Eisenhüttenstadt, as well as the derecognition of a rent incentive (EUR 159 thousand) and software (EUR 97 thousand). During the previous period, other non-period expenses amounting to EUR 493 thousand were attributed to a derecognition of valuation effects from a liability that expired the previous year.

Provisions for legal disputes in the amount of EUR 452 thousand were established in the year under review (previous year: EUR 0 thousand). Costs in conjunction with fines in the amount of EUR 298 thousand were also incurred (previous year: EUR 0 thousand).

Depreciation in the amount of EUR 52 thousand related to operating and office equipment. Depreciation on operating equipment was also recognised here during the previous year (EUR 241 thousand); this depreciation was written off during the year under review, as reflected by the fall in depreciation.

8. Financial result

in EUR thousand	2020	2021
Financial income*	1,046	3,167
Financial expenses	– 19,086	– 18,331
Profit/loss from companies accounted for using the equity method*	240	1,084
Minority interests	– 3,371	– 6,972
FINANCIAL RESULT	**– 21,172**	**– 21,052**

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

Financial income amounting to EUR 3,167 thousand (previous year: EUR 1,046 thousand) mainly results from interest income from the granting of loans to the joint venture JV Theodor-Heuss-Allee GmbH, which was founded in the period under review, of EUR 25.1 million, as well as to the third party RFR Immobilien 5 GmbH of EUR 60 million. This is an affiliate of the joint venture partner RFR Immobilien 4 GmbH. Financial income also included deferral interest for purchase price receivables in the amount of EUR 431 thousand (previous year: EUR 647 thousand) and income from loans to a minority shareholder in the amount of EUR 138 thousand (previous year: EUR 183 thousand). Also included is interest income from a loan to a foreign affiliate, which has not been consolidated to date as a result of its minor significance, in the amount of EUR 141 thousand (previous year: EUR 141 thousand) and interest income from collateral in the amount of EUR 213 thousand (previous year: EUR 0 thousand).

The fall in financial expenses by EUR 755 thousand to EUR 18,331 thousand (previous year: EUR 19,086 thousand) can be attributed to various effects. The previous year primarily included one-off costs as part of new financing in the amount of EUR 1,149 thousand; none of these costs were incurred during the year under review. The increase in interest expenses arising from new loans being taken out also had a slightly dampening effect.

Profits from companies accounted for using the equity method in the amount of EUR 1,084 thousand (previous year: EUR 240 thousand) shall be reported separately from this financial year onwards owing to reasons of materiality. They relate to the participation income obtained during the financial year in DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf, G + Q Effizienz GmbH, Berlin, and JV Theodor-Heuss-Allee GmbH, Frankfurt am Main.

Financial expenses include a nominal interest expense of EUR 15,188 thousand (previous year: EUR 15,060 thousand). The effective interest method resulted in expenses of EUR 2,394 thousand (previous year: EUR 2,244 thousand).

The share of profit/loss of minority shareholders amounting to EUR –6,972 thousand (previous year: EUR –3,371 thousand) concerns minority shareholders' profits in the Fair Value REIT-AG subsidiaries recorded as liabilities under IAS 32. The increase versus the comparable period resulted primarily from positive valuation results from the real estate of these subsidiaries as well as reduced impairment on trade accounts receivable.

9. Income taxes

The reported income tax expense (-) and income (+) can be broken down as follows:

in EUR thousand	2020	2021
Actual income taxes	– 712	– 6,663
Deferred tax expense (tax income)	3,397	– 12,564
TOTAL INCOME TAXES	**2,685**	**– 19,227**

Actual income taxes of EUR –6,663 thousand (previous year: EUR –712 thousand) include corporate taxes and trade taxes and arose entirely in Germany. The increase was mainly due to gains on disposals in the reporting period.

Deferred tax expenses of EUR –12,564 thousand (previous year: EUR 3,397 thousand) comprise deferred tax expenses of EUR –15,128 thousand (previous year: EUR –819 thousand) and deferred tax benefits of EUR 2,564 thousand (previous year: EUR 4,215 thousand). Deferred tax expenses result primarily from temporary differences in connection with the valuation of investment properties pursuant to IAS 40 and IFRS 13. The increase in deferred tax expenses is mainly due to the increased value of the properties and the change in deferred taxes that cannot be taken into account due to the initial recognition of assets outside profit or loss in the past (initial difference).

As at the reporting date, there were total unused corporate income tax loss carryforwards of EUR 61,234 thousand (previous year: EUR 63,076 thousand) for the companies included in the consolidated financial statements. In the DEMIRE Group, deferred taxes on loss carryforwards were capitalised only at the level of the same taxable entities to the extent that deferred tax liabilities existed.

TAX RECONCILIATION

The tax reconciliation between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 29.13% (previous year: 28.78%). The Group tax rate includes the 15% corporate tax rate, 5.5% solidarity surcharge and 13.30% trade tax (municipal rate for Langen: 380%; basic federal rate 3.5%). The calculation of the deferred taxes of domestic real estate companies is based on a tax rate of 15.83%. These companies generate income exclusively from managing their own real estate. Only the corporate tax rate and the solidarity surcharge apply to these companies because of the option to deduct the profit from the management of own real estate from the profit under trade tax law.

in EUR thousand	2020	2021
Earnings before taxes	**6,482**	**80,814**
Group tax rate (in %)	**28.78**	**29.13**
Expected income taxes	**1,866**	**23,537**
Trade tax effects	–309	–7,483
Tax effects from non-deductible operating expenses and similar items*	27	123
Initial difference	0	8,821
Tax effects from the adjustment of loss carryforwards	0	–2,304
Tax effects of tax-free income	–1,843	–1,926
Deferred tax in the previous year*	–2,540	–799
Current tax in the previous year*	57	–999
Other*	57	257
Current tax expense (+)/tax income (-)*	**–2,685**	**19,227**

* The previous year's figures were adjusted based on reporting changes during the period under review. New explanatory categories have been included to present additional details and to reduce the "Other" item.

According to IAS 12, deferred tax liabilities are also to be recognised on the difference between the proportionate share in equity of a subsidiary in the consolidated statement of income and the carrying amount of the subsidiary in the parent company's balance sheet under tax law ("outside basis differences"), if realisation is to be expected. These differences mainly resulted from retained earnings from foreign and domestic subsidiaries.

The tax effect from non-deductible operating expenses and similar items in the previous reporting period is mainly the result of the formation of the provision under Section 6b of the Income Tax Act. Tax-exempt income resulted primarily from profit distributions. The reconciliation item "Initial difference" is based on an adjustment of deferred taxes that cannot be taken into account due to the initial recognition of assets outside profit or loss in the past.

DEMIRE did not recognise deferred tax liabilities for the accumulated results of subsidiaries amounting to EUR 14,943 thousand (previous year: EUR 10,854 thousand), since these profits are intended to be reinvested indefinitely.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects must be reported at the time profits originate, even if a distribution of profits to the parent company and the corresponding taxation of the parent company will occur only in future periods. The Company may determine for itself the timing of distributions from subsidiaries or reinvestments, with the exception of JV Theodor-Heuss-Allee GmbH, Frankfurt am Main. Except for the mandatory distributions from Fair Value REIT-AG, dividend distributions from subsidiaries are neither planned nor foreseeable. Therefore, deferred taxes on outside basis differences are not recognised, with the exception of Fair Value REIT, JV Theodor-Heuss-Allee GmbH, Frankfurt am Main, and G+Q Effizienz GmbH, Berlin. The recognition of deferred tax liabilities for outside basis differences at the level of Fair Value REIT amounted to EUR 21,136 thousand as at 31 December 2021 (previous year: EUR 20,392 thousand), and in relation to JV Theodor-Heuss-Allee GmbH, Frankfurt am Main in the amount of EUR 7 thousand (previous year: EUR 0 thousand) and G+Q Effizienz GmbH, Berlin, in the amount of EUR 4 thousand (previous year: EUR 0 thousand).

For other disclosures relating to deferred tax assets and liabilities, please refer to Section E.5.1.

10. Earnings per share

EARNINGS PER SHARE

Basic earnings per share are computed by dividing the net profit/loss for the period attributable to DEMIRE AG shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share are computed by adjusting net profit/loss for the period and the number of shares outstanding based on the assumption that convertible instruments are converted, and options in connection with share-based payments are exercised.

in EUR thousand	2020	2021
Net profit/loss for the period	**9,167**	**61,587**
Profit/loss for the period less non-controlling interests	8,503	58,499
Number of shares (in thousands)		
Number of shares outstanding as at the reporting date	105,772	105,513
Weighted average number of shares outstanding	106,775	105,513
Impact of conversion of convertible bonds and the subscription under the 2015 Stock Option Programme	510	510
Weighted average number of shares (diluted)	107,285	106,023
Earnings per share (in EUR)		
Basic earnings per share	0.08	0.55
Diluted earnings per share	0.08	0.55

In January 2021, a total of 259,729 shares were bought back as part of a public share buy-back offer. 1,999,999 treasury shares were bought back in the previous year. 5,000 shares in MAGNAT AM GmbH, Vienna (Austria), were also acquired. More information is available in Section E.4. Equity.

Participants in the 2015 Stock Option Programme are entitled to subscribe to 510,000 shares (previous year: 510,000 shares).

Earnings per share were higher compared to the previous year, mainly due to the fair value adjustment of investment properties.

11. Staff costs

in EUR thousand	2020	2021
Salaries	–5,417	–4,746
Statutory social expenses	–444	–501
TOTAL	**–5,861**	**–5,247**

Staff costs of EUR 5,247 thousand (previous year: EUR 5,861 thousand) are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EUR 4,960 thousand; previous year: EUR 5,567 thousand) and Fair Value REIT-AG (EUR 287 thousand; previous year: EUR 291 thousand). Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance.

The year-on-year reduction primarily resulted from the remaining compensation to which a former member of the Executive Board was entitled. For more information, see Section G. 2.

No income from the reversal of personnel provisions accrued during the financial year or the previous year.

Expenses of EUR 401 thousand (previous year: EUR 67 thousand) from the 2019 Virtual Stock Option Programme are also included under staff costs. More information about the stock option programmes can be found in Section G.3.B.

E. Notes to the consolidated balance sheet

1. Non-current assets

The development of the individual items can be found in the schedule of non-current assets (Appendix 3).

1.1 INTANGIBLE ASSETS

Upon initial recognition, individually acquired intangible assets are measured at their acquisition cost. Subsequently, intangible assets with a limited period of use are amortised on a straight-line basis usually over a period of three to five years based on their estimated useful economic life and are tested for possible impairment when there are any relevant indications thereof. Impairment of intangible assets is recognised in profit or loss.

Intangible assets with an indefinite useful life are not amortised. These assets are tested for impairment at least once a year either on the basis of the individual asset or at the level of the cash-generating unit. An impairment test is also carried out when events have occurred that impair the asset.

Intangible assets are tested for impairment if circumstances or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised through profit or loss. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount that could be achieved by selling an asset or a cash-generating unit in a transaction at market conditions between knowledgeable parties willing to contract less costs to sell.

Impairment losses are reversed once the reason for the previously recognised impairment ceases. This excludes goodwill for which there is a general prohibition of reversal of impairment under IFRS.

1.1.1 Goodwill

Upon first-time recognition, goodwill is measured at acquisition cost, which is calculated as the excess of the sum of the consideration transferred, the amount of non-controlling interests and any previously held interests over the acquired identifiable assets and assumed liabilities. After first-time recognition, goodwill is measured at acquisition cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in the context of a business combination is allocated as at the purchase date to the Group's cash-generating units that are expected to benefit from the merger.

Goodwill is regularly tested for impairment at least once a year. The determination of the recoverable amount requires assumptions and estimates regarding the future development of earnings and the sustainable growth rate of the cash-generating unit or group of cash-generating units to which goodwill has been allocated.

Goodwill of EUR 6,783 thousand arising from the first-time consolidation of Fair Value REIT-AG as at 31 December 2015 was allocated to the cash-generating unit (CGU) Fair Value REIT.

The Group carried out the annual impairment test as at 31 December 2021. The recoverable amount of Fair Value REIT was calculated on the basis of the calculation of value in use using cash flow forecasts based on financial plans approved by the management for a period of five years. The management's plans are based on past experience and the best possible estimates of future developments. The discount rate (WACC) used for cash flow forecasts was 3.13% (previous year: 3.37%). The projections for cash flows after three years are based on the average amount from the last three detailed planning periods 2024 to 2026. The interest rate used to determine the growth rate is 0.4% (previous year: 0.4%). The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, management identified positive headroom between the value in use and the carrying amount of the CGU to be tested. Accordingly, DEMIRE has not identified any impairment as at 31 December 2021.

The key basic assumptions for the calculation of the value in use and the sensitivity analysis versus the assumptions made:

Rental cash flows – The CGU Fair Value REIT focuses on the acquisition and management of commercial real estate in Germany. Fair Value REIT invests directly in real estate as well as indirectly through the participation in real estate partnerships. Accordingly, cash flows for direct ownership and the subsidiaries were planned. Rental income and rental costs were derived from contracted leases or based on assumptions for the probability of contract prolongations and vacancies for specific rental areas. The planned maintenance expenditures are largely based on concrete planned measures, or on a flat rate based on past experience. The operating costs of the properties have been indexed and extrapolated based on the previous year's figures.

Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. Moreover, a reduction in the real estate portfolio could lead to a decline in cash flows. As at 31 December 2021, a 10% reduction in cash flow would result in impairment exceeding the carrying amount of goodwill. This would result in full depreciation. Impairment would arise in the event of a 6.2% reduction in cash flow. In the previous year, a 10% reduction in cash flow would not have resulted in impairment.

Discount rate – A weighted, average costs of capital rate is used to discount free cash flow that reflects the returns expected by the capital market for the transfer of debt and equity to property companies that manage their own portfolio, determined using a group of comparable companies as a basis. The sector-specific risk was determined by applying individual beta factors. The beta factors were determined on the basis of publicly available market data. As at 31 December 2021, an increase in the discount rate by 50 base points would result in impairment exceeding the carrying amount of goodwill. This would result in full depreciation.

Impairment would arise in the event of an increase in the discount rate by 22 base points. In the previous year, an increase in the discount rate by 50 base points would not have resulted in impairment. As at 31 December 2021, a decline in the growth rate by 50 base points would result in impairment exceeding the carrying amount of goodwill. Impairment would arise in the event of an increase in the growth rate by 25 base points. In the previous year, an increase in the growth rate by 50 base points would not have resulted in impairment.

1.1.2 Other intangible assets

Other intangible assets in the amount of EUR 97 thousand were established in the year under review (previous year: EUR 1 thousand). These related primarily to computer software, which came about as part of the PPA with FVR AG and are no longer up-to-date. This depreciation is reported in the consolidated statement of income under other operating expenses. Depreciation from the previous year in the amount of EUR 1 thousand was also reported under this item.

1.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include office and operating equipment. These are carried at historical acquisition cost less depreciation. Historical acquisition cost includes expenses that can be directly allocated to the acquisition of operating and office equipment. Straight-line depreciation is based on a useful life of 3 to 15 years. The depreciation figures in the amount of EUR 139 thousand (previous year: EUR 119 thousand) are reported in the income statement as depreciation of rights-of-use, as well as under other operating expenses.

1.3 INVESTMENT PROPERTIES

The Group's investment properties include those properties that are held for rental income generation and value appreciation and not for their proprietary use or sale in the ordinary course of business, as well as rights-of-use for ground leases and general permanent rights-of-use. Investment properties are carried at acquisition cost plus incidental acquisition costs at the time of acquisition. In accordance with the option provided for in IAS 40, investment properties are subsequently measured at fair value, whereby changes in the fair value are generally recognised in profit or loss. Prepayment for real estate purchases are recognised as advance payments within item "Properties held as investment properties".

Valuation of properties

When measuring investment properties, the key valuation parameters and estimates are expected cash flows, assumed vacancy rates, their changes over the planning period and discounting and capitalisation rates. The valuation is carried out by an external, independent reviewer in accordance with International Financial Reporting Standards (IFRS), International Standards of Valuation of Real Estate for Investment Purposes ("International Valuation Standards") and the RICS Valuation Global Standards 2020 ("Red Book" dated July 2020) of the Royal Institution of Chartered Surveyors.

