HOWOGE

HOWOGE Wohnungsbaugesellschaft mbH
IFRS Consolidated Financial Statements 2021

This is a convenience translation of the annual report. The German report is the sole authoritative version.

HOWOGE

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

I. Group management report

31 December 2021

This is a courtesy translation of the annual report. The German report is the sole authoritative version.

I. Group management report

1 Information on the Group

1.1 Business purpose

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung ("HOWOGE") and its subsidiaries number among the top 10 biggest landlords in Germany, with 65,131 rental units of their own relevant for valuation. HOWOGE stands for sustainable portfolio development, innovative living concepts and social commitment with a focus on Lichtenberg, Hohenschönhausen, Treptow-Köpenick, Weissensee and Pankow. As a municipal housing company, HOWOGE plays a key role in increasing the municipal housing stock and therefore in supplying broad sections of the population, especially middle and low-income households, with inexpensive housing. HOWOGE continues to systematically gear its business processes towards fulfilling its municipal obligation to supply housing. The Company's absolute housing stock is continuously increased by building new apartments and buying existing dwellings.

HOWOGE is engaged in property transactions in the public interest as part of the Berlin School Building campaign. In this context, the School Construction segment performs the traditional coordination and management functions of a building owner.

The Group consists of HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung and five other companies that are wholly owned by HOWOGE:

- Wohnungsbaugesellschaft Lichtenberg mit beschränkter Haftung (WBL)
- HOWOGE Servicegesellschaft mbH (Servicegesellschaft)
- HOWOGE Wärme GmbH (Wärme GmbH)
- Kramer + Kramer Bau- und Projektmanagement GmbH (Kramer + Kramer)
- KW Goecke S.A.R.L.

WBL is exclusively a holding company with a total of 48,623 rental units (thereof 40,404 apartments) as of 31 December 2021.

Servicegesellschaft provides ancillary residential services within the Group, including caretaker services, mobile caretakers for night shifts, the operation of concierge desks and neighborhood assistance services. Servicegesellschaft also operates in two other business areas: system support and construction quality assurance. System support is designed to provide high-quality support for the heating and electricity supply systems in the HOWOGE Group. Employees in construction quality assurance also pursue quality targets that are used to manage building work performed in the course of new construction and refurbishment projects.

Wärme GmbH acts as a commercial supplier of heating energy and hot water to the Group's housing stock. Its tasks also include end-to-end energy management ranging from building analysis, planning and management of energy-saving measures to operational management of the facilities and control of consumption. The entity also explores options for using renewable energies with the aim of further reducing carbon emissions and implements them for the Group. Additionally, Wärme GmbH provides measurement and metering services for energy billing for the HOWOGE Group's portfolio and supplies electricity to tenants.

Kramer + Kramer supports HOWOGE in the execution of its numerous new housing construction projects and the preparation and execution of school construction projects for the State of Berlin by providing project management services as specified by the AHO ["Ausschuss der Verbände und Kammern der Ingenieure und Architekten für die Honorarordnung e.V.": Committee of the Associations and Chambers of Engineers and Architects for Fee Regulations] and by providing planning and construction management and advisory services for new construction and refurbishment projects. As of 1 January 2022, a profit and loss transfer agreement was concluded with Kramer + Kramer.

On 28 January 2020, HOWOGE acquired 100% of the shares in KW Goecke S.A.R.L., Bertrange, Luxembourg. The purpose of the entity was to construct a residential rental building on the land at Goeckestrasse 32 – 34 in Berlin-Lichtenberg. Giving due consideration to the tax situation with respect to real estate transfer tax, the entity is expected to be merged into HOWOGE in 2022.

HOWOGE also holds a 50% investment in the development company Elisabeth-Aue GmbH. The development company Elisabeth-Aue GmbH was founded as a joint venture with GESOBAU AG. The purpose of the company is to develop land, especially in the Elisabeth-Aue development area in Berlin-Pankow, whose potential for residential construction is to be explored and substantiated with concrete figures as part of the revision of the residential urban development plan under the Berlin government's coalition agreement. As of 31 December 2021, the company had no employees.

Based on a general contract for services with WBL and a domination and profit and loss transfer agreement with Servicegesellschaft, HOWOGE GmbH performs all strategic tasks and makes the financial and investment decisions relating to portfolio management and ancillary services. Additionally, it assumes the overarching group management functions for all entities. As of 31 December 2021, HOWOGE GmbH had 30,162 rental units (thereof 24,727 apartments) in its portfolio.

1.2 Management system

HOWOGE is managed using aggregated and strategic performance indicators at group level and specific metrics for the operational management of the School Construction and Residential segments, applying an integrated planning and control system based on key performance indicators. An integrated long-term plan for a period of 10 years is prepared on the basis of the business strategy and is reviewed and adjusted on an annual basis. In addition to planning earnings, financial position and cash flows, this also includes the Company's non-financial value drivers and factors in the individual performance of each property and project. The forecast process entails a regular update for the current fiscal year based on current business performance. For the purposes of targeted management, management-relevant indicators are continuously compared against current business performance and current processes as part of a standardized, monthly reporting process. Any necessary actions in the event of deviations are implemented and tracked.

1.3 Operational metrics

Overall portfolio

The change in the housing stock measured by reference to the number of apartments available for rent compared to the plan is a key factor for assessing operating performance. This is due to the ambitious growth strategy aimed at reaching a housing portfolio of 84,100 apartments by 2026.

In view of the housing stock, further monitoring of the development of the rental situation is based on indicators that influence revenue.

Vacancy rate

The vacancy rate for apartments and the turnover rate (both in %) are measured and monitored continuously. The vacancy rate is an indicator of the effectiveness of modernization and rental activities and of success in the implementation of development plans.

Net rent (excluding heating and utilities)

The development of net rent (excluding heating and utilities) in EUR/sqm is recorded at the overall housing portfolio level and is also broken down into existing apartments including purchases and new-builds. The Company expects average net rent (excluding heating and utilities) for residential units to increase from EUR 6.25/sqm to EUR 6.35/sqm as a result of additions, completed new-builds and moderate increases in rents for current tenants, with the rent per square meter at year-end amounting to EUR 5.98 for existing units and EUR 9.55 for new-build units.

Monitoring of the administrative expenses for facility management is subject to additional controls. Overall, this creates a comprehensive overview of the factors driving earnings, enabling direct adjustments to the strategy in the event of significant deviations from plan figures.

Reletting rate

Increasing the supply of social housing is an integral part of HOWOGE's strategy and objectives. As a result, we strive to achieve a reletting rate of 63% to persons holding certificates of eligibility to social housing (WBS). In order to achieve this objective, the WBS reletting rate (in %) is monitored continuously to ensure accountability.

1.4 Financial performance indicators

Funds from operations (FFO), leverage ratio and cash flows from operating activities are key performance indicators. Additional performance indicators relevant for management such as EBITDA are also recorded and analyzed at group level.

FFO is calculated for each element individually in accordance with German commercial law and serves as a basis for assessing the profitability of operating activities and their sustainability.

Operational management is carried out largely on the basis of the HGB ["Handelsgesetzbuch": German Commercial Code] figures. In the future, FFO will be adjusted for special effects from transactions, reorganizations and extraordinary, one-time effects. Due to the change in the financing structure, HGB figures will be regularly converted to IFRS figures in a reconciliation for the purposes of internal management reporting from 2022 onwards. The HGB-based short and long-term corporate budget will also be converted to an IFRS format.

The leverage ratio is the ratio of total financial liabilities less cash and cash equivalents to total assets of HOWOGE and is calculated on a quarterly basis and communicated to the management board.

1.5 Objectives and strategies

As a municipal housing company, it is HOWOGE's objective to mature from a municipal property manager to a permanent property-holding neighborhood and urban developer by placing sustainability and social responsibility at the heart of its portfolio strategy. In addition to property management, the Group's core activities include new housing construction and school construction. HOWOGE considers itself a reliable partner to the State of Berlin with a clear focus.

The strategic objectives and tasks of the HOWOGE Group are directly connected to the overarching social demands and challenges of the growing metropolis of Berlin. The HOWOGE business strategy confirmed by the supervisory board for the first time in September 2020 and updated regularly focuses on medium to long-term portfolio growth to around 100,000 apartments. The number of commercial units is also to be increased significantly to approximately 1,700 in order to help stabilize housing estates and fill them with life through mixed use. Portfolio growth will primarily be driven by new construction projects of our own. The apartments to be built will account for the diverse range of household types and sizes and will be able to be adjusted flexibly to changes in the structure of the population.

If the opportunity arises, growth will be supplemented by acquiring old-build apartments in accordance with the acquisition criteria in the context of remunicipalization. The Group ensures portfolio growth and systematically enhances and maintains the value of the existing housing stock through targeted deployment of resources, neighborhood-specific development strategies and active portfolio management, leveraging the portfolio's densification potential in the form of smaller new construction projects, roof conversions and vertical enlargement to reduce the economic and environmental impact and save resources.

A key task is to design the Group's internal processes and requirements in order to futureproof the Group and to meet the growing demands on effectiveness and quality of customer relationships, rigorous execution of new construction work, communication with tenants, policymakers and society in the State of Berlin as well as economic viability.

In the short to medium term in particular, the focus will be on developing and implementing digitalized processes in facility management activities and making personnel throughout the Group fit for the future, especially given the demographic change in our workforce and the planned portfolio growth.

The aim is to maintain funds from operations at the current level and expand going them forward in order to ensure that the HOWOGE Group has the flexibility it needs to act even in the event of a potential change in the conditions currently underlying the growth strategy.

Internal funding plays a significant role in financing strategic growth. Accordingly, the leverage ratio (HGB) relevant for management will increase to around 70% of total assets (HGB) relevant for management in the next 10 years due to the strong growth and the School Construction segment.

2 Economic report for 2021

2.1 Economic environment

In 2019, the Berlin economy continued to expand as in previous years. Real growth amounted to 3%, once again making Berlin the top economy of all of Germany's federal states. This positive trend was expected to continue at the beginning of 2020. However, the coronavirus pandemic and the related lockdown in March 2020 had a severe impact on nearly all economic sectors in Berlin. The focus turned to providing pragmatic support to companies in need without red tape so they could continue to operate and secure the related jobs. Subsequent measures were then aimed at rebooting and reviving the Berlin economy.[1] These measures had the intended effect. Up to the third quarter of 2021, the Berlin economy continued to stabilize and the business situation went from strength to strength. Some services were actually able to expand and even the tourism and hospitality sectors gained traction, though the current course of the pandemic is now having renewed negative impacts.[2] In particular, the impact on supply constraints and the lack of manpower as a result of the pandemic will be significant factors for economic development in the next few months.

Since 2003, the population of Berlin has shown an upward growth trend. In the first half of 2021 the population remained constant at 3.66 million.[3] A moderate growth scenario forecasts a population of approximately 3.92 million for 2030. In this scenario, the population grows continuously, but annual growth rates fall steadily. This means that, in the future, Berlin will have the growth rate of a small medium-sized city.[4]

HOWOGE's housing estates – as well as the Lichtenberg district and the entire city – benefit from the continued high demand for housing. Many refugees are still living in modular housing in Lichtenberg and looking for their own apartment in the district. The Lichtenberg, Pankow, Treptow-Köpenick and Marzahn-Hellersdorf districts are expected to see population growth above the average for Berlin in the period to 2030.[5]

---

[1] Wirtschafts- und Innovationsbericht (https://www.berlin.de/sen/wirtschaft/kunjunktur-und-statistik/archiv/wib2020.pdf)
[2] See "Konjunkturbericht zur wirtschaftlichen Lage in Berlin" (economic report on the economic situation in Berlin), third quarter of 2021 (https://www.berlin.de/sen/wirtschaft/wirtschaft/konjunktur-und-statistik/konjunkturberichte/)
[3] https://www.statistik-berlin-brandenburg.de/258-2021
[4] See "Zeitschrift für amtliche Statistik Berlin Brandenburg" February 2021 (statistik-berlin-brandenburg.de)
[5] See "Zeitschrift für amtliche Statistik Berlin Brandenburg" February 2021 (statistik-berlin-brandenburg.de)

In the market analysis for HOWOGE (October 2021), Empirica states that Berlin had around 2.03 million households in 2020, up approximately 0.4% on 2019. At the end of 2020, Berlin had 1.98 million apartments[6], around 13,300 more than in the prior year.[7]

However, new construction activities cannot keep up with the high demand. A gradual increase in the completion of new apartment buildings has been seen since 2013. After 18,999 completed apartments in 2019, the highest level in five years, 16,337 apartments were completed in 2020. The pandemic situation had a noticeable impact on the construction sector as well. The population grew by around 7.08% from 2013 to 2020. The structural shortage trends on the Berlin housing market are repeatedly laid bare in this context.