The fair value of DEMIRE's investment properties is determined using the discounted cash flow method.

The discounted cash flow method provides the basis for the dynamic investment calculation and is used to calculate the present value of future expected, time-staggered and varying levels of cash flows. After identifying all value-relevant factors, the expected and partially projectable future cash flows are totalled for each period. The result of the cash inflows and outflows is discounted up to a fixed point in time (valuation date) using the discount rate. In contrast to the German discounted earnings model of the German Property Valuation Regulation (Immobilienwertermittlungsverordnung – ImmoWertV), however, the cash flows during the period under consideration are explicitly quantified and not shown as annuity payments. Since the importance of future cash flows decreases as a result of discounting and the forecast uncertainty increases over the observation period, the stabilised net income of a property is usually capitalised (capitalisation rate) following a 10-year period (detailed observation period) and discounted to the valuation date when assessing investment decisions in real estate.

These valuation parameters reflect the customary market expectations as well as the extrapolation of analysed past values of the property to be valued or of one or more comparable properties.

The valuation parameters are assessed in the context of determining the market value at the discretion of the appraiser and can be divided into two groups:

The property-specific valuation parameters include, for example, rental revenue for initial and subsequent rentals, extension probabilities for the existing rental agreements, vacancy periods and vacancy costs, non-allocable ancillary costs, expected capital expenditures by the owner, and expansion and rental costs for initial and subsequent rentals.

Macroeconomic factors include, in particular, the development of market and rental prices during the detailed observation period and the inflation expectations assumed in the calculation model. In order to meet fair value disclosure requirements, DEMIRE has defined groups of assets and liabilities based on their nature, characteristics and risks and on the levels of the fair value hierarchy described above.

The Group's management team is closely involved in and oversees the process of evaluating investment properties, which takes place at least once per financial year. In doing so, the results made available by independent experts are checked for plausibility and compared with values in previous years. The evaluation results are also compared to the management's own assumptions made in the framework of early risk detection and any deviations are discussed with the expert. The portfolio's performance is also discussed in regular meetings with the Supervisory Board, which ensures that the development of the real estate portfolio's value is continuously monitored.

The determination of fair values depends on the underlying key, non-observable input factors (Level 3), which are specified in Appendix 1.

The resulting changes in value (gains and losses) are due, in particular, to the adjustment of the capitalisation and discounting rates.

A sensitivity analysis of the key unobservable input parameters showed the following effect on the fair value of investment properties: a substantial increase in maintenance costs or vacancy rates would lead to a lower fair value for the properties if the assumptions for the remaining input parameters remained unchanged. The sensitivity analysis can be found in Appendix 2.

Fair value development during the reporting period:

in EUR thousand	2021	Office	Retail	Logistics	Other
Fair value at the beginning of the financial year	**1,426,291**	**902,810**	**376,511**	**76,000**	**70,970**
Additions of properties	28,508	8,292	12,916	5,057	2,243
Disposals	– 70,480	– 64,739	– 150	0	– 5,591
Unrealised gains from fair value measurement	83,230	15,804	4,524	60,543	2,358
Unrealised losses from fair value measurement	– 34,453	– 18,210	– 16,243	0	0
Fair value at the end of the financial year	**1,433,096**	**843,956**	**377,559**	**141,600**	**69,980**

in EUR thousand	2020	Office	Retail	Logistics	Other
Fair value at the beginning of the financial year	**1,493,912**	**968,451**	**420,609**	**71,200**	**33,652**
Additions of properties	56,447	12,687	753	257	42,750
Disposals	– 71,120	– 43,135	– 27,985	0	0
Reclassifications to non-current assets held for sale	– 31,000	– 31,000	0	0	0
Reclassifications from non-current assets held for sale to investment properties	0	0	0	0	0
Unrealised gains from fair value measurement	17,477	11,429	905	4,543	600
Unrealised losses from fair value measurement	– 39,425	– 15,621	– 17,771	0	– 6,033
Fair value at the end of the financial year	**1,426,291**	**902,811**	**376,511**	**76,000**	**70,970**

The additions to investment properties totalling EUR 28,508 thousand primarily comprise capitalisation of current investments of EUR 18,873 thousand, from capitalised land acquisition tax of EUR 745 thousand and an extended leasehold of EUR 7,410 thousand.

The additions in the previous year comprised primarily of the remaining purchase price of the hotel in Frankfurt am Main acquired in the 2019 financial year of EUR 42,683 thousand, as well as capitalisation of current investments of EUR 13,366 thousand.

Disposals of EUR 70,480 thousand were made during the period under review. This relates predominantly to properties in Regensburg, Ansbach, Potsdam, Cologne, Barmstedt, Bad Bramstedt and Garbsen. The transfer of benefits and obligations took place for the commercial properties in Bremen in the 2021 financial year. This property was classified as an asset held for sale with a value of EUR 31,000 thousand as at 31 December 2020.

Disposals of EUR 71,120 thousand were made during the comparable period. These primarily related to properties in Eisenhüttenstadt, Worms, Koblenz, Bremen and Unterschleißheim.

Information about unrealised gains/losses from measurement at fair value is provided in Section D.3.

The fair value of the capitalised leaseholds and rights-of-use, which are reported under investment properties, developed as follows:

in EUR thousand	Retail	2021
Fair value at the beginning of the financial year	**15,791**	**15,791**
Additions arising from extension of the contractual term (term, interest)	7,410	7,410
Unrealised gains from fair value measurement	0	0
Unrealised losses from fair value measurement	–2,781	–2,781
Fair value at the end of the financial year	**20,419**	**20,419**

In addition, DEMIRE also has rights-of-use over an underground car park located in a property in Ulm, which is reported under "Investment properties". The fair value of these permanent rights-of-use as at 31 December 2021 is EUR 0 thousand (previous year: EUR 0 thousand).

Please refer to Section 7.2 for further information in conjunction with the accounting of leaseholds and rights-of-use.

1.4 SHARES IN COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Shares in companies accounted for using the equity method amounted to EUR 1,025 thousand (previous year: EUR 596 thousand). This includes the investment in the joint venture JV Theodor-Heuss-Allee GmbH, which was founded in the period under review, in the amount of EUR 510 thousand (previous year: EUR 0 thousand), the investment in G+Q Effizienz GmbH, Berlin, in the amount of EUR 262 thousand (previous year: EUR 345 thousand), with the assumption of profit of EUR 153 thousand, and DEMIRE Assekuranz GmbH & Co. KG, Düsseldorf, in the amount of EUR 253 thousand (previous year: EUR 250 thousand), with the assumption of annual profit of EUR 95 thousand (previous year: EUR 86 thousand).

1.5 LOANS TO COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

The increase in loans to companies accounted for using the equity method of EUR 26,505 thousand is due primarily to an unsecured loan (EUR 25,150 thousand) granted by DEMIRE AG to the joint venture formed during the period under review for the acquisition of the leasehold of the Cielo office property on Theodor-Heuss-Allee in Frankfurt am Main. This item also includes a further unsecured loan from DEMIRE Holding XIII GmbH to JV Theodor-Heuss-Allee GmbH in the amount of EUR 1,542 thousand (previous year: EUR 0 thousand), which was not analysed using the expected credit loss model as a result of its minor significance.

Impairments in accordance with IFRS 9.5 were taken into account in the reporting year for the expected credit loss according to the three-stage model in the amount of EUR 187 thousand (previous year: EUR 0 thousand), and are assigned to risk level 1. This is reported in the statement of income under impairment on trade accounts receivable. Please refer to Section C 'Accounting policies' for more information on accounting principles and the expected credit loss model.

The following table shows the development of impairments on loans to companies accounted for using the equity method:

in EUR thousand	2020	2021
As at 1 January	**0**	**0**
Additions	0	187
Use	0	0
Reversal	0	0
As at 31 DECEMBER	**0**	**187**

1.6. LOANS AND FINANCIAL ASSETS

Loans and financial assets amounted to EUR 64,264 thousand (previous year: EUR 7,563 thousand).

Financial assets are classified and accounted for at the settlement date according to the categories of IFRS 9. Further explanations are provided in Section C.

The carrying amount of loans totals EUR 58,911 thousand and includes a new loan to a third party in the amount of the nominal value of EUR 60 million that was issued to RFR Immobilien 5 GmbH. This is an affiliate of the joint venture partner RFR 4 Immobilien GmbH. The deviation between the carrying amount and the nominal value results on the one hand from the expected credit loss recognised according to the three-stage model in the amount of EUR 445 thousand and on the other hand from the offsetting of interest income in the amount of EUR 643 thousand, which is distributed on a straight-line basis according to IFRS 9.

Non-current financial assets in the amount of EUR 5,353 thousand include non-current loan receivables from Taurecon Real Estate Consulting GmbH, Berlin, in the amount of EUR 1,830 thousand (previous year: EUR 1,925 thousand), from Taurecon Beteiligungs GmbH in the amount of EUR 2,140 thousand (previous year: EUR 2,140 thousand) and from LKS Beteiligungsgesellschaft mbH in the amount of EUR 1,383 thousand (previous year: EUR 1,383 thousand).

In the previous year, financial assets also included collateral in the amount of EUR 1.5 million, which was repaid in the 2020 financial year, as well as a receivable from the purchase price adjustment for the property sold in Eisenhüttenstadt in the amount of EUR 615 thousand. This receivable is now classified as current. Due to their low significance, no impairment losses were recognised for the other financial assets.

The following table shows the development of impairments on loans to third parties.

in EUR thousand	2020	2021
As at 1 January	**0**	**0**
Additions	0	446
Use	0	0
Reversal	0	0
As at 31 DECEMBER	**0**	**446**

1.7 OTHER ASSETS

Other assets total EUR 11,917 thousand (previous year: EUR 9,492 thousand) and include, among others, the capitalised rent incentives in the amount of EUR 2,319 thousand (previous year: EUR 1,935 thousand) as well as the deferral of rent-free periods arising from the store portfolio leases in the amount of EUR 5,327 thousand (previous year: EUR 5,295 thousand). Other assets also include FF&E grants in the amount of EUR 4,271 thousand (previous year: EUR 0 thousand).

As movable property, furniture, fixtures and equipment (FF&E) does not have a permanent connection to the property. However, there is also hotel inventory that belongs to hotel FF&E which is permanently connected to the property and is indispensable for the operation of the hotel, such as the exhaust air purification system in the kitchen.

2. Current assets

2.1 TRADE ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

The following table shows the composition of trade accounts receivable and other assets as at 31 December 2021:

in EUR thousand	31/12/2020 Gross	Impairment	31/12/2020 Net	**31/12/2021 Gross**	**Impairment**	**31/12/2021 Net**
Trade accounts receivable	6,353	3,996	2,357	11,484	5,352	6,132
Receivables from operating costs	6,367	1,378	4,989	2,776	237	2,539
Subtotal of trade accounts receivable	**12,720**	**5,374**	**7,346**	**14,260**	**5,589**	**8,671**
Rent incentives*	1,564	0	1,564	1,373	0	1,373
Receivables from processing value-added taxes	593	0	593	1,495	0	1,495
Other assets*	1,084	0	1,084	323	0	323
Subtotal of other assets	**3,241**	**0**	**3,241**	**3,191**	**0**	**3,191**
TOTAL*	**15,961**	**5,374**	**10,587**	**17,451**	**5,589**	**11,862**

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

Trade accounts receivable primarily include receivables from tenants and mostly consist of rent receivables from the previous financial year, the passing on of incidental costs less advance payments made, and the passing on of maintenance costs.

Gross receivables amounted to EUR 14,260 thousand (previous year: EUR 12,720 thousand) as at the reporting date. Impairments pursuant to IFRS 9 amounted to EUR 5,589 thousand (previous year: EUR 5,374 thousand) as at the reporting date. Impairment losses are recognised in the line item "Impairment of receivables".

Other assets amounted to EUR 3,191 thousand (previous year: EUR 3,241 thousand).

Receivables in the comparative period from the sales of the investment in SQUADRA Immobilien GmbH & Co. KG (EUR 9,196 thousand) and other purchase price receivables (EUR 402 thousand) are reported under other financial assets in Section 2.2.

RECONCILIATION OF IMPAIRMENTS

in EUR thousand	
Impairments pursuant to IFRS 9 as at 31 December 2020	**5,374**
Increase in impairments through profit or loss in the financial year	4,978
Utilisation of impairments in the financial year	2,405
Decrease in impairments through profit or loss in the financial year	2,358
Impairments pursuant to IFRS 9 as at 31 December 2021	**5,589**

During the previous year, the main increase in impairments was attributable to EUR 1,958 thousand for retail property tenants who are subject to protective shield proceedings or to insolvency proceedings as a result of the coronavirus pandemic. During the year under review, impairment on receivables from these tenants increased by EUR 32 thousand to EUR 1,990 thousand. The gross receivables from these retail property tenants amount to EUR 2,038 thousand as at the balance sheet date. EUR 1,872 thousand of this is also attributable to two tenants of hotels that are either insolvent or threatened with insolvency as a result of the pandemic. The gross receivables from these hotel operators amount to EUR 2,568 thousand as at the reporting date. The other impairments of EUR 1,432 thousand are distributed across the entire portfolio and relate to a gross receivable amount of EUR 9,654 thousand. In addition to the individual value adjustments recognised, impairments as at 31 December 2021 included EUR 295 thousand (previous year: EUR 222 thousand) in expected credit losses based on the expected credit loss model and relate to a gross receivable amount of EUR 2,038 thousand.

RECONCILIATION OF IMPAIRMENTS FROM THE PREVIOUS YEAR

in EUR thousand	
Impairments pursuant to IFRS 9 as at 31 December 2019	**3,663**
Increase in impairments through profit or loss in the financial year	5,201
Utilisation of impairments in the financial year	2,874
Decrease in impairment through profit or loss in the financial year	616
Impairments pursuant to IFRS 9 as at 31 December 2020	**5,374**

All trade accounts receivable are current in nature and usually due within a period of less than three months.

The calculation of impairments on trade accounts receivable is presented within the scope of the accounting and valuation principles in Section C.

2.2 CURRENT FINANCIAL ASSETS

Financial assets in the amount of EUR 3,925 thousand (previous year: EUR 23,590 thousand) consist of the following:

in EUR thousand	31/12/2020 Gross	Impairment	31/12/2020 Net	31/12/2021 Gross	Impairment	31/12/2021 Net
Savings bond	2,000	0	2,000	2,000	0	2,000
Debtor warrant for Eisenhüttenstadt	0	0	0	615	0	615
Other purchase price receivables*	402	0	402	352	0	352
Claims arising from a legal dispute	0	0	0	274	0	274
Interest receivable on loans	136	0	136	260	0	260
Frozen funds*	200	0	200	200	0	200
Trust accounts	101	0	101	101	0	101
Receivables from the sales of the investment in SQUADRA Immobilien GmbH & Co. KG*	9,196	0	9,196	0	0	0
Receivable from bank arising from over-collection of funds*	11,500	0	11,500	0	0	0
Other financial assets*	54	0	54	123	0	123
TOTAL*	**23,590**	**0**	**23,590**	**3,925**	**0**	**3,925**

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

The savings bond relates to an investment certificate issued by Sparkasse Oberlausitz-Niederschlesien, due on 27 November 2022, and with a fixed interest rate of 0.010% p. a.

Interest receivables relate to the loans to JV Theodor-Heuss-Allee GmbH in the amount of EUR 170 thousand (previous year: EUR 0 thousand) in conjunction with the Cielo transaction, as well as interest receivables for loans to Taurecon Real Estate Consulting GmbH, based in Berlin, and Taurecon Beteiligungs GmbH, based in Berlin, in the amount of EUR 90 thousand (previous year: EUR 136 thousand).

Receivables from the debtor warrant in the amount of EUR 615 thousand (previous year: EUR 615 thousand) resulted from the sale of the property in Eisenhüttenstadt. This receivable was classified as non-current in the previous year.

Other purchase price receivables in the amount of EUR 349 thousand relate primarily to purchase price receivables in conjunction with the sale of the property in Limbach (previous year: EUR 349 thousand).

The receivable from a bank the previous year totalling EUR 11,500 thousand related to a receivable arising from over-collection of funds.