By contrast, more than 20,000 building permits were issued, remaining at a high level despite the COVID-19 pandemic. The new government of the State of Berlin has set an annual target of 20,000 new-build apartments.[8] 200,000 new apartments are planned to be built by 2030.[9]

To achieve these ambitious new-build targets, the relevant human resources and technical capacities must be available, while the process for obtaining building rights and permits must also be expedited. The human resources available in the construction industry and the public authorities in particular must increasingly be assessed as relevant from a risk perspective, since these resources are not adequate. As far as the technical capacities are concerned, other market participants have pared back their investing activities from prior-year levels due to market regulation in the shape of the rent cap and, to a greater extent, due to the coronavirus pandemic. As a result, a sufficient number of construction companies have been participating in HOWOGE's tender procedures, though the shortage of construction material reserves and lack of skilled labor have led to significant price increases. For smaller construction projects or maintenance and refurbishment services, there has been a growing tendency towards only a few or mostly overpriced bids due to the lack of capacities in the construction sector.

Construction activities vary widely from one district of Berlin to the next, which is mainly attributable to the availability of land for development and the process of obtaining building rights and permits. Building is concentrated in the central and eastern districts of the city (the focus of the HOWOGE portfolio). Since the available land is not generally ready for development and, in many cases, amendments to the land use plans and development plans need to be drawn up, the speed of planning and obtaining building rights and permits will not gather pace, but is set to decrease unless the capacities of the building authorities are ramped up.

---

[6] https://www.statistik-berlin-brandenburg.de/bauen-und-wohnungen
[7] https://download.statistik-berlin-brandenburg.de/f9babce1e3c8742e/ac4fd636320d/SB_F02-02-00_2020j01_BE.pdf
[8] See press release of the Governing Mayor dated 30 December 2021 (https://www.berlin.de/rbmskzl/aktuelles/pressemitteilungen/2021/pressemitteilung.1162443.php) (http://www.stadtentwicklung.berlin.de/aktuell/pressebox/archiv_volltext.shtml?arch_1711/nachricht6455.html)
[9] See Berlin coalition agreement 2021 to 2026 between the SPD, Bündnis 90/Die GRÜNEN and DIE LINKE

The continued high demand for housing confirms the current trend whereby property prices and rents in Berlin are among those rising most strongly in Germany.

The average asking rent in Berlin is currently EUR 10.78/sqm per month. As a result of the higher volume of new-builds and the implementation of the rent cap, net rent (excluding heating and utilities) for existing housing stock fell by approximately 4%. After the rent cap was removed, having been found to be unconstitutional, asking rents for existing apartments increased again in the first half of 2021.

In Lichtenberg, the average asking rent was EUR 10.00/sqm per month and thus slightly lower than the average for Berlin. Up 25% since 2015, asking rents have increased at a rate that is marginally above average. Following the abolishment of the Berlin rent cap, the Senate Department for Urban Development, Building and Housing took other actions aimed at limiting net rents (excluding heating and utilities). Municipal companies are thus obliged to implement the relevant restrictions on rent increases for their existing tenants and new rentals. Rents that were effectively capped or reduced in the past few years will need to rise again by a reasonable margin in order to cover rising costs in all areas. Otherwise, municipal companies will find it increasingly difficult to achieve growth targets. For other market participants, long-term rent trends are once more subject to the regulations applicable Germany-wide. The new federal government has sent a clear signal by creating the new Ministry for Housing, Urban Development and Building. This is both a clear commitment to building more new homes and to centrally directing and managing the framework conditions for the housing market and the system to promote good housing supply.

Condominium prices in Berlin have increased even more sharply than rents, with asking prices seeing continuous growth for many years. Since 2016, prices have risen by 58.8%, though growth rates have started to tail off recently. The average asking price for condominiums (new-builds and old-builds) was EUR 5,930/sqm in the last quarter of 2020. A new-build condominium was priced at EUR 5,930/sqm on average, while old-build condominiums had an average asking price of EUR 4,849/sqm. Purchase prices vary widely by city district and the age category of the property.[10]

[10] See IBB Wohnungsmarktbericht 2020 (https://www.ibb.de/media/dokumente/publikationen/berlinewohnungsmarkt/wohnungsmarktbericht/ibb_wohnungsmarktbericht_2020.pdf)

The MietenWoG Bln ["Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin": Act on the Limitation of Rents for Housing in Berlin], i.e., the Berlin rent cap, was declared null and void in April 2021, since it is not compatible with the GG ["Grundgesetz": German Basic Law]. From February 2020 onwards, this act froze rents for around 1.5 million apartments completed prior to 2014 at the level of June 2019. From 23 November 2020, rents that were more than 20% above the defined upper limits were also classified as excessive and were legally prohibited.

2.2 Business development in 2021

2.2.1 Building stock and letting

As of 31 December 2021, the HOWOGE Group managed a total of 78,784 rental units (prior year: 76,499). This own portfolio relevant for valuation breaks down as follows:

	31 Dec 2021	Prior year
Total portfolio	**78,784**	**76,561**
Apartments	65,131	64,007
Commercial units	874	798
Garages, parking spaces and miscellaneous	12,578	11,587
Owner-occupied units	201	169

The residential portfolio increased by 279 apartments in the reporting year as a result of new buildings constructed by the Group (Melli-Besse-Strasse 64 – 70/Strasse am Flugplatz 65 – 69d (101 apartments, partial acceptance) and Neustrelitzer Strasse 65 (105 apartments) and Hauptstrasse 37 – 49 (73 apartments)).

The handover of the completed development at Friedenauer Höhe added another 238 apartments to the residential portfolio.

The portfolio was expanded by another 607 apartments following the acquisitions of housing stock at Mehringplatz 12 and 14/Friedrichstrasse 246, Wilhelmstrasse 2 – 6, Ruschestrasse 43, Margaretenstrasse 13 – 14 and Anton-Saefkow-Platz 8.

The reporting year was dominated by the letting of the completed development and our own new construction activities. With three projects ready for letting, a total of 416 apartments were placed on the rental market. The new building rental team took care of the letting process.