2.3 TAX ASSETS

During the period under review, the tax assets in the amount of EUR 6,369 thousand (previous year: EUR 7,490 thousand) primarily related to refund claims from retained capital gains tax in the amount of EUR 5,382 thousand including the solidarity surcharge for distributions (previous year: EUR 7,377 thousand).

2.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and bank balances carried at their nominal value.

Cash and cash equivalents in the amount of EUR 139,619 thousand (previous year: EUR 101,620 thousand) includes cash on hand and bank balances carried at their nominal value. Of this, cash and cash equivalents in the amount of EUR 3,179 thousand (previous year: EUR 6,735 thousand) remained earmarked for maintenance costs as at 31 December 2021 and are subject to restrictions on disposal. Pledged bank balances in the amount of EUR 200 thousand (previous year: EUR 200 thousand) were recognised under other receivables.

3. Non-current assets held for sale

For assets held for sale, it must be determined whether they can be sold in their present state and whether their disposal is highly probable. If this is the case, assets held for sale are recognised and measured in accordance with the relevant regulations of IFRS 5. Non-current assets held for sale are generally carried at the lower of the carrying amount and the fair value less costs to sell. In accordance with the exceptions of IFRS 5.5(d), real estate that is measured using the fair value model continues to be carried at fair value. The fair value of non-current assets held for sale is equal to their selling price less disposal costs.

There was no real estate held for sale as at the reporting date (previous year: EUR 31,000 thousand). The previous year related to real estate in Bremen, which belonged to the Core Portfolio segment. The transfer of benefits and obligations took place for these properties in the 2021 financial year.

4. Equity

SUBSCRIBED CAPITAL

On 31 December 2021, the Company had fully paid in subscribed capital in the amount of EUR 107,777,324 divided into 107,777,324 no-par value bearer shares with a notional interest of EUR 1.00. The shares of DEMIRE AG have been admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange. Subscribed capital remained unchanged at EUR 107,777 thousand in the reporting period. There were also no changes in the same period last year.

Treasury shares with a nominal value in the amount of EUR 260 thousand were acquired in 2021 (259,729 no-par-value shares). Treasury shares in the amount of EUR 2,005 thousand were acquired in 2020 (2,004,999 no-par-value shares). Overall, DEMIRE holds a total of 2,264,728 treasury shares with a nominal value of EUR 2,265 thousand as at the reporting date. Accordingly, the subscribed capital figure less treasury shares amounts to EUR 105,513 thousand (31 December 2020: EUR 105,772 thousand).

CAPITAL RESERVES

Capital reserves in the amount of EUR 88,366 thousand (previous year: EUR 88,404 thousand) fell by EUR 38 thousand during the period under review as a result of offsetting legal and consulting fees in conjunction with the 2020 II share buy-back programme.

During the previous period, capital reserves (EUR 88,404 thousand) decreased by EUR 6,978 thousand as a result of the share buy-back and also as a result of the release of capital reserves in the amount of EUR 36,740 thousand. The EUR 2,270 thousand difference between the purchase price for shares acquired in Fair Value REIT-AG and the net assets attributed to the non-controlling interests was offset against capital reserves.

RETAINED EARNINGS

Retained earnings as at 31 December 2021 amounted to EUR 355,144 thousand (previous year: EUR 363,780 thousand). The changes are predominantly down to the positive net profit/loss attained during the year under review in the amount of EUR 58,499 thousand (previous year: EUR 8,503 thousand), as well as the dividend payments, which had a dampening effect, in the amount of EUR –65,418 thousand (previous year: EUR –57,117 thousand). A dividend of EUR 0.62 per share with dividend entitlement, or EUR 65,417.8 thousand, was distributed from the accumulated profit during the period under review, following on from a dividend of EUR 0.54 per share with dividend entitlement, or a total of EUR 57,117.1 thousand, in 2020. The remaining accumulated profit in the amount of EUR 950 thousand was carried forward as at 31 December 2020 (previous year: EUR 459 thousand).

A reinvestment reserve pursuant to Section 13 REITG of EUR 3,589 thousand (previous year: EUR 0 thousand) was recognised in the reporting year. The reserve corresponds to 50% of the difference between the selling price and the carrying amount at the time of the sale of the Cologne and Potsdam properties in the past financial year. The transfer will be made from retained earnings before appropriation of profits, meaning that no approval by the Annual General Meeting is required. The reserve is reported under other retained earnings. Insofar as the reserve is not deducted from the acquisition and production costs of immovable assets acquired or produced in the first or second financial year following the year of discontinuation, the reserve shall be released by the end of the second financial year following the year of discontinuation and shall increase the distributable amount in the year of the reversal.

AUTHORISED CAPITAL

The Authorised Capital 2019/I remained unchanged in the period under review.

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

The shareholders are generally entitled to subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts, for cash capital increases of up to 10% of the share capital at an issue price that is not significantly lower than the market price, to meet the obligations of option or conversion rights, and to execute capital increases against contribution in kind. The Authorised Capital 2019/I had not been utilised by the reporting date.

CONDITIONAL CAPITAL 2020/I

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

AUTHORISATION TO PURCHASE TREASURY SHARES

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

The Company's Annual General Meeting on 28 April 2021 cancelled the existing resolution of 22 September 2020 to authorise the purchase of treasury shares and made a new resolution to authorise the purchase of treasury shares. According to this resolution and where legally permissible, the Company is authorised to acquire, by 27 April 2026, own shares up to 10% of the share capital existing on the date of the resolution or – if lower – up to 10% of the share capital existing at the time the authorisation is exercised. Together with other own shares acquired and owned by the Company or attributable to the Company, the own shares acquired on the basis of this authorisation may at no time exceed 10% of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. Acquisition for the purpose of trading in treasury shares is excluded. In the reporting period, the Company acquired a further 259,729 treasury shares with a nominal value of EUR 260 thousand in the course of a public share buy-back offer and now holds 2,264,728 treasury shares with a nominal value of EUR 2,265 thousand.

The number of treasury shares changed during the year under review as follows:

Reconciliation of number of shares (in thousands)	2020	2021
Total number of shares as at 1 January	107,777	105,772
Acquisition of treasury shares	– 2,005	– 260
Total number of shares less treasury shares as at 31 December	**105,772**	**105,513**

As at 31 December 2021, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; DEMIRE AG itself held 2,264,728 of these shares as at the reporting date. As part of a public share buy-back offer, the Company bought back treasury shares in January 2021 (a total of 259,729 treasury shares at a price of EUR 4.39 per share) and in 2020 (2,004,999 treasury shares). The total number of shares outstanding less treasury shares amounts to 105,512,596 (previous year: 105,772,325).

Non-controlling interests refer to the interests of shareholders outside of the group in the equity and the net profit of fully consolidated subsidiaries. The item non-controlling interests concerns the interests of third-party shareholders in the equity and net profit/loss of fully consolidated subsidiaries.

5. Non-current liabilities

5.1 DEFERRED TAX ASSETS AND LIABILITIES

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the tax balance sheet or for unused tax loss carryforwards (liability method). In assessing the realisability of deferred tax assets, DEMIRE considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realised. The realisability of deferred tax assets depends on whether, at the time of reversal of the temporary differences, taxable income is generated from which the temporary differences can be deducted. The basis for this assessment is the tax planning of DEMIRE. Deferred tax assets for tax loss carryforwards were recognised in the amount of EUR 6,930 thousand (previous year: EUR 5,689 thousand). The assessment of the recoverability of the loss carryforwards and the resulting recognition of deferred tax assets was based on a planning period of ten years (previous year: five years), which resulted in an effect of EUR 2,663 thousand in the reporting period. It is expected that deferred taxes will be realised after the first twelve months following the reporting date, not during the twelve months immediately following the reporting date.

Deferred taxes are measured using the local tax rates expected to apply when the asset is realised or the liability is settled. The tax rates applicable on the reporting date are used as a basis. The effects of changes in tax law are recognised in profit or loss in the year in which the changes take effect. Deferred taxes relating to items recognised directly in equity are not recognised in the income statement but directly in equity. Deferred tax assets are impaired if it becomes unlikely that the future tax benefits will be realised. Deferred tax assets and liabilities are offset against each other if the claims and obligations relate to the same tax authority.

DEMIRE recognised deferred taxes for temporary differences of Fair Value REIT-AG by applying the company-specific tax rate as at the reporting date. As Fair Value REIT-AG is generally exempt from taxes, no taxes are incurred at the level of Fair Value REIT-AG as long as its status as a tax-exempt REIT (Real Estate Investment Trust) is maintained. Nevertheless, deferred taxes were recognised for Fair Value REIT-AG according to the "tax-transparent entity" approach. This approach assumes a deemed disposal of all properties directly held by Fair Value REIT-AG and indirectly held through trusts.

Deferred tax assets and liabilities consist of temporary differences in the following balance sheet items:

in EUR thousand	31/12/2020	31/12/2021
Deferred tax assets on loss carryforwards	5,689	6,930
Deferred tax assets on lease liabilities	2,499	3,453
Deferred tax assets before offsetting*	**8,188**	**10,383**
Deferred tax liabilities on investment properties and right-of-use assets	78,079	93,127
Deferred tax liabilities on financial liabilities	2,231	1,948
Deferred tax liabilities before offsetting	**80,310**	**95,075**
Offsetting of deferred tax assets with liabilities*	– 8,188	– 10,383
Deferred tax liabilities	**72,122**	**84,692**
Deferred tax assets before offsetting	**0**	**0**

* The previous year's figures were adjusted based on reporting changes during the period under review and the category "Deferred tax assets on lease liabilities" was presented separately for better clarity.

Pursuant to IAS 12.74, deferred tax assets on loss carryforwards are only recognised to the extent to which deferred tax liabilities exist for the same taxable entity to the same tax authorities and for the same tax type. Regarding the deferred tax assets recognised on tax loss carryforwards before offsetting in the amount of EUR 6,930 thousand (previous year: EUR 5,689 thousand), the requirements of IAS 12.74 have been met.

The following table shows the change in deferred taxes in the period under review:

in EUR thousand	01/01/2021	Statement of income	31/12/2021
Investment properties and right-of-use assets	– 78,079	– 15,048	– 93,127
Lease liabilities	2,499	954	3,453
Tax loss carryforwards	5,689	1,241	6,930
Financial liabilities	– 2,231	283	– 1,948
TOTAL	**– 72,122**	**– 12,570**	**– 84,692**

The item "Financial liabilities" refers primarily to deferred taxes related to the 2019/2024 corporate bond.

Tax loss carryforwards and deductible temporary differences that were not considered when calculating deferred taxes and that generally do not expire, amounted to EUR 11,223 thousand (previous year: EUR 6,018 thousand). In the year under review, there are unrecognised deferred tax assets in the amount of EUR 1,776 thousand (previous year: EUR 952 thousand).

The change in deferred taxes in the previous year and its structure can be broken down as follows:

in EUR thousand	01/01/2020	Statement of income	31/12/2020
Investment properties and right-of-use assets	– 79,635	4,055	– 75,580
Tax loss carryforwards	6,516	– 827	5,689
Financial liabilities	– 2,398	167	– 2,231
TOTAL	**– 75,518**	**3,396**	**– 72,122**

5.2 MINORITY INTERESTS

Minority interests reported under the Group's liabilities concern the capital of limited partners, who are mainly natural persons, in real estate funds in the legal form of a GmbH & Co. KG, totalling EUR 82,882 thousand as at the reporting date (previous year: EUR 78,881 thousand). Please refer to Section B for information about the consolidation principle used for minority interests.

5.3 FINANCIAL LIABILITIES

Financial liabilities are measured at their fair value on the date of assumption less directly attributable transaction costs and discounts. The fair value at the time of incurring the financial liabilities corresponds to the present value of the future payment obligations based on a maturity- and risk-congruent market rate. Subsequent measurement is carried out at amortised cost using the effective interest method. The effective interest rate is determined at the time of the initial recognition of the financial liabilities. Changes to the conditions relating to the amount or timing of interest and repayments result in a recalculation of the carrying amount of the financial liabilities at their present value and based on the originally determined effective interest rate. Any differences to the previously recognised carrying amounts of the financial liabilities are recognised through profit or loss.

The following table shows the nominal value of financial liabilities as at 31 December 2021:

FINANCIAL LIABILITIES

in EUR thousand	Fixed interest	Variable interest	TOTAL
2019/2024 corporate bond	594,047	0	**594,047**
Other financial liabilities	296,467	0	**296,467**
TOTAL	**890,514**	**0**	**890,514**

Financial liabilities as at 31 December 2020 consisted of the following:

FINANCIAL LIABILITIES FOR THE PREVIOUS YEAR

in EUR thousand	Fixed interest	Variable interest	TOTAL
2019/2024 corporate bond	592,005	0	**592,005**
Other financial liabilities	237,708	0	**237,708**
TOTAL	**829,712**	**0**	**829,712**

The following table shows the nominal value of financial liabilities as at 31 December 2021:

FINANCIAL LIABILITIES

in EUR thousand	Fixed interest	Variable interest	TOTAL
2019/2024 corporate bond	600,000	0	**600,000**
Other financial liabilities	297,866	0	**297,866**
TOTAL	**897,866**	**0**	**897,866**

The following table shows the nominal value of financial liabilities as at 31 December 2020:

FINANCIAL LIABILITIES FOR THE PREVIOUS YEAR

in EUR thousand	Fixed interest	Variable interest	TOTAL
2019/2024 corporate bond	600,000	0	**600,000**
Other financial liabilities	238,770	0	**238,770**
TOTAL	**838,770**	**0**	**838,770**

The difference between the carrying amounts of financial liabilities and their nominal values is due to the subsequent measurement of financial liabilities at amortised cost using the effective interest method in accordance with IFRS 9.

All bank loans with variable interest rates were repaid during the previous year.

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal interest rate of 1.23 % (previous year: 1.31 %). The weighted average nominal interest rate on all financial liabilities amounted to 1.66 % p.a. as at 31 December 2021 (31 December 2020: 1.71 % p.a.).

The corporate bond represents a significant portion of financial liabilities. The bond has a nominal interest rate of 1.875 % and matures in 2024.

As at the reporting date, financial liabilities were collateralised by assets in the amount of EUR 296,468 thousand (previous year: EUR 235,199 thousand). As in the previous year, no assets of DEMIRE had been encumbered with a mortgage as a guarantee for third-party liabilities.

Generally, all loan agreements for the properties financed stipulate information requirements that DEMIRE's subsidiaries as debtors must fulfil with respect to the banks or investors as creditors. Depending on the type and scope of the loan, the information requirements range from providing key financial ratios (such as financial statements) to reporting on the compliance with covenants.

The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and asset management areas and other external service providers. Depending on the specific credit agreement, the appropriate reporting on the covenants as well as the basis for the underlying business ratios are to be submitted to the creditors quarterly, semi-annually or annually. If DEMIRE fails to comply with the stipulated values in the covenants, the creditors are entitled to demand additional collateral from DEMIRE. The loans are then in default. If the default persists for a longer period of time and cannot be permanently remedied, the creditors typically have a special right of termination.

One of the contractually agreed covenants had not been observed for an element of financing within the DEMIRE subgroup as at the reporting date, with an outstanding value of EUR 89.7 million. The financing has been and is being serviced as planned, and the Company is currently in constructive dialogue with the bank to resolve this issue. However there is no threat of the loan agreement being terminated and the financing bank is not entitled to do this as at 31 December 2021. The latter is, however, entitled to require the provision of further collateral so that the repayment of the loan can be avoided or can be avoided by the Company itself by providing the collateral. As a result, the corresponding financial liabilities are not reported as current in the consolidated balance sheet.

With regard to a loan issued within the FVR AG subgroup, with an outstanding value of EUR 1.8 million as of the reporting date, there was also a covenant breach as at the balance sheet date, which has so far been serviced without any restriction. It was agreed in the loan agreement, among other things, that the minimum annual net rent excluding utilities of EUR 588 thousand may not be fallen short of. However the agreed minimum annual net rent excluding utilities had not been reached as at 31 December 2021. The loan agreement makes provision in such cases for the fact that the mortgage lending value assessment is updated and that the bank has a special right of termination or the right to increase collateral in accordance with the General Terms and Conditions for Credit and Loans. In accordance with these GTCs, the bank may only terminate the contract without notice for good cause following the unsuccessful expiry of a remedial period or following an unsuccessful written warning and/or in the event of a material deterioration in the financial situation. If covenants are breached, the bank may also impose a ban on distributions; free elements from the property cash flow that are not required for debt servicing or property-related management costs shall remain banned. The bank is entitled to require the provision of further collateral so that the repayment of the loan can be avoided or can be avoided by the Company itself by providing the collateral. However, given no material deterioration has occurred (it is assumed that this will be cured in future) and no written warning has been issued by the bank, it is not possible for the loan to be called in at short notice. As a result, this loan is not reported in its entirety as being current in the consolidated balance sheet.