A large proportion of the new apartments were successfully let before the benefits and burdens had been transferred.

The results are as follows:

Project	Start of rental agreement	Transfer of title/ start of use	Number of residential units	Agreements in place from transfer of title (as of 31 Dec 2021)	Agreements signed as of 31 Dec 2021
Johannisgärten	October 2020	First section: 10 Dec 2020	213	0	200
	October 2020	Second section: 16 May 2021	101	5	84
Lauterplatz 2 – 10	May 2021	1 Aug 2021	238	23	204
Neustrelitzer Strasse 65	May 2021	1 Sep 2021	105	26	105
Hauptstrasse 37 – 49	Aug 2021	16 Dec 2021	73	20	20

The letting process is now almost completely digitized, which ensures non-discriminatory letting. It also contributed to a similar high level of letting as in the prior year despite the pandemic-related restrictions.

Our housing stock increased by 1,124 on the prior year to 65,131 apartments. The increase comprises 517 new-build apartments and 607 apartments from acquisitions of existing buildings. However, the figure is 264 apartments short of the target of 65,395. Overall, 2021 was dominated by the preparation and execution of the acquisition of around 8,300 apartments in the Vonovia and Deutsche Wohnen transaction. The apartments will be transferred to the HOWOGE portfolio and to acquired holding companies as of 3 January 2022.

As of 31 December 2021, the vacancy rate in HOWOGE's portfolio was 1.25%. This is an improvement on the prior-year figure of 1.8% and the forecast of 1.5% for the end of 2021. Deviations in total vacancies are mainly due to new-build properties being transferred to facility management and their initial letting. The new-build vacancy rate was 0.7% as of 31 December 2020 and 0.2% as of 31 December 2021. The regular turnover-driven vacancy rate was 0.4% as of 31 December 2021, lower than the prior-year level of 0.6%. At 5.3%, turnover was slightly below the budgeted 6.0%. The coronavirus pandemic had only a marginal impact on rental receivables in the Residential segment in 2021 as well. Loss allowances for rental receivables and outstanding rental receivables in 2021 were unchanged from the low prior-year level.

In 2021, rental agreements had been concluded for 41% of the new-build apartments ready for letting by the time the burdens and benefits were transferred. For 14% of the apartments, the term of the agreement started when the benefits and burdens were transferred. At 5.3%, turnover was slightly below the budgeted 6.0%. The coronavirus pandemic had only a marginal impact on rental receivables in the Residential segment in 2021 as well. Loss allowances for rental receivables and outstanding rental receivables in 2021 were unchanged from the low prior-year level. With respect to initial and subsequent letting, the WBS reletting rate was 64% and the net rent (excluding heating and utilities) was EUR 6.25/sqm. The Company has already met the requirements of Berlin's latest climate protection agreement for 2020. The target agreed on was to reduce carbon emissions to 1.12 metric tons per apartment per year. In 2019, emissions amounted to 0.97 tons and in 2020 to 0.96 tons. The figures for 2021 are not yet available due to the billing period ending in mid-2022.

2.2.2 Portfolio expansion

HOWOGE will continue its growth trajectory in the years ahead through new-builds and acquisitions. The structures and processes to achieve a significant increase in output are now in place. In 2022, we will complete nearly 1,700 new apartments for the first time. Sufficient land reserves have been acquired for future years and there is potential for densification in our existing portfolio, enabling growth targets to be achieved. Obtaining building rights and permits will continue to be problematic for a wide range of reasons, such as lack of buy-in from residents, the need to create ecological compensation areas and the slow process for obtaining planning rights. While increases in construction costs were tangible but tolerable in the past few years, these costs saw significant increases in 2021 due to the pandemic. The average construction cost index climbed by around 13% in the past year. In addition, flat rental income due to the rent limitations under the cooperation agreement 2.0 makes it more and more difficult to secure the economic viability of projects. In order to counteract this trend, a number of factors need to be adjusted, including the optimization of construction costs through standardization and typification as well as efficient floor plans. On the other hand, the topic of economic viability will have to be discussed with our shareholder.

The “new-builds in neighborhoods” department was set up in the Group to enable HOWOGE to systematically expand its influence on the design and development of housing estates or neighborhoods known as “Quartiere.” The aim is to create new-builds that better cater to the needs of existing tenants.

Our own new building activities

The following projects were completed by the end of 2021 – ready for inclusion in the total portfolio relevant for management – and facility management activities commenced:

- Johannisgärten (partial acceptance of 101 apartments)
- Neustrelitzer Strasse 65 (105 apartments)
- Hauptstrasse 41 – 49 (73 apartments)

Management activities are scheduled to commence for the following projects in 2022:

- Im Lindenhof 21, 30 (12 apartments)
- Rüdickenstrasse 23 – 27/Rotkamp 2 – 6 (220 apartments)
- Hermann-Dorner-Allee (613 apartments)
- Frankfurter Allee 218 (394 apartments)

Planning for additional new-build projects commenced or continued. This mainly relates to the following projects, though planning rights have yet to be obtained for most of them:

- Barther Strasse 17, 19 (177 apartments)
- Carossa Quartier (229 apartments)
- Detlevstrasse (450 apartments)
- Gehrensee/Ahrensfelder Chaussee (498 apartments)
- Indira-Ghandi-Strasse 6 (60 apartments)
- Joachimsthaler Strasse (111 apartments)
- Konrad-Wolf-Strasse 117 (27 apartments)
- Lückstrasse 33, 345 (150 apartments)
- Vincent-van-Gogh-Strasse 33 – 41 (120 apartments)

Planning has been largely completed or building permits obtained for the following construction projects, enabling building work to commence in 2022:

- Anne-Frank-Strasse 8 – 10 (583 apartments)
- Bahrfeldtstrasse 33 – 39 (63 apartments)
- Falkenberger Chaussee 95 (139 apartments)
- Fischerhüttenstrasse/Sven-Hedin-Strasse (130 apartments)
- Rosenfelder Ring 78 – 84 (88 apartments)
- Sewanstrasse 220 – 256 (102 apartments)
- Studentenhaus Plänterwald (260 apartments)
- Wiecker Strasse 8, 10 (91 apartments)
- Walter-Friedrich-Strasse 50 (120 apartments)
- Wittenberger Strasse 40 (133 apartments)

Land acquisition will continue to focus on adding new land to our portfolio. Densification on land we already own will also be a priority. Along with the approximately 8,300 apartments purchased from Vonovia and Deutsche Wohnen, HOWOGE also acquired additional development land reserves, primarily in the larger housing estates (Thermometersiedlung, Brusebergstrasse). In some instances, the seller had already initiated planning processes that HOWOGE can pursue further. Despite the increase in purchase prices for land, the acquisition of potential development land remains a focus.

On notarization of the purchase agreement for a significant section of Güterbahnhof Grunewald, one of the last big innercity land reserves in Berlin with medium to long-term development prospects was secured for the HOWOGE Group.

As part of densification activities on our own land, the following construction projects will be completed and management activities are scheduled to commence in 2022:

- Atzpodienstrasse 24, 25a (50 apartments)
- Eitelstrasse 60, 61 (26 apartments)
- Rummelsburger Strasse 25f (36 apartments)
- Skandinavische Strasse 15, 16 (29 apartments)
- Zachertstrasse 33 (27 apartments)

The pilot projects for vertical enlargement of residential units are in the construction phase and facility management activities are scheduled to commence in 2022:

- Franz-Schmidt-Strasse 11 – 17 (22 apartments)
- Seefelder Strasse 34, 36, 38 (28 apartments)

Development

Acquisition of developments continues to be a focus. New opportunities have arisen from the new strategy to acquire land and projects in the affluent belt surrounding Berlin, especially in the eastern part. This saw the acquisition of a project in the State of Brandenburg for the first time in 2021:

- Hartfilplatz (Eichenring) (221 apartments)

This development project is an excellent addition to the HOWOGE portfolio, as it is located just beyond the city limits across from Berlin-Buch and is thus ideally situated to be managed by the Buch service office.

The following development project was completed in 2021 and transferred to HOWOGE:

- Friedenhauer Höhe (238 apartments)

We have thus acquired publicly funded residential units in the western part of innercity Berlin.

The benefits and burdens are scheduled to be transferred for the following developments in 2022:

- Treskowstrasse 12 – 13 (37 apartments) in February 2022
- Am Birkenwäldchen (126 apartments) in March 2022 and October 2022

Complex refurbishment activities

The entire housing stock of HOWOGE has undergone complex maintenance and modernization in the last 25 years. Refurbishment activities are concentrated on the remaining properties and on the newly acquired properties that are largely unrefurbished and have a high maintenance backlog. In 2021, this relates to the following projects:

- Grevesmühlener Strasse 16 – 20
- Hendrichplatz 2 – 10, Ruschestrasse 22-33b
- Leopoldstrasse 18, 18a, 19, 19a, 20
- Rosenfelder Strasse 1, 1a/Skandinavische Strasse 10 – 13a
- Turmstrasse 45

The following properties will undergo complex maintenance work in 2022, increasingly for the purposes of effectively reducing carbon emissions by testing new technologies in pilot projects. The aim is to bring the existing buildings up to the KfW55 standard at a minimum.

- Kienhorststrasse 97, 99/Lienemannstrasse 30 – 36
- Rhinstrasse 2, 4
- Rhinstrasse 129 – 135
- Zerbster Strasse 80 – 84

Portfolio purchases

The following purchased properties were included in facility management activities or were notarized in 2021:

- Anton-Saefkow-Platz 8 (transfer of benefits and burdens in December 2021)
- Vonovia/Deutsche Wohnen purchase (transfer of benefits and burdens in January 2022)
- Mehringplatz (transfer of benefits and burdens on 1 February 2021)
- Ruschestrasse 43 (transfer of benefits and burdens on 1 March 2021)
- Seehausener Strasse (modular housing for refugees) (transfer of benefits and burdens on 1 July 2021)
- Mariendorfer Damm (transfer of benefits and burdens in 2022)
- Margaretenstrasse 13 – 14 (transfer of benefits and burdens in August 2021)
- Turiner Strasse 6 (transfer of benefits and burdens in January 2022)

Most of these buildings are partially refurbished; the relevant maintenance work has been taken into account in the analysis of economic viability and will be gradually carried out over the next few years.

The portfolio purchased from Vonovia and Deutsche Wohnen includes many unrefurbished properties, for which refurbishment requirements must first be determined in 2022 before they are taken into account in future planning.

School construction and refurbishment

The master agreement for the new “School Construction” segment between HOWOGE and the State of Berlin was adopted on 7 January 2019 and came into effect after being signed by the management board and the three Berlin Senate Departments (Finance; Education, Youth and Families; Urban Development and Housing). As it currently stands, HOWOGE will build approximately 18 new schools as well as up to 8 schools using modular wooden construction and will remodel 13 school complexes. A total of approximately EUR 3.1b has been included in the long-term corporate budget for this investment program, which will be financed by a shareholder loan during the preliminary planning phase, state guarantees during the construction phase and a forfaiting program during the rental phase. As of the end of the fiscal year, the situation was as follows. The School Construction segment established in 2018 further expanded its structures in 2021, such that 28 of the total 39 projects (15 new schools, refurbishment programs for 13 existing schools) allocated to HOWOGE were in progress as of December 2021. A total of approximately EUR 3.1b has been included in the long-term corporate budget for this purpose.

- New school construction

Needs-based programs were announced for 10 of the 17 schools planned and 4 such programs were completed and handed over to the Berlin Senate Department for Education, Youth and Families in 2021. Seven schools in total are already in the planning phase. All contracts have been signed and construction work has commenced for the "Allee der Kosmonauten" project.

- Refurbishment

12 of the 13 schools are in the development phase of refurbishment plans or needs-based programs. In 2021, 5 needs-based programs were completed and handed over to the districts.

- Modular wooden construction

Site checks were performed to assess the potential for development of specific properties. Allocation of specific properties by the State of Berlin is being prepared (we expect to be allocated 8 properties).

2.2.3 Personnel development

Group headcount developed as follows:

	31 Dec 2021	31 Dec 2020
Management board (HOWOGE Wohnungsbaugesellschaft)	2	2
Salaried employees (including management of subsidiaries)	621	556
Wage earners	275	246
Trainees	29	27
Students	6	6
	933	**837**

By company, the development breaks down as follows:

	31 Dec 2021	31 Dec 2020
HOWOGE	629	573
Servicegesellschaft	235	205
Kramer + Kramer	29	28
Wärme GmbH	40	31
	933	**837**

The number of employees in the Group increased by 96 in 2021 (HOWOGE: up 56; Servicegesellschaft: up 30; Wärme: up 9; Kramer + Kramer: up 1).