CORPORATE BOND (2019/2024)

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

If new financial liabilities are assumed in accordance with the terms and conditions of the 2019/2024 corporate bond, DEMIRE AG is obliged to comply with the requirements of the financial covenants. If these covenants are not complied with, this would lead to extraordinary terminations by the bond creditors and consequently repayment obligations on the part of the Company. It would also result in additional restrictions on the distribution of dividends. The financial covenants include, specifically, the net loan-to-value (net LTV), which may not exceed 60% during the term of the bond. A further key ratio is the net secured LTV, which may not exceed 40% during the term of the bond. Finally, the interest coverage ratio, which may be no less than 175% during the period from the placement of the corporate bond until 31 March 2021 and no less than 200% since 1 April 2021, must also be observed. The obligation to review and calculate the financial covenants only applies in the course of further borrowings. The monitoring, compliance and reporting of the financial covenants were carried out by DEMIRE's Corporate Finance, Treasury and Asset Management departments. No financial covenants of the 2019/2024 corporate bond were breached for 2021 as a whole or as at the reporting date of 31 December 2021. The planning for DEMIRE also indicates that compliance with these ratios will be maintained.

CHANGES TO LIABILITIES ARISING FROM FINANCING ACTIVITY

The table below displays the development of Group liabilities arising from financing activity, including any net and non-cash changes.

in EUR thousand	Financial liabilities	Lease liabilities
31/12/2020	**829,712**	**18,726**
Net changes		
Proceeds from borrowings	69,700	-
Repayments of financial liabilities	– 13,083	–
Repayment of lease liabilities	–	– 324
Non-cash changes		
Valuation effects from the calculation of effective interest rates	1,669	-
Residual amortisation of redeemed financial liabilities	–	–
Accrued interest	2,516	–
Other valuation effects	–	–
Admission of lease liabilities	–	47
Adjustment of lease liabilities owing to contractual adjustment	–	6,024
31/12/2021	**890,514**	**24,742**

in EUR thousand	Financial liabilities	Lease liabilities
31/12/2019	**806,969**	**19,209**
Net changes		
Proceeds from borrowings	89,925	-
Repayments of financial liabilities	– 71,841	–
Repayment of lease liabilities	–	– 483
Non-cash changes		
Valuation effects from the calculation of effective interest rates	1,515	–
Residual amortisation of redeemed financial liabilities	176	–
Accrued interest	2,508	–
Other valuation effects	459	–
Admission of lease liabilities	–	–
31/12/2020	**829,712**	**18,726**

Of the other financial liabilities of EUR 296,467 thousand (previous year: EUR 237,708 thousand), a total of EUR 14,008 thousand (previous year: EUR 10,327 thousand) were classified as current in the period under review, as the maturity of these financial liabilities is expected to occur in the following period. These relate exclusively to current redemption payments.

5.4 OTHER NON-CURRENT LIABILITIES

The other non-current liabilities of EUR 305 thousand (previous year: EUR 536 thousand) mainly relate to compensation payments to minority shareholders in accordance with Section 304 AktG as part of the profit and loss transfer agreements concluded in 2017 valued at EUR 305 thousand (previous year: EUR 536 thousand). Please refer to Section C for further details.

6. Current liabilities

6.1 PROVISIONS

Provisions have been recognised as liabilities in the period under review for obligations to third parties that are likely to result in a future outflow of resources. The value of the provisions is reviewed at each reporting date.

DEMIRE assumes that the provisions will be fully utilised in the following 2021 financial year since they are all to be classified as current.

Provisions developed as follows during the period under review:

in EUR thousand	31/12/2020	Utilisation	Reversal	Additions	31/12/2021
Staff costs	2,995	– 838	0	1,404	3,561
Other provisions	0	0	0	452	452
TOTAL	**2,995**	**– 838**	**0**	**1,856**	**4,012**

Provisions developed as follows during the previous year:

in EUR thousand	31/12/2019	Utilisation	Reversal	Additions	31/12/2020
Staff costs	1,854	– 1,257	0	2,398	2,995
Other provisions	350	0	– 350	0	0
TOTAL	**2,204**	**– 1,257**	**– 350**	**2,398**	**2,995**

Staff provisions mainly contain obligations for the performance-related compensation variable for the employees as well as the outstanding remuneration for a former member of the Executive Board (see Section G.2).

Other provisions in the amount of EUR 452 thousand include provisions for potential legal disputes (previous year: EUR 0 thousand). The provisions recognised represent the best possible estimate with regard to the outcome of the legal disputes. It is expected that a settlement regarding the legal dispute will be reached in the current reporting period.

6.2 TRADE PAYABLES AND OTHER LIABILITIES

Liabilities are recognised at amortised cost after their initial recognition.

As at the reporting date, trade payables and other liabilities were as follows:

in EUR thousand	31/12/2020	31/12/2021
Trade payables	9,791	9,471
Accounting and audit costs	890	1,100
Subtotal of other trade payables	**10,681**	**10,571**
Purchase price liabilities	4,250	2,200
Building obligations resulting from purchase agreements	540	850
Compensation payments	790	823
Minority shareholders departing the Company*	190	747
Liabilities arising from retained collateral*	186	337
Liabilities arising from distributions*	207	230
Liabilities arising from liquidation costs*	88	88
Expenditure for personnel	48	49
Other*	378	150
Subtotal of financial liabilities	**6,300**	**5,473**
Liabilities arising from land acquisition tax	0	745
Liabilities arising from capital gains tax and solidarity surcharge*	45	683
Liabilities from value-added taxes	2,834	212
Total other non-financial liabilities*	**3,257**	**1,641**
TOTAL*	**20,239**	**17,685**

* The overview was adjusted to differentiate between financial and non-financial liabilities (this also applies to the previous year's figures).

Trade payables relate primarily to current liabilities incurred as part of property management activities and/or in conjunction with the maintenance and repair of properties. As was the case in the previous year, all liabilities are due for payment within one year. As was the case on 31 December 2021, all trade payables amounting to EUR 10,571 thousand (previous year: EUR 10,681 thousand) are current in nature.

The purchase price liability of EUR 2,200 thousand (previous year: EUR 4,250 thousand) was accounted for by a purchase price retention of EUR 2,200 thousand (previous year: EUR 4,250 thousand) for the fashion centre in Neuss acquired in the previous year. The remaining purchase price liabilities from the previous year were settled in the reporting year.

The building obligations resulting from purchase agreements in the amount of EUR 850 thousand (previous year: EUR 540 thousand) relate solely to expansion costs arising from the sales contract for the property in Eisenhüttenstadt.

Liabilities arising from land acquisition tax result exclusively from the sale of a property in Trier, which was reclassified internally within the Group for the purpose of a transaction.

Liabilities to minority shareholders of subsidiaries who have departed the Company in the amount of EUR 747 thousand relate to severance package obligations owing to terminations of the relationship with the Company (previous year: EUR 190 thousand).

Compensation payments concern guaranteed dividends to non-controlling shareholders under profit and loss transfer agreements within the framework of a tax group created for income tax purposes.

6.3 TAX LIABILITIES

Current income tax liabilities of EUR 8,670 thousand (previous year: EUR 4,060 thousand) are divided into trade taxes of EUR 493 thousand (previous year: EUR 908 thousand) and corporate taxes of EUR 8,177 thousand (previous year: EUR 3,152 thousand). The increase in corporate taxes was mainly due to gains on disposals in the reporting period.

7. Leases

7.1 OPERATING LEASES – DEMIRE AS LESSOR

The leases concluded by DEMIRE as lessor constitute operating leases within the meaning of IFRS 16.

Minimum lease payments consist of the net rents payable over the lease term. Rent agreements are usually concluded over fixed minimum terms of up to ten years. In some cases, tenants are entitled to extension options. In these cases, contractual rent escalation clauses effectively reduce the market risk of a long-term commitment. In the case of unlimited tenancies extended on a recurring basis with a remaining term of <1 year as well as generally unlimited tenancies, an appropriate remaining term of the rental period of three years from the reporting date was recognised.

For more information on risks from the rental of real estate, see the section 'Risk management' (Section G) and 'Opportunities and risks' in the management report.

in EUR thousand	31/12/2020	31/12/2021
Due within 1 year	81,951	76,903
Due within 2 years	72,269	64,403
Due within 3 years	56,011	55,585
Due within 4 years	48,951	33,762
Due within 5 years	30,092	27,573
Due after more than 5 years	138,335	145,933
TOTAL FUTURE RENTAL INCOME	**427,609**	**404,160**

7.2 DEMIRE AS LESSEE

DEMIRE AG recognises leasehold rights of use arising from leasehold contracts from the department store portfolio acquired in 2019 as a lessee. DEMIRE AG also rents office space, parking spaces and vehicles. Lease agreements are concluded for fixed periods of 1 to 20 years but may have options to extend. Leases contain a variety of different conditions.

Leases are accounted for at the time the lease asset is made available. According to IFRS 16, the lessee reports a lease liability in the amount of the present value of the future lease payments, plus directly attributable costs, in the balance sheet for all leases. At the same time, the lessee also capitalises a corresponding right-of-use of the underlying asset. The lease instalment is divided into an interest component and a repayment component during the lease term.

— Rights-of-use of assets that are not regarded as investment property are depreciated on a straight-line basis over their expected useful lives. This relates to leases of vehicles. The rights-of-use for vehicles are reported under property, plant and equipment.

— Rights-of-use of investment property, which are measured at fair value in accordance with IAS 40, are measured in line with the standard accounting policies laid down by IAS 40 and also reported under this item. This applies to leaseholds and permanent rights-of-use of an underground car park. The measurement is therefore based on the report of the external independent expert, Savills Advisory Services Germany GmbH & Co. KG, a company with its registered office based in Frankfurt am Main. Depreciation of the right-of-use on a straight-line basis over its useful life is therefore not effected. Please refer to Section E.1.3 for details on the valuation method applied.

Payments for short-term leases and low-value leases are recognised as an expense in the statement of income. Short-term leases are all agreements with a term of less than twelve months. Such expenses were only incurred to an immaterial extent during the period under review and in the previous year.

The following amounts related to leases are shown in the balance sheet:

RIGHTS-OF-USE

in EUR thousand	31/12/2020	31/12/2021
Leasehold contracts*	15,791	20,419
Rights-of-use for rented underground car park*	1,592	1,592
Vehicles	18	41
TOTAL	**17,401**	**22,052**

* The previous year's figures were adjusted based on reporting changes during the period under review. In the reporting period, the right-of-use asset for the rented underground car park in Ulm is presented separately.

Please refer to Section 1.3 'Investment properties' for information on profit derived from the valuation of rights-of-use.

LEASE LIABILITIES

in EUR thousand	31/12/2020	31/12/2021
Non-current	18,355	24,285
Current	371	187
TOTAL	**18,726**	**24,472**

Lease liabilities comprise the obligations from the leasehold contracts of the department store portfolio acquired in the previous year in the amount of EUR 23,213 thousand (previous year: EUR 17,200 thousand). The increase results from the adjustment of conditions regarding the leasehold in Trier. Here, the maturity date has been extended from 30 November 2044 to 31 December 2068. The annual ground rent was reduced from EUR 645 thousand to EUR 573 thousand from 1 July 2021 to 31 December 2022, but was increased again to EUR 700 thousand from the 2023 financial year.

The item also includes the obligations from the permanent rights-of-use for an underground car park in Ulm in the amount of EUR 1,234 thousand (previous year: EUR 1,515 thousand) and the DEMIRE vehicle fleet in the amount of EUR 25 thousand (previous year: EUR 11 thousand).

The leasehold contracts are set to expire no later than March 2083. When determining the respective present values of the lease liabilities upon initial recognition, the financing structure of the respective companies in terms of IFRS 16 was considered in determining the marginal borrowing rate. The following lease-related amounts are shown in the consolidated statement of income:

AMORTISATION EXPENSES FOR RIGHTS-OF-USE

in EUR thousand	2020	2021
Vehicles	34	34
TOTAL	**34**	**34**

OTHER LEASE INTEREST EXPENSES

in EUR thousand	2020	2021
Interest expense (included in financial expense)	634	709

Of the lease interest expenses of EUR 709 thousand (previous year: EUR 634 thousand), EUR 664 thousand (previous year: EUR 584 thousand) is attributable to interest expenses from leasehold contracts.

The cash outflows for leases in 2021 came to a total of EUR 1,056 thousand (previous year: EUR 1,096 thousand), of which EUR 891 thousand (previous year: EUR 933 thousand) is attributable to leasehold payments.

8. Contingencies

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

The contingent liabilities as at the end of the reporting period consist of mortgages under Section 1191 BGB in the amount of EUR 346,890 thousand (previous year: EUR 275,047 thousand). The maximum liability for these properties is limited to the carrying amount as at the reporting date of EUR 346,890 thousand (previous year: EUR 275,047 thousand).

9. Other financial obligations and contingent liabilities

The following other financial obligations existed as at the reporting date:

The real estate purchase agreements concluded in the 2021 financial year that were not still in effect as at the reporting date resulted in no financial obligations as at 31 December 2021. There were no financial obligations arising from purchase agreements as at the reporting date in the previous year either.

Obligations for modification and expansion measures, as well as maintenance and modernisation work on the properties, totalled EUR 33,229 thousand (previous year: EUR 20,479 thousand). These obligations are fixed in terms of their scope.

The purchase order commitment from commissioned maintenance amounted to EUR 11,952 thousand (previous year: EUR 5,518 thousand).

As at 31 December 2021, unused credit lines in the amount of EUR 5,000 thousand (previous year: EUR 5,000 thousand) were available for the financing of capex and reletting measures, or general corporate financing.

The amounts were determined on the basis of contractual agreements with tenants, agreed contract amounts and cost estimates from contractors such as architects, manual workers and general contractors. There is uncertainty surrounding the timing of cash outflows as construction activities can be delayed due to disruptions in supply chains or the availability of staff and materials. There is also uncertainty about the required amounts as price fluctuations may occur to a certain extent for services that have not yet been contractually agreed. It is currently assumed that 80% of the funds required for contractual obligations will be incurred within one year and 20% within a period of one to five years.

F. Group segment reporting

The segmentation of the data in the consolidated financial statements is based on the internal alignment according to strategic business segments pursuant to IFRS 8. The segment information provided represents the information to be reported to DEMIRE AG's Executive Board.

The Group is divided into the two reportable business segments "Core Portfolio" and "Fair Value REIT". The focus is on the sustainable management of the respective properties. These properties are held for the purpose of generating rental income and value appreciation.