As of 31 December 2021, HOWOGE had 576 salaried employees (prior year: 516), 51 wage earners (prior year: 55) and two managing directors. The increase is primarily attributable to the growth strategy in various areas.

HOWOGE Servicegesellschaft mbH had 235 employees at the end of the reporting year (prior year: EUR 205).

HOWOGE Wärme GmbH had a headcount of 39 (prior year: 30) and employed one managing director.

Kramer + Kramer has been a subsidiary of the HOWOGE Group since 1 January 2018 and had 28 employees (prior year: 27) and one managing director as of 31 December 2021.

The managing directors of HOWOGE are also the managing directors of WBL. Additionally, the head of HR and the head of operational portfolio management were managing directors of Servicegesellschaft. The head of group accounting is also the managing director of Kramer + Kramer Bau- und Projektmanagementgesellschaft mbH. The authorized signatory and head of legal and procurement is also the managing director of KW Goecke S.A.R.L.

The HR department has developed a personnel strategy for implementing the strategic business objectives and identified concrete action areas for the period from 2021 to 2025. In light of HOWOGE's growth strategy, digitalization will remain a focus in order to not only maintain quality and service standards as our headcount grows, but also to continuously optimize them. Various core processes and forms have been digitalized. Digital personnel files were successfully implemented at the beginning of the year, thus expanding the range of mobile HR processes.

In addition to optimized technical equipment for all employees, HOWOGE has also created a binding framework that enables all employees to work remotely. In order to support this way of working, guidelines have been developed for hybrid working and leadership, in addition to various training offerings for employees and executives.

HOWOGE's employer branding campaign was implemented successfully. With a new design and clear messages, HOWOGE now presents itself as an attractive employer through various online and offline channels. A significant increase in applications has been recorded since the start of the campaign.

HOWOGE's growth strategy is underpinned by professional communication with candidates as well as its training strategy. For its commitment to training, HOWOGE was once again awarded the "Ausbildung in Bestform" seal by the Employer's Association of the German Real Estate Industry and the IHK certificate for excellent quality of training by the Chamber of Industry and Commerce.

In order to unlock and develop employee potential, HR management and personnel development continue to play a key role at HOWOGE. Personal and professional development of employees was promoted and supplemented by extensive training options in a wide range of fields. Based on the leadership strategic action area, a hybrid development program has been developed for interested executives and implemented as a pilot project. This program will be included in our training catalog as a standard offering next year. New guidelines for the selection and development of executives support the leadership action area as well as a forward-looking leadership culture.

The shift to digital training formats initially triggered by the COVID-19 pandemic has now evolved into a good mix of in-person and hybrid training.

The work-family life balance audit by audit berufundfamilie GmbH serves as a constant framework of reference for the strategic and operational enhancement of HR policies that take account of family life and life stages and implement ongoing actions to help all employee groups balance work, family and private life. Work-family life balance is not considered in isolation but is instead implemented holistically as part of HR policies. The topic is closely linked with health management, gender equality and advancement of women, executive training and a transparent corporate culture. In order to professionalize our health management, HOWOGE has decided to introduce digital support and thus ensure remote access to services.

2.2.4 Financial performance

Overall, financial performance breaks down as follows:

EUR k	2021 Total	Thereof School Construction	Thereof Residential	2020 Total
Rental and lease revenue (IFRS 16)	309,508	-	309,508	303,748
Revenue from operating costs (IFRS 16)	22,857	-	22,857	21,734
Revenue from real estate management	**332,365**	**-**	**332,365**	**325,482**
Revenue from operating costs (IFRS 15)	21,959	-	21,959	20,353
Revenue from heating costs (IFRS 15)	35,596	-	35,596	35,582
Revenue from management services and other trade	7,002	-	7,002	4,158
Other revenue	638	-	638	640
Other revenue from real estate management	**65,195**	**-**	**65,195**	**60,733**
Total revenue	**397,560**	**-**	**397,560**	**386,215**
Profit or loss from the sale of property	107	-	107	-
Profit or loss from the remeasurement of investment property	671,274	-	671,274	294,165
Change in inventories for property and other inventories	1,961	2,231	-270	17,807
Own work capitalized	2,882	1,120	1,762	2,216
Cost of materials	-102,003	-2,295	-99,708	-118,297
Personnel expenses	-50,004	-	-50,004	-48,591
Amortization, depreciation and impairment	-1,119	-	-1,119	-6,489
Impairment of financial assets	-721	-	-721	1,200
Other operating income	3,722	71	3,651	10,784
Other operating expenses	-39,276	-1,171	-38,104	-24,875
Profit or loss from investments accounted for using the equity method	2,033	-	2,033	498
Finance income	4,933	-	4,933	4,738
Finance costs	-33,738	-	-33,738	-28,830
Profit or loss before taxes	**857,611**	**-44**	**857,655**	**490,541**
Income taxes	-175,844	-477	-175,367	-109,146
Other taxes	-13,393	0	-13,393	-13,100
Profit or loss for the period	**668,375**	**-521**	**668,896**	**368,295**
Other comprehensive income	-	-	-	-
Total comprehensive income	**668,375**	**-521**	**668,896**	**368,295**

Consolidated revenue amounted to EUR 397.6m (prior year: EUR 386.2m).

The increase in revenue from real estate management is mainly due to the additional portfolio of 1,124 apartments relevant for valuation, thereof 517 new-builds. The rental income forecast for the fiscal year was almost achieved. At EUR 6.8m, the income lost due to vacancies was slightly below the prior-year forecast of EUR 6.9m.

Lower cost of materials is primarily attributable to the decline in expenses for maintenance and repairs. Cost of materials for school construction is due to activities extending beyond the basic model and undertaken under separate cost assumption agreements with the State of Berlin. These costs are recharged and reflected in profit or loss.

Investment property is stated at fair value, exercising the option to apply the fair value method. Gains or losses arising from a change in the fair value of investment property are recognized in profit or loss (IAS 40.35).

The fair value adjustment to residential properties mainly resulted from portfolio purchases, the commissioning of completed project developments and the assumptions on property market trends used for property valuation, including the judgment by the Federal Constitutional Court of 15 April 2021, which ruled that Berlin's rent cap was not constitutional and therefore null and void.