The "Core Portfolio" segment contains the commercial properties which are held by the subsidiaries of DEMIRE AG, with the exception of the real estate of Fair Value REIT. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

Fair Value REIT is listed in the General Standard and, due to its status as a REIT company, is subject to the requirements of the REIT Act. When making management decisions, these requirements must be considered. As a result, a distinction is made between the "Core Portfolio" segment and the "Fair Value REIT" segment. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

2021

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate Functions/ Others	Group
External revenue	168,116	38,521	0	206,637
Total revenue	**168,116**	**38,521**	**0**	**206,637**
Profit/loss from fair value adjustments of investment properties	42,325	6,452	0	48,777
Other income	470	586	132	1,188
Segment revenue	**210,911**	**45,559**	**132**	**256,601**
Expenses relating to the sale of real estate	– 88,806	– 13,859	0	– 102,665
Other expenses	– 32,398	– 9,903	-9,768	– 52,071
Segment expenses	**–121,205**	**–23,762**	**-9,768**	**–154,736**
EBIT	**89,706**	**21,797**	**-9,636**	**101,866**
Financial income	217	0	2,950	3,167
Financial expenses	– 17,028	– 1,148	– 154	– 18,331
Profit/loss from companies accounted for using the equity method	1,084	0	0	1,084
Interests of minority shareholders	0	– 6,972	0	– 6,972
Income taxes	– 5,476	– 747	– 13,004	– 19,227
Net profit/loss for the period	**68,502**	**12,930**	**-19,845**	**61,587**
Significant non-cash items	**– 37,221**	**– 7,825**	**13,111**	**– 31,934**
Impairment losses in net profit/ loss for the period	**1,336**	**85**	**2,055**	**3,475**

31 DECEMBER 2021

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate Functions/ Others	Group
SEGMENT ASSETS	**1,262,560**	**342,850**	**100,184**	**1,705,594**
Of which tax assets	3,718	47	2,602	6,369
Of which additions to investment properties	22,679	5,829	0	28,508
Of which non-current assets held for sale	0	0	0	0
SEGMENT LIABILITIES	**914,657**	**187,043**	**11,531**	**1,113,232**
Of which non-current financial liabilities	798,534	75,883	0	874,417
Of which lease liabilities	24,448	0	25	24,472
Of which current financial liabilities	13,350	2,747	0	16,097
Of which tax liabilities	1,892	0	6,777	8,670

The column "Corporate Functions/Others" mainly contains the activities of DEMIRE AG for its subsidiaries in its function as the Group holding in areas such as risk management, finance and controlling, financing, legal, IT and compliance. The activities as the Group holding do not constitute a separate segment but rather reconcile items that cannot be allocated to the other segments. The increase in income taxes in the "Corporate Functions/Others" segment is mainly due to gains on disposals in the reporting period, which arise in this segment due to the existing corporate tax group (at the level of DEMIRE AG).

More than 10% of total revenue was generated from one customer in the "Core Portfolio" segment, corresponding to a total of EUR 14,211 thousand (previous year: EUR 12,275 thousand) during the financial year.

In the "Core Portfolio" segment, non-cash items mainly comprise fair value adjustments in investment properties in the amount of EUR 42,325 thousand (previous year: EUR –19,900 thousand), income taxes in the amount of EUR –400 thousand (previous year: EUR 941 thousand), deferred taxes in the amount of EUR 5,076 thousand (previous year: EUR 4,405 thousand) and the profit/loss from companies accounted for using the equity method in the amount of EUR 1,084 thousand (previous year: EUR 246 thousand).

Business transactions between the segments are processed based on terms and conditions at arm's length.

2020

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate Functions/ Others	Group
External revenue	144,340	53,382	0	197,722
Total revenue	**144,340**	**53,382**	**0**	**197,722**
Profit/loss from fair value adjustments of investment properties	– 19,900	– 2,234	0	– 22,134
Other income	486	412	592	1,490
Segment revenue	**124,926**	**51,560**	**592**	**177,078**
Expenses relating to the sale of real estate	– 59,775	– 30,157	0	– 89,932
Other expenses	– 37,677	– 13,750	–8,065	– 59,492
Segment expenses	**–97,452**	**–43,907**	**–8,065**	**–149,424**
EBIT	**27,474**	**7,652**	**–7,473**	**27,654**
Financial income*	20	4	1,022	1,046
Financial expenses	– 17,118	– 1,629	– 340	– 19,086
Profit/loss from companies accounted for using the equity method*	240	0	0	240
Interests of minority shareholders	0	– 3,371	0	– 3,371
Income taxes	5,347	– 1,628	– 1,034	2,685
Net profit/loss for the period	**15,963**	**1,028**	**–7,824**	**9,166**
Significant non-cash items	**14,743**	**4,638**	**1,160**	**20,541**
Impairment losses in net profit/loss for the period	**4,564**	**1,127**	**459**	**6,150**

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

31 DECEMBER 2020

in EUR thousand	Core Portfolio	Fair Value REIT	Corporate Functions/ Others	Group
SEGMENT ASSETS	**1,223,493**	**328,550**	**73,268**	**1,625,311**
Of which tax assets	3,410	0	4,080	7,490
Of which additions to investment properties	55,799	649	0	56,448
Of which non-current assets held for sale	31,000	0	0	31,000
SEGMENT LIABILITIES	**836,652**	**181,806**	**8,812**	**1,027,270**
Of which non-current financial liabilities	741,489	75,853	0	817,342
Of which lease liabilities	18,715	0	10	18,726
Of which current financial liabilities	9,659	2,711	0	12,370
Of which tax liabilities	2,059	0	2,001	4,060

G. Other disclosures

1. Financial instruments

In general, please refer to the risk report in the combined management report.

FINANCIAL RISK MANAGEMENT

The credit risk arising for DEMIRE as part of its operating activities as well as risk arising from financing activities are continuously monitored and actively managed by the Executive Board. As a result of these measures, the consolidated financial statements were prepared under the assumption of a going concern.

DEMIRE's financial assets mainly consist of loans to companies accounted for using the equity method, other loans, trade accounts receivable and other receivables, financial receivables, other financial assets and bank deposits. The majority of trade accounts receivable consists of rent receivables. Potential defaults in this context are taken into consideration.

DEMIRE's financial liabilities comprise mainly bonds, bank loans, other loans, lease liabilities and overdrafts and trade payables. The main purpose of these financial liabilities is to finance DEMIRE's operations.

DEMIRE is exposed to various financial risks as a result of its business activities: interest rate risk, credit risk and liquidity risk. The overarching risk management system concentrates on the continual identification and active management of typical business risks. This system accepts risks within a certain range if they offer the opportunity for commensurate returns. The goal is to limit the exposure to peak risks so that DEMIRE's continuance is not jeopardised.

The Executive Board identifies, evaluates and hedges financial risk in close collaboration with the risk manager and in coordination with DEMIRE AG's Supervisory Board.

Loan agreements exist in the Group that contain certain financial covenants stipulated by the creditors. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the creditors. The financial covenants concern financial ratios of the respective real estate portfolio, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV) debt ratio. The calculations are based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the financial covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and portfolio management areas and by external service providers. Depending on the type of financing, the financial covenants are reported to the creditors on a quarterly, semi-annual or annual basis, or the creditors are provided with the underlying economic ratios. Should DEMIRE fail to comply with the financial covenants, the creditors would be entitled to demand additional guarantees from DEMIRE. The loans are then in default. If the default persists for a longer period of time and cannot be permanently remedied, the creditors have a special right of termination.

FOREIGN CURRENCY RISK

There is no foreign currency risk for the existing portfolio of commercial real estate in Germany because all transactions are conducted in euros.

INTEREST RATE RISK

To finance its German commercial real estate, the DEMIRE Group uses liabilities with fixed interest loans to a degree customary for the industry, as well as tradeable instruments that contain options for conversion into shares of the Company or of Fair Value REIT-AG. This involves both loans with fixed interest rates and tradable instruments.

Interest rate risk relating to cash flows exists with respect to liquid funds placed in Company accounts. The Company does not anticipate significant negative effects from interest rate changes over the long term because the liquid funds on the reporting date are only available until investments are made and will subsequently be tied up in projects according to plan.

All loans with variable interest rates were repaid in 2020. DEMIRE is therefore not exposed to any interest rate risk from debt financing.

Since transaction prices for real estate increase when interest rates are low, the level of interest rates also has an impact on the purchase prices of newly acquired real estate. In addition, interest rates play an important role in the valuation of investment properties.

The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board of DEMIRE AG.

CREDIT RISK

The reported financial instruments represent the maximum credit risk and default risk. Counterparty risk is uniformly assessed and monitored within the framework of Group-wide risk management. The aim is to minimise the risk of defaults. Counterparty risk is not insured. Compared to the previous year, DEMIRE has granted a large volume of loans. However, DEMIRE does not assume any increased credit risk. Possible risks are taken into account as part of the expected credit loss model. For more information, see Section 1.5 and Section C 'Accounting policies'.

Rental deposits amounting to EUR 4,078 thousand (previous year: EUR 3,834 thousand) are available as security in the event a tenant defaults. For an analysis of the impaired receivables, please refer to Section E.2.1.

LIQUIDITY RISK

Liquidity management serves the purpose of ensuring the Group's solvency at all times. In principle, there is the risk that the Company may not have sufficient liquidity at all times during the year to meet its current obligations, and that the refinancing of expiring financial liabilities may not be obtained or may only be obtained at less favourable conditions than planned. Additional liquidity requirements from events beyond DEMIRE's control may also result, first and foremost, from the operating risks and other risks listed below. The funds available at the reporting date and the planned cash flows in 2021 are sufficient for the current needs of the operating activities. During the pandemic, DEMIRE received interest-free deferrals of VAT for January, February and March 2021 in the amount of EUR 1,773 thousand in the first quarter of 2021. These amounts were paid to the tax office by the deadlines of 10 June 2021, 12 July 2021 and 10 August 2021.

CAPITAL MANAGEMENT AND CONTROL

The primary objective of the Group's capital management is to ensure that DEMIRE's debt eligibility and its financial substance are maintained in the future. The capital structure is managed according to economic and regulatory requirements. Capital management is carried out by DEMIRE through dividends and/or financing. DEMIRE strives for a capital structure that is appropriate for the business risk and in doing so is also subject to the minimum capital requirements of the German Stock Corporation Act, the compliance of which is monitored by DEMIRE AG's Executive Board. The requirements were met both in the reporting year and in the previous year.

DEMIRE monitors its capital using the equity ratio, which is also an important indicator for investors, analysts and banks.

The equity ratio came to 34.7%, compared to 36.8% at the end of 2020. Non-controlling minority interests in the amount of EUR 82.9 million (previous year: EUR 78.9 million) are reported in non-current liabilities and not under equity in accordance with IFRS, primarily due to the legal form of a partnership. The corresponding adjusted Group equity totalled EUR 675.2 million or 39.6% of total equity and liabilities (31 December 2020: EUR 676.9 million or 41.6%).

OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IFRS 9. The accounting policies are presented in Section C.

The classification of financial instruments required by IFRS 7 is in line with the respective items in the consolidated balance sheet. The tables below present the carrying amounts, valuations and fair values of the financial assets and liabilities for each individual category of financial instruments and reconcile these values to the measurement categories. Under IFRS 9, the relevant measurement category for DEMIRE is “at amortised cost”.

Other financial liabilities (other liabilities) are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are spread over the term through profit or loss. DEMIRE allocates financial liabilities and other liabilities to this category.

31 DECEMBER 2021

in EUR thousand	Measurement category	Carrying amount under IFRS 9	Fair value
Assets			
Trade accounts receivable	At amortised cost	8,671	8,671
Loans to companies accounted for using the equity method	At amortised cost	26,505	26,457
Loans and financial assets	At amortised cost	68,189	68,022
Cash and cash equivalents	At amortised cost	139,619	139,619
Equity and liabilities			
Bonds	At amortised cost	594,047	592,848
Other non-current financial liabilities	At amortised cost	282,459	278,638
Minority interests	At amortised cost	82,882	82,882
Trade payables	At amortised cost	10,571	10,571
Other financial liabilities	At amortised cost	4,651	4,651
Current financial liabilities	At amortised cost	14,008	14,008
Compensation payments to minority shareholders	At amortised cost	1,127	1,127

31 DECEMBER 2020

in EUR thousand	Measurement category	Carrying amount under IFRS 9	Fair value
Assets			
Trade accounts receivable*	At amortised cost	7,346	7,346
Loans and financial assets*	At amortised cost	31,154	31,154
Cash and cash equivalents	At amortised cost	101,620	101,620
Equity and liabilities			
Bonds	At amortised cost	592,005	588,174
Other non-current financial liabilities	At amortised cost	227,380	231,073
Minority interests	At amortised cost	78,881	78,881
Trade payables	At amortised cost	10,681	10,681
Other financial liabilities*	At amortised cost	5,888	5,888
Current financial liabilities	At amortised cost	10,327	10,327
Compensation payments to minority shareholders	At amortised cost	1,326	1,326

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

Fair value is the amount at which financial assets and liabilities could be exchanged between independent business partners on the valuation date. For the purpose of determining the fair value of the bond and other non-current financial liabilities, please refer to Section C.

Due to the short maturity of cash and cash equivalents, trade accounts receivable and trade payables and other current receivables and liabilities, it is assumed that the respective fair value corresponds to the carrying amount. The lease liabilities of EUR 24,472 thousand (previous year: EUR 18,726 thousand) are not recognised in accordance with IFRS 9, but in accordance with IFRS 16.

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS IN 2021

in EUR thousand	Net gains/losses	Of which from interest
Assets		
At amortised cost	– 308	3,167
Equity and liabilities		
At amortised cost	– 17,643	– 17,622

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS IN 2020

in EUR thousand	Net gains/losses	Of which from interest
Assets		
At amortised cost	– 4,512	991
Equity and liabilities		
At amortised cost*	– 18,757	– 18,452

* The previous year's figures were adjusted based on reporting changes during the period under review. Net gains/losses for leaseholds are no longer shown in this overview as these do not constitute financial instruments.

The following table shows the future maturities in accordance with IFRS 7.B11(a) for interest and repayments of liabilities at the balance sheet date as well as liabilities to minority interests:

AS AT 31 DECEMBER 2021

in EUR thousand	2022	2023	2024	2025	2026	After 31/12/2026
2019/2024 corporate bond	11,250	11,250	611,250	0	0	0
Bank liabilities	15,451	15,444	172,045	57,461	22,385	25,679
Minority interests*	0	82,882	0	0	0	0
Lease liabilities	1,011	1,133	1,122	1,119	1,119	40,178
Trade payables	10,571	0	0	0	0	0
Other liabilities	11,126	305	0	0	0	0
TOTAL	**49,410**	**111,014**	**784,417**	**58,580**	**23,504**	**65,857**

* The disclosure of the maturities of liabilities to minority shareholders was based on the earliest possible termination date and thus the earliest possible payment obligation, which must be disclosed in accordance with IFRS 7.B11 (a). This is not based on the actual due date, but it takes into account a possible due date derived from the earliest possible termination date. By way of derogation from the rules laid down in IFRS 7.B11 (a), the Group's internal liquidity planning makes provision for a due date after five years.

AS AT 31 DECEMBER 2020

in EUR thousand	2021	2022	2023	2024	2025	After 31/12/2025
2019/2024 corporate bond	11,250	11,250	11,250	611,281	0	0
Bank liabilities	11,211	11,234	11,226	133,526	56,473	26,338
Minority interests*	0	78,881	0	0	0	0
Lease liabilities	1,084	1,066	1,065	1,065	1,065	20,646
Trade payables	11,440	0	0	0	0	0
Other liabilities	12,474	0	0	0	0	0
TOTAL	**47,732**	**102,431**	**23,541**	**745,872**	**57,538**	**46,984**

* The disclosure of the maturities of liabilities to minority shareholders was based on the earliest possible termination date and thus the earliest possible payment obligation, which must be disclosed in accordance with IFRS 7.B11 (a). This is not based on the actual due date, but it takes into account a possible due date derived from the earliest possible termination date. By way of derogation from the rules laid down in IFRS 7.B11 (a), the Group's internal liquidity planning makes provision for a due date after five years.

The Company's liquidity management considers these liabilities to minority shareholders to be due after five years, provided the minority shareholders have not given notice of termination. This is a result of a long history spanning several years, which shows only a small number of terminations.

Liabilities from minority interests are reported as non-current at the balance sheet date from ongoing limited partnership contributions, as settlement is neither expected nor can be demanded within twelve months after the balance sheet date (IAS 1.69). If the minority shareholder has not given effective notice of termination by the balance sheet date, such notice can only be given on the following balance sheet date. In turn, the settlement balance is only due for payment six months after its binding agreement (on the termination date). Thus, in the case of limited partnership contributions that are still ongoing as at the reporting date, a payout is due no earlier than 18 months after the reporting date.

2. Related party disclosures

RELATED COMPANIES AND PERSONS

Companies and persons are considered to be related if they have the ability to control DEMIRE and its subsidiaries or exercise significant influence over their financial and operating policies. The existing control relationships were taken into account to determine the degree of significant influence that related companies and persons have on the Company's financial and operating policies. As at the reporting date, AEPF III 15 S.à r.l. Luxembourg/Luxembourg held 58.6% of DEMIRE and is thus the direct parent company. The ultimate parent company is BRH Holdings GP Ltd., Grand Cayman, Cayman Islands. The consolidated financial statements of DEMIRE AG are the largest and the smallest scope of consolidation in which DEMIRE AG is included.

Alongside the fully consolidated subsidiaries, the group of related companies also includes joint ventures and associated companies accounted for using the equity method. As at 31 December 2021, these include JV Theodor-Heuss-Allee GmbH, DEMIRE Assekuranzmakler GmbH & Co. KG and G+Q Effizienz GmbH.

Due to their significant influence, the following key personnel of the parent company are considered to be related persons as defined by IAS 24:

— Members of the Executive Board of DEMIRE AG and their close relatives and
— Members of the Supervisory Board of DEMIRE AG and their close relatives.

Legal transactions with related companies and persons
In the financial year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between DEMIRE AG and its subsidiaries were settled in the same manner as those between unrelated parties and eliminated in the context of consolidation. Therefore, they are not explained in the Notes to the consolidated financial statements.

COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

During the period under review, the following transactions were completed with companies accounted for using the equity method:

The purchasing company, JV Theodor-Heuss-Allee GmbH, Frankfurt am Main, was established in the first half of 2021. The Chairman of the Supervisory Board, Prof. Dr Alexander Göpfert, is a minority shareholder with a 1% stake in JV Theodor-Heuss-Allee GmbH (Cielo). The majority shareholders are DEMIRE Holding XIII GmbH with a 49.5% stake and RFR Immobilien 4 GmbH. As part of the Cielo transaction, the shareholders have various options regarding the land purchase of Theodor-Heuss-Allee 100, Frankfurt am Main, and the remaining shares in JV Theodor-Heuss-Allee GmbH. Furthermore, in the event of non-exercise of the share purchase option by DEMIRE, Prof. Dr Goepfert has the right to purchase RFR's shares. For more information, see Disclosures according to IFRS 12 B) Disclosures on associates and joint ventures. No assets were provided to or by the Chairman of the Supervisory Board during the period under review.

Furthermore, DEMIRE AG has issued an unsecured loan in the amount of EUR 25,320 thousand (including interest receivable) to this company. The outstanding loan amount is subject to interest charged at 4.135% p.a. Interest income from this loan comes to EUR 634 thousand as at 31 December 2021.

An agreement on asset management services in the amount of EUR 50 thousand has been in place with JV Theodor-Heuss-Allee GmbH since 12 August 2021. Expenses of EUR 25 thousand plus VAT (previous year: EUR 0 thousand) were incurred during the 2021 financial year. The agreement runs for an indefinite period.

In addition, for the period commencing from 12 August 2021, there has also been an agreement in place with JV Theodor-Heuss-Allee GmbH covering treasury, controlling, financial accounting and investment management matters in the amount of EUR 25 thousand per year. There were expenses of EUR 12 thousand (previous year: EUR 0 thousand) incurred for the 2021 financial year. The agreement runs for an indefinite period.

As at 31 December 2021, receivables in the amount of EUR 25 thousand and income in the amount of EUR 37 thousand arise from these two agreements.

In December 2021, DEMIRE Holding XIII GmbH received a disbursement from JV Theodor-Heuss-Allee GmbH in the amount of EUR 495 thousand.

DEMIRE also received distributions of EUR 171 thousand from the associates G+Q Effizienz GmbH (EUR 79 thousand) and DEMIRE Assekuranzmakler GmbH & Co. KG (EUR 92 thousand).

THE EXECUTIVE BOARD

The following were members of the Executive Board during the period under review and comparable prior-year period:

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

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

In the 2021 financial year, DEMIRE AG recognised variable remuneration in the amount of EUR 610 thousand (previous year: EUR 332 thousand), fixed remuneration of EUR 699 thousand (previous year: EUR 703 thousand) and share-based payments of EUR 401 thousand (previous year: EUR 67 thousand) for the members of the Executive Board.

in EUR thousand	2020	2021
Short-term benefits	1,036	1,309
Post-employment benefits	0	0
Other long-term benefits	0	0
Benefits related to termination of employment	0	0
Share-based remuneration	67	401
TOTAL	**1,103**	**1,710**

This table shows share-based payments according to IFRS 2.

As at the reporting date, EUR 627 thousand (previous year: EUR 226 thousand) of share-based payment transactions and EUR 333 thousand (previous year: EUR 333 thousand) of bonus payments were still outstanding.

The remuneration of the Executive Board members in office during the financial year is listed in the table below:

in EUR thousand	Fixed remuneration	Variable remuneration	Share-based remuneration	TOTAL 2021
Ingo Hartlief (FRICS)	410	380	153	**943**
Tim Brückner	289	230	91	**610**
TOTAL	**699**	**610**	**244**	**1,553**

This table shows the remuneration of Executive Board members in accordance with Section 314 (1) No. 6a of the German Commercial Code (HGB); this results in a difference to IFRS for share-based payments. Under HGB rules, the fair value at the grant date must be disclosed.

The remuneration of the active Executive Board members in the prior year consisted of the following:

in EUR thousand	Fixed remuneration	Variable remuneration	Share-based remuneration	TOTAL 2020
Ingo Hartlief (FRICS)	414	190	19	**623**
Tim Brückner	289	143	48	**480**
TOTAL	**703**	**333**	**67**	**1,103**

The amount of any remaining compensation to which this former Executive Board member may still be entitled is open, as these issues are currently the subject of pending legal proceedings; however, a provision in the amount of EUR 2,029 thousand (previous year: EUR 1,920 thousand) has been recognised. Reference is made to the explanations in the remuneration report contained in the combined management report.

No loans or advances were granted to members of the Executive Board and no contingencies were assumed for the benefit of Executive Board members.

THE SUPERVISORY BOARD

The members of DEMIRE AG's Supervisory Board, their professions and Supervisory Board remuneration received during the past financial year are listed in the table below.

in EUR thousand	Position	Profession	Period	2020	2021
Prof. Dr Alexander Goepfert	Chair	Attorney-at-law	since 27 June 2018	90	**120**
Frank Hölzle	Vice Chair	Managing director	since 14 February 2017	60	80
Prof. Dr Kerstin Hennig	Member	Professor	since 29 May 2019	30	**40**
TOTAL				**180**	**240**

Furthermore, Supervisory Board members were reimbursed for travel expenses incurred of EUR 1 thousand in total (previous year: EUR 1 thousand).

No loans or advances were granted to members of the Supervisory Board and no contingencies were assumed for the benefit of members of the Supervisory Board either.

3. Employees and share-based remuneration

A. EMPLOYEES

The number of employees is listed in the following table:

in EUR thousand	31/12/2020	31/12/2021
Executive Board members	2	2
Permanent employees	37	35
Trainees	0	0
TOTAL	39	**37**

The average number of employees in the 2021 financial year was 37 (previous year: 39).

B. SHARE-BASED PAYMENTS

2015 Stock Option Programme

In the 2015 financial year, share-based payments were issued in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG as well as to a selected group of persons within the DEMIRE Group. The stock option programme is an option plan, which is settled with equity instruments (equity-settled share option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2. Under IFRS 2, the total staff costs arising from the stock options are to be distributed over the four-year vesting period starting from the grant date. In the case of DEMIRE AG, the grant date is the day the approval is given by the Executive Board and/or Supervisory Board. These obligations are recognised at the fair value (grant date) of the equity instruments vested up until that point at the time of granting. The fair value was therefore recognised as personnel expenses over the vesting period and offset directly against the capital reserves.

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

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

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

The option term is nine years from the issue date. The first four years constitute a vesting period.

No more expenses (previous year: also EUR 0 thousand) occurred due to this stock option programme during the period under review because the member of the Executive Board left the company in 2019.

A summary of the 2015 stock option programme can be found in the following table:

2015 STOCK OPTION PROGRAMME

	2020	2021
Outstanding options at the start of the financial year	510,000	510,000
Outstanding options during the financial year	0	0
Outstanding options at the end of the financial year	510,000	510,000
Exercisable options at the end of the financial year	510,000	510,000
Exercise price for options exercised	0	0

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

2019 virtual stock option programme
Accounting for the share-based payments issued within the Group is in accordance with IFRS 2 Share-based Payment. The virtual stock options are share-based remuneration transactions that are settled using cash and are measured at the fair value as at the balance sheet date. The remuneration expense is aggregated in instalments under consideration of the work performance completed on a pro-rata basis during the vesting period and is recognised in profit and loss as a provision until vesting.

This stock option programme was issued to Mr Ingo Hartlief (FRICS) with effect from 1 January 2019 and to Mr Tim Brückner with effect from 1 February 2019. Under this share programme, each member of the Executive Board is annually granted performance share units (PSUs) with an allocation amount totalling EUR 810 thousand for Mr Ingo Hartlief (FRICS) and EUR 420 thousand for Mr Tim Brückner as at 31 December 2021. The number of PSUs granted per year is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. The grant is made annually, with the first grant made on the date mentioned above.

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

The liabilities arising from cash-settled share-based payment transactions are recognised as provisions and measured at fair value once again on each reporting date. The expenditure is also recognised as personnel expenses over the vesting period. As at 31 December 2021, the provision for the virtual stock option programme, which has applied since 2019, amounts to EUR 627 thousand (previous year: EUR 226 thousand). In addition to the 2019 tranche, the 2020 and 2021 tranches were also taken into account. The 60-day average price before granting the tranches is as follows: EUR 4.21 for the 2019 tranche, EUR 5.13 for the 2020 tranche and EUR 4.09 for the 2021 tranche.

4. Auditor's fee

The auditor's fee for PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, charged in the financial year with regard to DEMIRE consists of the following:

in EUR thousand	2020	2021
Auditing services of which for the previous years: EUR 316 thousand (previous year: EUR 241 thousand) of which for affiliated companies EUR 450 thousand (previous year: EUR 211 thousand)	745	1,139
Other assurance services	81	13
Tax consultation services	0	0
Other services	0	17
TOTAL	**826**	**1,169**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has been appointed as the auditor starting in the 2018 financial year.

The expenses for auditing services, which relate to previous years and affiliates, are mainly related to two transactions in connection with the cross-border transfer of the legal form of two subsidiaries. In 2017, the registered office of (what is now) "DEMIRE AN BN R PM FR FL GmbH" was relocated from its then registered office in Luxembourg to Germany. Pursuant to Section 316 of the German Commercial Code (HGB) in conjunction with Section 267 (1) HGB, this company is required to be audited in Germany and has since been continuously audited for the financial years 2017 to 2021. Audits are scheduled to be completed in 2022. In addition, a cross-border transfer of legal form of Denston Investments Ltd, Nicosia, is currently in progress. It was also necessary to audit the financial statements for 2017 to 2020 for this purpose. The financial statements were audited and certified in 2021, meaning that the transfer of the registered office can now be carried out. DEMIRE expects this to take place in the course of the 2022 financial year.

Fees paid to the subgroup auditor commissioned in 2019, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, were also included in the 2020 financial year. These are not shown in the table. In addition, EUR 30 thousand was charged in 2020 for auditing services performed in the previous year by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn.

In addition to the auditing services, other assurance services (non-audit services) were provided in the 2020 financial year, primarily in connection with the granting of comfort letters within the scope of the issue of the new 2019/2024 bond.

5. Subsequent events

No significant events have occurred after the reporting period.

6. Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG

On 18 January 2022, the Executive Board and Supervisory Board issued the latest Declaration of Conformity pursuant to Section 161 AktG. The Declaration was made permanently accessible to shareholders on the Company's website.

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

Ingo Hartlief (FRICS)	Tim Brückner
(CEO)	(CFO)

DECLARATION BY THE EXECUTIVE DIRECTORS

As a member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, I hereby affirm that, to the best of my knowledge, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operation in accordance with the applicable accounting principles and that the Group management report, which is combined with the Company's management report, gives a true and fair view of the development and performance of the business, including the business results and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Frankfurt am Main, 16 March 2022

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

INDEPENDENT AUDITOR'S REPORT

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

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

AUDIT OPINION

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

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

— the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e(1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and

— the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

BASIS FOR THE AUDIT OPINION

We carried out our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) letter (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of investment properties
2. Presentation of the joint venture JV Theodor-Heuss-Allee GmbH, Frankfurt am Main, in the statement of financial position, with land purchase option

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter, we present the key audit matters:

1. Recoverability of investment properties

1. Investment properties amounting to EUR 1,433,096 thousand (84.0% of total assets) were recognised in the Company's consolidated financial statements as at 31 December 2021. The Company exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realised when properties are sold, as well as unrealised changes in the fair value (market value), are recognised at fair value through profit or loss. In the past financial year, EUR 48,777 thousand in unrealised changes in market value were recognised through profit or loss in the consolidated statement of income.

   When determining the fair value of investment property, it is assumed that the current use corresponds to the highest and best use of the property. Fair value is determined by using a model based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. This model was created by the executive directors with the support of an external advisory firm. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using a liquidation value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values. To the extent possible, data directly observable on the market are used to determine the fair value (sources include property market reports prepared by expert committees and public and subscriptions-based market databases). The measurement of investment properties is based on a large number of relevant parameters, which are in general subject to uncertainties with regard to estimates and judgements.

The most significant measurement parameters are expected cash flows, the assumed vacancy rate and the discount and capitalisation rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit, because the measurement of investment properties is in general subject to substantial judgement and estimation uncertainties and there is the risk that the changes in fair value which are recognised through profit or loss do not fall within an appropriate range.

2. As part of our audit, in collaboration with specialists with the relevant skills and expertise from Valuation, Modeling & Analytics, we assessed the measurement models used for investment properties with respect to their compliance with IAS 40 in conjunction with IFRS 13, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per square metre, planned maintenance per square metre), the assumed vacancy rate and the discount and capitalisation rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations to the change in value. As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the discounted cash flow method. The valuation method for investment properties is appropriately designed and suitable for calculating fair values in accordance with IFRS. The underlying assumptions reflect the current market level.

3. The Company's disclosures relating to investment properties are contained in sections C and E.1.3 of the Notes to the consolidated financial statements.

2. Presentation of the joint venture JV Theodor-Heuss-Allee GmbH, Frankfurt am Main, in the statement of financial position, with land purchase option

1. In the 2021 financial year, the joint venture JV Theodor-Heuss-Allee GmbH, Frankfurt am Main, was founded by a Group company of DEMIRE Deutsche Mittelstand Real Estate AG. The shareholding in the joint venture as at the reporting date amounts to 49.5%. Inclusion in the consolidated financial statements is compliant with IFRS 11.24 based on the equity method in accordance with IAS 28. In the 2021 financial year, the joint venture entered into a leasehold contract with a term of 99 years. The price for ordering the leasehold amounts to EUR 152,876 thousand. In order to finance the acquisition, the joint venture took out external financing from a bank in the amount of EUR 140,000 thousand, and also received a loan from DEMIRE AG in the amount of EUR 25,150 thousand. The joint venture has a contractual purchase option to acquire the land in the period between the end of the 57th month and the end of the 60th month of the leasehold at a fixed purchase price of EUR 122,813 thousand (land purchase option). The shareholders of the joint venture jointly decide whether or not to exercise this land purchase option. The decision to not exercise this option can be made unilaterally by one of the two shareholders or by mutual agreement and will, where applicable, result in the payment of penalties. If the land purchase option is exercised or is not exercised, further options will be exercisable by the shareholders. Under this structure, we believe the options are critical, particularly regarding whether the rights associated with the joint venture's land purchase option are material. Whether the values are material or not depends heavily on the change in value of the property, including the land. The valuation is therefore subject to material uncertainties. Against this background and due to the highly complex nature of the transaction, the valuation of the option and its material significance for the Company's assets, liabilities and financial performance, and the delimitation for the scope of consolidation, this matter was of particular significance in the context of our audit.

2. In order to assess the appropriate accounting for the joint venture, as part of our audit we examined the principles of company law and the provisions of the underlying agreement, among other matters. In connection with this, we have examined and assessed the fulfilment of the requirements of a joint venture in accordance with IFRS 11, the resulting effects on the consolidated financial statements and the valuation based on the equity method in accordance with IAS 28. Furthermore, with the support of specialists with the relevant skills and expertise from our Valuation, Modeling & Analytics department, we assessed the valuation model used to assess the options for its conformity with IFRS 13 as well as the appropriateness of the valuation parameters used, such as volatility, the underlying yields, the base prices of the land and the risk-free interest rate. As part of our audit procedures, we prepared a comparison calculation. The valuation method for options is appropriately designed and is generally suitable for calculating fair values of options in accordance with IFRS and reflecting the current market level with regard to the underlying assumptions. We were able to ascertain that the reporting and accounting of the joint venture, including the land purchase option, were documented in a comprehensible manner and that the recognised effects were determined appropriately.