In addition, the "anticipated rent trends in years 1 to 5" were increased by an average of 2.54% compared to the prior year.

The fair value adjustments to project developments mainly resulted from the commissioning of completed project developments, the start of construction of new project developments and the individual progress on construction of project developments.

In addition, the positive development of the fair value adjustment was generally influenced by the interest rate trend.

Personnel expenses increased by EUR 1.4m due to the increase in headcount by 96 employees in 2021.

The decrease in other operating income is mainly due to the income from rent payments received in advance for hereditary building rights that was taken to income in the prior year (EUR 7.0m).

Other operating expenses increased by EUR 14.4m in 2021 in comparison to the prior year due to the greater use of consulting services to support the acquisition, and financing of the purchases made in the reporting period as well as the preparation of their migration.

Finance costs were up by a total of EUR 4.9m year on year due to additional loans for investments in portfolio growth.

Higher income tax expenses were the result of a finding by the tax auditors of WBL, who refused to recognize the extended deduction for trade tax for the period from 2014 to 2017. The additional tax expenses were also taken into account for 2018 to 2020. The change in trade tax from 2021 onwards means that the matters raised by the tax auditors will no longer be detrimental in tax terms.

Overall, the Group generated total comprehensive income of EUR 668.4m (prior year: EUR 368.3m).

Adjusted IFRS FFO was EUR 15.2m higher than HGB FFO.

As mentioned above, HGB FFO was relevant for management in the reporting year. The following table presents adjusted IFRS FFO for the sake of completeness:

	1 Jan to 31 Dec	
EUR m	**2021**	**2020**
Total revenue	**397,6**	**386,2**
Change in inventories for property and other inventories	2,0	17,8
Profit or loss from the sale of property	0,1	0
Own work capitalized	2,9	2,2
Cost of materials	-102	-118,3
Personnel expenses	-50	-48,6
Other operating income [1]	3,7	10,8
Impairment of financial assets	-0,7	1,2
Other operating expenses	-39,3	-24,9
Finance income	4,9	0
Other taxes	-13,4	-13,1
One-time effects [1]	10,4	0,1
Adjusted EBITDA	**216,1**	**213,5**
Income tax expenses affecting cash [2]	-8,7	-11,2
Finance costs [3]	-29,2	-28,8
Loan repayment policies	2,4	2,4
Sale of non-current assets (-gain/+loss)	-0,1	0,5
FFO	**180,5**	**176,3**

1 One-time effects mainly comprise expenses in connection with the acquisition of around 8,300 residential units from Deutsche Wohnen and Vonovia in 2021.

2 The income tax expenses affecting cash comprise the total of current and out-of-period income taxes less EUR 20.0m tax backpayments in 2021.

3 Finance costs less BilMoG ["Bilanzrechtsmodernisierungsgesetz": German Accounting Law Modernization Act] expenses and adjusted for one-time effects.

IFRS FFO of EUR 180.5m is slightly above the prior-year level of EUR 176.3m. Rental income of EUR 307.8m increased by 2.3% on the prior year, but fell short of the forecast of EUR 309.3m due to the later completion of new buildings and lower additions from purchases in the reporting year as a result of the focus on the portfolio purchased from Deutsche Wohnen and Vonovia.

The higher IFRS FFO is mainly attributable to the additional capitalization of maintenance expenses under IFRSs in connection with investment property and construction preparation costs as well as the adjustments of financial liabilities at fair value through profit or loss in connection with financing for the Vonovia/Deutsche Wohnen purchase.

The loss for the year incurred by the School Construction segment in accordance with IFRSs was EUR 521k, which is significantly lower than the forecast loss of EUR 4.0m and is mainly due to lower consulting fees. As it currently stands, HOWOGE will build approximately 18 new schools as well as up to 8 schools using modular wooden construction and will remodel 13 school complexes. The School Construction segment established in 2018 further expanded its structures in 2021, such that 28 of the total 39 projects (15 new schools, refurbishment programs for 13 existing schools) allocated to HOWOGE were in progress as of December 2021. A total of EUR 3.1b has been earmarked for this investment program in the long-term corporate budget. The building permit for the "Allee der Kosmonauten" project was issued in 2021 and interim financing was obtained for the construction project. Construction work began in October 2021. Project agreements have been concluded for another seven new construction projects.

Due to lower liquidity requirements, the School Construction segment's financial liabilities amounted to EUR 67.3m, lower than the forecast figure of EUR 151.1m.

2.2.5 Financial position

The financial position of the group companies was balanced as of 31 December 2021. The companies always met their payment obligations in due time and will be able to do so in the future as well.

Statement of cash flows (condensed):

EUR k	2021 Total	Thereof School Construction	Thereof Residential	2020 Total
Cash flows from operating activities	173,602	1,837	171,765	169,546
Cash flows from investing activities	- 494,199	4,096	- 498,295	- 337,116
Cash flows from financing activities	1,788,326	-	1,788,326	153,543
Net change in cash and cash equivalents	**1,467,729**	**5,933**	**1,461,796**	**- 14,027**
Cash and cash equivalents as of 1 January	**42,872**	**19,717**	**23,155**	**56,899**

In 2021, cash and cash equivalents solely comprise freely available cash.

The statement of cash flows shows that the available cash and cash equivalents in the Group increased significantly from EUR 42.9m to EUR 1,510.6m as of 31 December 2021. This is attributable to the issue of the bond in the second half of 2021.

Cash flows from operating activities (HGB) were a key performance indicator in the HOWOGE Group in 2021. They fell EUR 15.8m short of the forecast figure for 2021 (EUR 176.8m). In comparison, cash flows from operating activities (IFRSs) amounted to EUR 173.6m in 2021. The difference is attributable to the different accounting treatment of the investments in construction preparation in the School Construction segment, which are capitalized and reported as part of inventories under IFRSs.

Cash flows from operating activities and from financing activities almost fully offset the negative cash flows from investing activities at all times throughout the Group.