3. The Company's disclosures relating to the land purchase option as part of the joint venture and to the joint venture itself are contained in sections B.B, C, E.1.4, E.1.5, E.7.2 and G.2 of the Notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information.

The other information comprises:

— The statement on corporate governance pursuant to Sections 289f and 315d HGB

— The annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

— is materially inconsistent with the consolidated financial statements, the content of the audited group management report disclosures or our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e(1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

Furthermore, the Executive Board and the Supervisory Board are responsible for the preparation of the Remuneration Report, including the related disclosures, which is included in a separate section of the group management report and which complies with the requirements of Section 162 AktG. In addition, they are responsible for such internal control as they determine necessary to enable the preparation of a Remuneration Report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

— Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

— Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

— Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.
If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e(1) HGB.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the Group audit. We are solely responsible for our audit opinions.

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

— Perform audit procedures on the prospective information presented by the executive directors in the group management report.
On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

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

AUDIT OPINION

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

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

BASIS FOR THE AUDIT OPINION

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

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

The Company's executive directors are responsible for issuing ESEF documents with the electronic versions of the consolidated financial statements and the group management report in accordance with Section 328(1)(4) No. 1 HGB and for issuing the consolidated financial statements in accordance with Section 328(1)(4) No. 2 HGB.

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

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

RESPONSIBILITIES OF THE GROUP AUDITOR FOR AUDITING THE ESEF DOCUMENTS

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

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

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

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

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

— Evaluate whether the use of Inline XBRL technology (iXBRL) for the ESEF documents in accordance with Articles 4 and 6 of the Delegated Regulation (EU) 2019/815 in the version valid as at the reporting date facilitates the creation of an appropriate and fully machine-readable XBRL copy of the XHTML version.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

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

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

Other matters – Use of the auditor's report

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

Responsible auditor

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

Berlin, 16 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr Frederik Mielke Auditor	p.p. Julian Fersch Auditor

SHAREHOLDINGS

SCHEDULE OF SHAREHOLDINGS PURSUANT TO SECTION 313 (2) HGB

GERMANY

Company	Share in capital in %	Equity 31/12/2021 in EUR	2021 net profit in EUR
DEMIRE Apolda Wurzen GmbH, Berlin	94.9	1,888,293.44	–200,728.80
DEMIRE HB HZ B HST GmbH, Berlin	94.9	12,005,485.50	401,993.74
DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig	94.9	3,282,959.28	0.00
Panacea Property GmbH, Berlin *	51	2,778.77	–3,342.37
Fair Value REIT-AG, Frankfurt am Main	84.35	90,963,609.36	6,034,071.43
IC Fonds & Co. SchmidtBank-Passage KG, Munich **	48.0	6,997,733.74	485,386.97
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich **	43.57	14,811,004.54	2,652,171.78
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich **	50.57	7,260,288.54	1,319,547.36
GP Value Management GmbH, Munich	84.35	41,531.60	17,417.24
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich **	45.03	6,943,706.24	1,390,843.18
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich **	41.07	13,792,496.96	1,042,773.18
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt am Main	100	8,750,356.15	0.00
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main	100	–96,183.29	27,166.10
DEMIRE Holding II GmbH, Frankfurt am Main	100	43,590,054.52	1,364,532.73
DEMIRE Meckenheim Merl GmbH, Frankfurt am Main	100	10,171,667.71	0.00
Schwerin Margaretenhof 18 GmbH, Frankfurt am Main	94.9	165,361.73	323,958.78
DEMIRE Holding III GmbH, Frankfurt am Main	100	25,000.00	0.00

GERMANY

Company	Share in capital in %	Equity 31/12/2021 in EUR	2021 net profit in EUR
DEMIRE Worms Liebenauer Straße GmbH, Frankfurt am Main	100	282,850.93	–28,293.52
DEMIRE Schwerin Am Margaretenhof 22–24, Berlin	94	477,858.93	145,466.75
DEMIRE Holding IV GmbH, Frankfurt am Main	100	78,301.00	0.00
DEMIRE Holding V GmbH, Frankfurt am Main	100	53,300.00	0.00
DEMIRE Holding VI GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VII GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VIII GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Eschborn Frankfurter Straße GmbH, Frankfurt am Main	94	731,967.51	619,293.74
DEMIRE Bad Kreuznach Brückes Hochstr. GmbH, Frankfurt am Main	94	75,376.69	0.00
DEMIRE Holding IX GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Düsseldorf Wiesenstraße 70 GmbH, Frankfurt am Main	94	480,886.90	558,950.81
DEMIRE Bad Oeynhausen Dr. Neuhäußer Straße 4 GmbH, Frankfurt am Main	94	37,528.89	0.00
DEMIRE Lichtenfels Bamberger Straße 20 GmbH, Frankfurt am Main	94	206,863.96	0.00
DEMIRE Holding I GmbH, Frankfurt am Main	100	326,370.23	146,640.63
DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf	47.5	2,000.00	0.00
G+Q Effizienz GmbH, Berlin	49	535,992.81	55,835.90
DEMIRE Kassel Kölnische Str. Mauerstr. Spohrstr. GmbH, Leipzig	94.9	823,261.63	0.00
DEMIRE Betriebsvorrichtungen Nr. 2 GmbH, Düsseldorf	100	171,464.28	97,824.09
DEMIRE Limbach Oberfrohna Moritzstraße 13 GmbH, Frankfurt am Main	94	25,000.00	0.00
DEMIRE Betriebsvorrichtungen Nr. 1 GmbH, Frankfurt am Main	100	–240,348.81	–46,518.41
DEMIRE Holding XI GmbH, Frankfurt am Main	100	18,980.41	0.00
DEMIRE Holding X GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding XII GmbH, Frankfurt am Main	100	–7,962,261.93	–1,580,154.25
DEMIRE Holding XIII GmbH, Frankfurt am Main	100	50,664.78	457,591.61
DEMIRE AN BN R PM FR FL GmbH, Frankfurt am Main	94.9	39,395,085.67	0.00
DEMIRE Ulm Bahnhofplatz Olgastr. Zeitblomstr. GmbH, Frankfurt am Main	94	–17,757,805.30	837,034.85
DEMIRE Kempten Bahnhofstr. Hirschstr. Alpenstr. GmbH, Frankfurt am Main	94	–3,624,074.08	109,386.75
DEMIRE Köln Max-Glomsda-Straße 4 GmbH, Frankfurt am Main	100	98,876.77	179,273.00
DEMIRE Bad Vilbel Konrad Adenauer Allee 1 – 11 GmbH, Frankfurt am Main	100	–2,848,882.94	–34,826.71
DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH, Frankfurt am Main	100	509,075.53	817,632.34

GERMANY

Company	Share in capital in %	Equity 31/12/2021 in EUR	2021 net profit in EUR
DEMIRE Aschheim Max-Planckstraße GmbH, Frankfurt am Main	100	–1,412,027.56	–708,622.38
DEMIRE Neuss Breslauer Straße GmbH, Frankfurt am Main	100	1,396,897.69	826,216.29
DEMIRE Frankfurt Gutleutstraße 85 GmbH, Frankfurt am Main	100	–2,502,709.14	–1,509,160.15
DEMIRE Trier Simeonstraße 46 GmbH (formerly DEMIRE Ankauf 7 GmbH), Frankfurt am Main	89.9	–162,396.54	–151,439.60
DEMIRE Ankauf 8 GmbH, Frankfurt am Main	100	–23,288.73	–12,331.79
DEMIRE Ankauf 9 GmbH, Frankfurt am Main	100	–26,099.83	–15,172.66
DEMIRE Ankauf 10 GmbH, Frankfurt am Main	100	–24,508.60	–13,581.79
DEMIRE Trier Celle GmbH, Frankfurt am Main	94.9	–8,633,757.77	–3,260,434.19
DEMIRE Goslar, Rosentorstraße 1 GmbH, Frankfurt am Main	94.9	168,316.66	351,679.98
DEMIRE Memmingen, Königsgraben 3 GmbH, Frankfurt am Main	94.9	–170,974.74	230,192.81
DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main	94.9	10,751.36	418,945.47
DEMIRE BT HB DO H CLZ KS KO GmbH, Frankfurt am Main	94	–2,637,919.91	537,783.41
DEMIRE Darmstadt Artillerie Str. 9 GmbH, Frankfurt am Main	94	–207,046.82	30,508.75
DEMIRE Leonberg Neue Ramtelstraße GmbH, Frankfurt am Main	94	–1,714,171.82	–110,121.18
DEMIRE Ludwigsburg Uhlandstraße 21 GmbH, Frankfurt am Main	94	–3,093,603.85	–37,700.28
DEMIRE GO HB GmbH (previously GO Bremen ApS, Copenhagen), Frankfurt am Main	94	620,591.23	7,876,598.38
Cielo BVO GmbH, Frankfurt am Main	100	230,730.33	–968.75
JV Theodor-Heuss-Allee GmbH, Frankfurt am Main	49.5	376,062.03	1,351,062.03

SWITZERLAND

Sihlegg Investments Holding GmbH, Wollerau	94	–2,301,571.25	112,492.19

CYPRUS

Denston Investments Ltd., Nicosia	94	–2,576,683.47	–728,999.44

NETHERLANDS

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

ROMANIA

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

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

FURTHER DISCLOSURES

DISCLOSURES ON REAL ESTATE VALUATION

Appendix 1 to the consolidated financial statements

	31/12/2020	31/12/2021
Average market rent (in EUR per m² per year)	98.69	101.04
Range of market rents (in EUR per m² per year)	39.03 – 301.61	39.96 – 301.61
Lettable space as at reporting date (in m²)	970,439	912,724
Vacant space as at reporting date (in m²)	87,735.91	102,507.55
Value-based vacancy rate according to EPRA (in %)	6.90	10.97
Average vacancy rate based on lettable space (in %)	9.00	11.49
Range of vacancy rates based on lettable space (in %)	0.00 – 74.60	0.00 – 56.2
Weighted average lease term – WALT (in years)	4.90	4.69

The year-on-year reduction in total lettable space resulted from the disposal of the properties in Ansbach (12,610 m²), Cologne, Marconistr. (9,640 m²), Garbsen (687 m²), Barmstedt (1,257 m²), Regensburg (29,219 m²), Bad Bramstedt (997 m²) and Potsdam (3,751 m²).

In addition, both of the project development properties in Trier (total space 11,267 m²) and Cologne, Colonia Allee 11 (total space 9,108 m²) were not incorporated into the vacant space calculation. The departure of a key tenant in Essen in Q4 2021 (approximately 11,623 m² in space) resulted in a further increase in the level of vacancies.

The basis for rental income planning is the rental payments contractually agreed with the tenants as well as prevailing customary local market rents for unleased space on the valuation date. The contractually agreed monthly rents per square metre on the valuation date for the various types of use are shown in the following table:

CONTRACTUAL RENTS

in EUR per m² per month		2020	2021
	Min.	3.54	3.57
	Max.	20.06	20.54
Office	Avg.	8.62	8.92
	Min.	4.00	4.00
	Max.	17.57	21.72
Retail	Avg.	9.00	9.77
	Min.	3.16	3.26
	Max.	25.14	25.71
Other	Avg.	4.26	4.30
	Min.	**3.16**	**3.26**
	Max.	**25.14**	**25.71**
TOTAL	**Avg.**	**7.91**	**8.22**

SENSITIVITY ANALYSIS OF REAL ESTATE VALUATION AS AT 31 DECEMBER 2021

Appendix 2 to the consolidated financial statements

in EUR

Discount Rate						**Capitalisation rate**
	+ 0.50%	in %	± 0.00%	in %	– 0.50%	in %
TOTAL						
+ 0.50%	–144,860,000	–10	–54,970,000	–4	+49,490,000	+4
± 0.00%	–91,570,000	–6	–	–	+112,320,000	+8
– 0.50%	–35,740,000	–3	+62,950,000	+4	+177,920,000	+13
OFFICE						
+ 0.50%	–83,850,000	–10	–33,670,000	–4	+27,530,000	+3
± 0.00%	–52,640,000	–6	–	–	+64,160,000	+8
– 0.50%	–20,040,000	–2	+35,350,000	+4	+102,510,000	+12
RETAIL						
+ 0.50%	–33,960,000	–10	–14,370,000	–4	+8,930,000	+3
± 0.00%	–20,510,000	–6	–	–	+24,460,000	+7
– 0.50%	–6,330,000	–2	+15,000,000	+4	+40,620,000	+11

SENSITIVITY ANALYSIS OF REAL ESTATE VALUATION AS AT 31 DECEMBER 2021

Appendix 2 to the consolidated financial statements

in EUR

Discount Rate						**Capitalisation rate**
	+ 0.50%	in %	± 0.00%	in %	– 0.50%	in %
LOGISTICS						
+ 0.50%	–19,300,000	–14	–6,800,000	–5	+9,300,000	+7
± 0.00%	–13,200,000	–9	–	–	+16,900,000	+12
– 0.50%	–6,700,000	–5	+7,100,000	+5	+24,900,000	+18
OTHER						
+ 0.50%	–7,750,000	–11	–130,000	–0	+3,730,000	+6
± 0.00%	–5,220,000	–8	–	–	+6,800,000	+10
– 0.50%	–2,670,000	–4	+5,500,000	+8	+9,890,000	+15

A difference in the market rent led to the following changes:

in EUR

Market Rent	Value	Absolute Delta	Relative Delta
TOTAL			
– 10%	1,268,740,000	–141,200,000	–10
– 5%	1,339,390,000	–70,550,000	–5
± 0%	1,409,940,000	–	–
+ 5%	1,480,210,000	+70,270,000	+5
+ 10%	1,550,570,000	+140,630,000	+10
OFFICE			
– 10%	761,840,000	–81,900,000	–10
– 5%	802,990,000	–40,750,000	–5
± 0%	843,740,000	–	–
+ 5%	884,700,000	+40,960,000	+5
+ 10%	925,350,000	+81,610,000	+10
RETAIL			
– 10%	320,090,000	–37,050,000	–10
– 5%	338,460,000	–18,680,000	–5
± 0%	357,140,000	–	–
+ 5%	375,320,000	+18,180,000	+5
+ 10%	393,900,000	+36,760,000	+10

in EUR

Market Rent	Value	Absolute Delta	Relative Delta
LOGISTICS			
– 10%	125,100,000	–16,500,000	–12
– 5%	133,300,000	–8,300,000	–6
± 0%	141,600,000	–	–
+ 5%	149,800,000	+8,200,000	+6
+ 10%	158,100,000	+16,500,000	+12
OTHER			
– 10%	61,710,000	–5,750,000	–9
– 5%	64,640,000	–2,820,000	–4
± 0%	67,460,000	–	–
+ 5%	70,390,000	+2,930,000	+4
+ 10%	73,220,000	+5,760,000	+9

AS AT 31 DECEMBER 2020

in EUR						
Discount Rate						**Capitalisation rate**
	+0.50%	in %	±0.00%	in %	−0.50%	in %
TOTAL						
+0.50%	−133,900,000	−9	−54,910,000	−4	+40,710,000	+3
±0.00%	−82,970,000	−6	–	–	+99,970,000	+7
−0.50%	−29,330,000	−2	+57,490,000	+4	+162,770,000	+12
OFFICE						
+0.50%	−87,440,000	−10	−35,410,000	−4	+27,550,000	+3
±0.00%	−54,560,000	−6	–	–	+66,120,000	+7
−0.50%	−20,170,000	−2	+37,200,000	+4	+106,540,000	+12
RETAIL						
+0.50%	−32,400,000	−9	−13,940,000	−4	+8,060,000	+2
±0.00%	−19,430,000	−5	–	–	+22,760,000	+6
−0.50%	−5,740,000	−2	+14,390,000	+4	+38,600,000	+11
LOGISTICS						
+0.50%	−6,600,000	−9	−2,900,000	−4	+1,500,000	+2
±0.00%	−3,900,000	−5	–	–	+4,600,000	+6
−0.50%	−1,000,000	−1	+3,100,000	+4	+7,900,000	+10
OTHER						
+0.50%	−7,460,000	−11	−2,660,000	−4	+3,600,000	+5
±0.00%	−5,080,000	−7	–	–	+6,490,000	+9
−0.50%	−2,420,000	−3	+2,800,000	+4	+9,730,000	+14

STATEMENT OF FIXED ASSETS

Appendix 3 to the consolidated financial statements

OTHER

	Goodwill		Other intangible assets		Operating and office equipment		Technical equipment		Prepayments	
in EUR thousand	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
Acquisition costs at the beginning of the financial year	7,246	7,246	224	223	1,173	1,150	0	1	0	0
Accumulated depreciation/amortisation/impairment as at the beginning of the financial year	463	463	126	126	728	847	0	1	0	0
Carrying amounts as at the beginning of the financial year	6,783	6,783	98	97	445	303	1	0	0	0
Additions	0	0	0	0	1	64	1	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	2,011	0
Disposals	0	0	1	97	24	0	0	0	2,011	0
Depreciation/amortisation	0	0	0	0	119	139	1	0	0	0
Acquisition costs at the end of the financial year	7,246	7,246	223	126	1,150	1,214	1	1	0	0
Accumulated depreciation/amortisation/impairment as at the end of the financial year	463	463	126	126	847	986	1	1	0	0
Carrying amounts as at the end of the financial year	6,783	6,783	97	0	303	228	0	0	0	0

FUNDAMENTAL COMPANY DATA

Appendix 4 to the consolidated financial statements

Name of the reporting company	DEMIRE Deutsche Mittelstand Real Estate AG
Company’s registered office	Frankfurt am Main
Company’s legal form	German stock corporation (AG)
Country in which the company is registered as a legal entity	Germany
Address of the registered office	Robert-Bosch-Straße 11 in Langen
Headquarters	Germany
Description of nature of business activity	Property portfolio holder and investor focused on acquiring and managing commercial real estate in secondary locations
Name of the parent company	AEPF III 15 S. à r. l. Luxembourg
Name of the ultimate parent company of the group of companies	BRH Holdings GP Ltd., Grand Cayman, Cayman Islands

EPRA DISCLOSURES

General overview

DEMIRE AG supplements its reporting in accordance with International Financial Reporting Standards (IFRS) with the best practice recommendations of the European Public Real Estate Association (EPRA).

For the first time, we are reporting on the following key figures: EPRA Net Reinstatement Value (EPRA NRV), EPRA Net Tangible Assets (EPRA NTA), EPRA Net Disposals Value (EPRA NDV), EPRA Net Initial Yield (EPRA NIY or "topped-up" NIY), EPRA Cost Ratios and EPRA Earnings. We also supplement the key figures with a breakdown of capital expenditure and a detailed overview of like-for-like rental development in the DEMIRE portfolio.

OVERVIEW OF EPRA KEY FIGURES

in EUR thousand	31/12/2020	31/12/2021
EPRA Net Asset Value (EPRA NAV)	625,850	629,486
EPRA Triple Net Asset Value (EPRA NNNAV)	556,457	545,649
EPRA Net Reinstatement Value (EPRA NRV)	733,339	740,668
EPRA Net Tangible Assets (EPRA NTA)	591,041	590,970
EPRA Net Disposal Value (EPRA NDV)	556,074	545,267
EPRA Net Initial Yield (in %)	4.9	4.6
EPRA "topped-up" Net Initial Yield (in %)	5.0	4.6
EPRA Vacancy Rate* (in %)	6.9	11.0

	2020	2021
EPRA Earnings	27,847	29,421
EPRA Cost Ratio including direct vacancy costs (in %)	36.9	34.5
EPRA Cost Ratio excluding direct vacancy costs (in %)	33.1	29.7

* Excluding properties held for sale and project developments

EPRA NAV & EPRA NNNAV

The **EPRA Net Asset Value** (EPRA NAV) indicates the intrinsic value of a real estate company. The value is calculated on the basis of the Group equity (before minority interests) adjusted for effects from the exercise of options, convertible bonds and other rights to equity as well as the market values of derivative financial instruments and deferred taxes, i.e. adjusted for items that have no influence on the long-term development of the Group.

EPRA NET ASSET VALUE (EPRA NAV)

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

EPRA NET ASSET VALUE (NAV/EPRA NNNAV)

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Net Asset Value (NAV)	557,956	549,023	–8,933	–1.6
Market value of derivative financial instruments	0	0	0	0.0
Deferred taxes	72,122	84,692	12,570	17.4
Goodwill resulting from deferred taxes	–4,738	–4,738	0	0.0
EPRA NAV (basic)	**625,340**	**628,976**	**3,636**	**0.6**
Number of outstanding shares (basic) (in thousands)	105,772	105,513	–260	–0.2
EPRA NAV per share (basic) (in EUR)	5.91	5.96	0	0.8
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0
EPRA NAV (diluted)	625,850	629,486	3,636	0.6
Number of outstanding shares (diluted) (in thousands)	106,282	106,023	–260	–0.2
EPRA NAV per share (basic) (in EUR)	**5.89**	**5.94**	**0.05**	**0.8**
Market value of derivative financial instruments	0	0	0	0.0
Market value adjustments in liabilities (bonds)	3,831	1,199	–2,632	–68.7
Deferred taxes	–73,224	–85,037	–11,813	16.1
EPRA NNNAV (diluted)	**556,457**	**545,649**	**–10,808**	**–1.9**
EPRA NNNAV per share (diluted) (in EUR)	**5.24**	**5.15**	**0.09**	**–1.7**

EPRA NRV, EPRA NTA, EPRA NDV

The **EPRA Net Tangible Assets** (EPRA NTA) indicator represents the intrinsic value of a company adjusted by the pro-rata deferred taxes on fair-value adjustments of investment properties, the fair value of financial instruments and all intangible assets.

The **EPRA Net Disposal Value** (EPRA NDV) indicator represents the intrinsic value of a company adjusted by the full deferred taxes on fair-value adjustments, the recognised goodwill and the market value adjustment of fixed-interest liabilities.

The **EPRA Net Reinstatement Value** (EPRA NRV) indicator represents the intrinsic value of a company adjusted for fair-value adjustments and the fair value of financial instruments.

NEW REPORTING STANDARD (EPRA NAV)

	31/12/2020			31/12/2021		
in EUR thousand	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NTA	EPRA NDV
IFRS shareholders' equity	557,956	557,956	557,956	549,023	549,023	549,023
Plus:						
I) Hybrid financial instruments	2,173	2,173	2,173	2,173	2,173	2,173
Diluted NAV	**560,129**	**560,129**	**560,129**	**551,196**	**551,196**	**551,196**
plus:*						
II. a) Revaluation of IP (when applying the IAS 40 cost option)	0	0	0	0	0	0
II. b) Revaluation of IPUC (when applying the IAS 40 cost option)	0	0	0	0	0	0
II. c) Revaluation of other assets	0	0	0	0	0	0
III.) Revaluation of leases held as finance leases	0	0	0	0	0	0
IV.) Revaluation of real estate inventory	0	0	0	0	0	0

NEW REPORTING STANDARD (EPRA NAV)

	31/12/2020			31/12/2021		
in EUR thousand	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NTA	EPRA NDV
Diluted NAV at market value	**560,129**	**560,129**	**560,129**	**551,196**	**551,196**	**551,196**
less:**						
V) Deferred taxes on valuation gains from investment properties	75,584	37,792	–	93,116	46,558	–
VI) Market value of derivative financial instruments	0	0	–	0	0	–
VII) Goodwill as a result of deferred taxes	–4,738	–4,738	–4,738	–4,738	–4,738	–4,738
VIII. a) Goodwill according to IFRS balance sheet	–	–2,045	–2,045	–	–2,045	–2,045
VIII. b) Intangible assets according to IFRS balance sheet	–	–97	–	–	0	–
plus:*						
IX) Market value of fixed-interest liabilities (bonds)	–	–	2,728	–	–	854
X) Revaluation of intangible assets at fair value (optional)	0	–	–	0	–	–
XI) Land transfer tax/ acquisition costs	102,364	0	–	101,094	0	–
NAV	**733,339**	**591,041**	**556,074**	**740,668**	**590,970**	**545,267**
Number of shares (fully diluted)	106,282	106,282	106,282	106,023	106,023	106,023
NAV per share	**6.90**	**5.56**	**5.23**	**6.99**	**5.57**	**5.14**

* Plus = assets (+) liabilities (–), whether on or off the balance sheet
** Less = assets (–); liabilities (+) (part of balance sheet)

EPRA Net Initial Yield

The **EPRA Net Initial Yield** (EPRA NIY) indicator is the annualised contractual rent in relation to the fair value of the completed property portfolio plus an investor's estimated ancillary acquisition costs.

The EPRA Net Initial Yield compares the annualised rental income (excluding non-allocable property expenses) with the market value of the property portfolio as at the balance sheet date. The "topped-up" calculation includes hypothetical rents for expiring rent-free periods.

EPRA NET INITIAL YIELD/TOPPED-UP (EPRA NIY)

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Investment property	1,426,291	1,433,096	6,805	0.5
Shares in companies accounted for using the equity method	596	1,025	430	72.2
Real estate held for sale	31,000	0	–31,000	–100.0
Real estate portfolio (net)	**1,457,887**	**1,434,121**	**–23,765**	**–1.6**
Estimated ancillary acquisition costs	72,894	71,706	–1,278	–1.8
Real estate portfolio (gross)	**1,530,781**	**1,505,828**	**–25,043**	**–1.6**
Annualised cash rental income	85,171	77,688	–7,483	–8.8
Non-allocable real estate operating costs	–9,705	–9,110	595	–6.1
Annualised net cash rental income	**75,466**	**68,578**	**–6,888**	**–9.1**
Rent-free periods	462	400	–62	–13.5
Annualised "topped-up" net rental income	**75,928**	**68,978**	**–6,950**	**–9.2**
EPRA Net Initial Yield (in %)	**4.9**	**4.6**	**–30 bp**	**–6.1**
EPRA "topped-up" Net Initial Yield (in %)	**5.0**	**4.6**	**–40 bp**	**–8.0**

EPRA Earnings

The **EPRA Earnings** reflect the recurring earnings from the core operating business. The EPRA Earnings are adjusted in particular for valuation effects, deferred taxes and the sales earnings from the consolidated result.

EPRA EARNINGS

in EUR thousand	2020	2021	Change	in %
Net profit/loss for the period	9,166	61,587	52,421	> 100
Profit/loss from fair-value adjustments of investment properties	22,134	–48,777	–70,911	–
Profit/loss from the sale of real estate and real estate companies	1,046	–1,441	–2,487	–
Profit/loss from companies accounted for using the equity method	–247	–1,084	–837	> 100
Profit/loss from the sale of real estate inventory	0	0	0	0.0
Taxes on sales earnings	–1	4,106	4,107	–
Goodwill impairment	0	0	0	0.0
Valuation result of financial instruments	0	0	0	0.0
Acquisition costs for share deals and for shares in non-controlling joint ventures	0	0	0	0.0
Deferred taxes on EPRA adjustments	–3,397	12,564	15,961	–
Non-controlling interests	–855	2,466	3,321	–
EPRA Earnings	**27,847**	**29,421**	**1,574**	**5.7**
Number of outstanding shares (basic)	105,772	105,513	–260	–0.2
EPRA earnings per share (EPS basic)	0.26	0.28	0.02	5.9
Number of outstanding shares (diluted)	106,282	106,023	–260	–0.2
EPRA earnings per share (EPS diluted)	0.26	0.28	0.02	5.9

EPRA Cost Ratio

As a ratio of EPRA costs to gross rental income, the **EPRA Cost Ratio** provides a statement on the cost efficiency of a real estate company – once including and once excluding direct vacancy costs.

EPRA COST RATIO

in EUR thousand	2020	2021	Change	in %
Administrative and operational costs according to IFRS	**32,015**	**28,250**	**–3,765**	**–11.8**
General and administrative expenses	13,368	11,157	–2,211	–16.5
Other operating expenses	1,365	1,950	584	42.8
Operating expenses to generate rental income	38,608	35,350	–3,258	–8.4
Income from utility and service charges	–21,327	–20,206	1,120	–5.3
Amortisation and depreciation	293	140	–153	–52.3
EPRA costs (including vacancy costs)	32,308	28,390	–3,918	–12.1
Direct vacancy costs	**–3,370**	**–3,908**	**–538**	**16.0**
EPRA costs (excluding vacancy costs)	28,937	24,481	–4,456	–15.4
Rental income	**87,509**	**82,325**	**–5,184**	**–5.9**
EPRA Cost Ratio (including vacancy costs) (in %)	36.9	34.5	–240 bp	–6.6
EPRA Cost Ratio (excluding vacancy costs) (in %)	**33.1**	**29.7**	**–340 bp**	**–10.3**

EPRA Capital Expenditures

The 2020 acquisitions relate to the purchase of a property in Frankfurt am Main.

The investments under "Core Portfolio" 2020 and 2021 and "Other" mainly relate to value-enhancing conversion and expansion measures at various properties in our portfolios.

The DEMIRE Group had no interests in joint ventures in the 2020 financial year. In 2021, the company participated in a joint venture. This joint venture purchased a property in Frankfurt am Main in July 2021 and has held it throughout the reporting period. However, no capex activities have been implemented and no rent or similar incentives have been granted.

EPRA CAPITAL EXPENDITURE ANALYSE

	2021		
in EUR thousand	DEMIRE Portfolio	Joint Venture	Total
Acquisitions	0	164,441	164,441
Development portfolio*	0	0	0
Core Portfolio	23,725	0	23,725
Other**	5,258	0	5,258

	2020		
in EUR thousand	DEMIRE Portfolio	Joint Venture	Total
Acquisitions	43,082	0	43,082
Development portfolio*	0	0	0
Core Portfolio	4.550	0	4,550
Other**	8,815	0	8,815

* DEMIRE AG does not engage in real estate development
** Rent incentives and agent's commission

EPRA Vacancy Rate

The **EPRA Vacancy Rate** is the ratio of market rent for vacant space to the market rent for the total space in the portfolio (as at the balance sheet date).

EPRA VACANCY RATE*

in EUR thousand	31/12/2020	31/12/2021	Change	in %
Estimated market rent for vacancies	6,609,917	9,760,590	3,150,673	47.7
Estimated market rent for total portfolio	95,769,298	89,018,442	–6,750,856	–7.0
EPRA Vacancy Rate (in %)	6.9	11.0	410 bp	58.9

* Excluding properties held for sale and project developments

The increase in the EPRA Vacancy Rate as at 31 December 2021 in comparison to the same date of the previous year is due, in particular, to expired contracts for two major tenants in the properties in Essen and Kassel.

EPRA like-for-like rental growth

Like-for-like rental income is rental income from properties in a portfolio that have been held continuously within two comparison periods. Changes from portfolio additions and disposals are therefore not included. In a comparison of the periods, the organic component of the change in rental income from letting activities becomes particularly clear.

LIKE-FOR-LIKE GROWTH 31 DECEMBER 2021

	Total portfolio		Like-for-like portfolio				
				31/12/2020	31/12/2021	in EUR million	in %
in EUR thousand	Market value	Annualised contractual rents	Market value	Annualised contractual rents	Annualised contractual rents	LFL growth	LFL growth
Office	843.7	47.2	843.7	48.2	47.2	–1.0	–2.0
Retail	357.1	22.8	357.1	23.1	22.8	–0.2	–1.0
Logistics & Other	211.6	8.0	211.6	8.0	8.0	0.1	0.7
TOTAL	**1,412.5**	**78.1**	**1,412.5**	**79.2**	**78.1**	**–1.1**	**–1.4**

LIKE-FOR-LIKE GROWTH 31 DECEMBER 2020

	Total portfolio		Like-for-like portfolio				
				31/12/2019	31/12/2020	in EUR million	in %
in EUR thousand	Market value	Annualised contractual rents	Market value	Annualised contractual rents	Annualised contractual rents	LFL growth	LFL growth
Office	968.3	54.8	968.3	55.9	54.8	–1.1	1.9
Retail	376.9	25.4	302.7	19.9	20.0	0.2	0.8
Logistics & Other	158.3	8.7	110.3	6.4	6.4	0.5	7.5
TOTAL	**1,503.5**	**89.0**	**1,381.3**	**82.2**	**82.2**	**0.4**	**– 0.5**

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