2.2.6 Assets and liabilities

Assets EUR k	31 Dec 2021 Total	%	Thereof School Construction	Thereof Residential	31 Dec 2020 Total	%
Non-current assets						
Intangible assets	948	0.0%	-	948	541	0.0%
Investment property	11,666,622	86.2%	25,272	11,641,350	10,543,853	96.5%
Prepayments on investment property	120,559	0.9%	-	120,559	79,296	0.7%
Property, plant and equipment	34,936	0.3%	-	34,936	32,912	0.3%
Investments in associates and joint ventures	13,550	0.1%	-	13,550	11,530	0.1%
Financial assets	86,722	0.6%	-	86,722	81,860	0.7%
Rental and lease receivables	7	0.0%	-	7	8	0.0%
Receivables from other trade	43	0.0%	-	43	163	0.0%
Other financial assets	-	0.0%	-	-	-	0.0%
Other assets	-	0.0%	-	-	-	0.0%
Total non-current assets	**11,923,388**	**88.1%**	**25,272**	**11,898,116**	**10,750,163**	**98.4%**
Current assets						
Inventories for property and other inventories	21,438	0.2%	20,591	847	19,477	0.2%
Rental and lease receivables	23,197	0.2%	-	23,197	21,523	0.2%
Receivables from other trade	1,871	0.0%	77	1,794	831	0.0%
Contract assets	1,947	0.0%	-	1,947	47,946	0.4%
Other financial assets	2,703	0.0%	1,136	1,567	4,140	0.0%
Other assets	41,316	0.3%	-	41,316	36,594	0.3%
Income tax receivables	1,372	0.0%	-	1,372	1,779	0.0%
Cash and cash equivalents	1,511,207	11.2%	17,674	1,493,534	43,485	0.4%
Assets held for sale	-	0.0%	-	-	220	0.0%
Total current assets	**1,605,051**	**11.9%**	**39,478**	**1,565,573**	**175,995**	**1.6%**
Total assets	**13,528,439**	**100.0%**	**64,750**	**13,463,689**	**10,926,159**	**100.0%**

Equity and liabilities EUR k	31 Dec 2021 Total	%	Thereof School Construction	Thereof Residential	31 Dec 2020 Total	%
Equity						
Subscribed capital	25,000	0.2%	-	25,000	25,000	0.2%
(Other) capital reserves	317,901	2.3%	-	317,901	311,565	2.9%
Accumulated retained earnings	7,024,062	51.9%	- 2,314	7,026,376	6,650,139	60.9%
Consolidated net retained profit	666,218	4.9%	- 521	666,739	367,144	3.4%
Total equity	**8,033,181**	**59.4%**	**- 2,836**	**8,036,017**	**7,353,848**	**67.3%**
Non-current liabilities						
Other provisions	1,373	0.0%	-	1,373	1,250	0.0%
Financial liabilities	3,608,936	26.7%	67,348	3,541,588	1,799,659	16.5%
Trade payables	5,509	0.0%	-	5,509	5,407	0.0%
Tax liabilities	2,199	0.0%	-	2,199	1,961	0.0%
Other liabilities	22,644	0.2%	-	22,644	27,375	0.3%
Deferred tax liabilities	1,662,622	12.3%	-	1,662,622	1,515,511	13.9%
Total non-current liabilities	**5,303,282**	**39.2%**	**67,348**	**5,235,934**	**3,351,163**	**30.7%**
Current liabilities						
Other provisions	7,078	0.1%	76	7,002	4,637	0.0%
Rental and lease liabilities	9,888	0.1%	-	9,888	8,797	0.1%
Trade payables	77,582	0.6%	73	77,509	72,571	0.7%
Contract liabilities	11,592	0.1%	-	11,592	55,717	0.5%
Financial liabilities	75,311	0.6%	-	75,311	74,597	0.7%
Tax liabilities	559	0.0%	-	559	676	0.0%
Other liabilities	9,965	0.1%	88	9,877	4,153	0.0%
Total current liabilities	**191,975**	**1.4%**	**237**	**191,738**	**221,148**	**2.0%**
Total liabilities	**5,495,258**	**40.6%**	**67,586**	**5,427,672**	**3,572,311**	**32.7%**
Total equity and liabilities	**13,528,439**	**100.0%**	**64,750**	**13,463,689**	**10,926,159**	**100.0%**

The Group's total assets increased significantly in the reporting year, mainly due to the funding for the purchase of the Vonovia and Deutsche Wohnen portfolio by the issue of a corporate bond under the established debt issuance program. 3 tranches comprising a total amount of EUR 1.7b and featuring different terms (3, 7 and 12 years) were issued for the transaction. The purchase price was paid and possession was transferred at the beginning of January 2022. HOWOGE has agreed to meet a number of covenants under the debt issuance program, comprising limitations on incurrence of financial indebtedness, relevant consolidated coverage ratio and total relevant unencumbered assets. The covenants were adhered to at all times.

Assets and liabilities are balanced. Non-current assets are fully financed by long-term capital.

Investment property increased by EUR 1,122.8m, primarily due to purchases, other additions and fair value adjustments.

The increase in property, plant and equipment by EUR 2.0m is chiefly attributable to the additions from equipment, furniture and fixtures, offset by depreciation of EUR 1.9m.

Property, plant and equipment in the School Construction segment comprises the investments in construction preparation for new school construction and school refurbishment projects.

Loss allowances have been recognized for approximately 60% of rental and lease receivables. These receivables were maintained at a very low level in the fiscal year through intensive receivables management.

Inventories for property and other inventories in the School Construction segment comprise investments in construction preparation for new school construction and school refurbishment projects.

Equity decreased to 59.4% of total assets (prior year: 67.3%) due to the bond issue. Overall, equity increased by EUR 666.2m, taking the consolidated net retained profit into account.

The purchase of the portfolios from Vonovia and Deutsche Wohnen was financed by issuing a corporate bond. A debt issuance program with a total volume of EUR 4.0b was established for this purpose, under which 3 tranches comprising a total amount of EUR 1.7b and featuring different terms (3, 7 and 12 years) were issued. Due to the acquisition funding raised in addition to the planned level of borrowing, financial liabilities in the Residential segment increased to EUR 3.7b, EUR 1.4b higher than the EUR 2.3b forecast for 2021. Interest expenses recognized for the Residential segment amount to EUR 33.7m in 2021, EUR 4.7m higher than the forecast of EUR 29.0m.

Liabilities to banks (IFRSs) increased by EUR 105.8m to EUR 1,931.0m. Additional loans of EUR 148.1m for funding new construction projects and the purchase of additional housing stock contrast with repayments of EUR 41.0m (IFRSs). Furthermore, EUR 1.3m (IFRSs) in debt was forgiven.

In the School Construction segment, liabilities relate to a shareholder loan from the State of Berlin of EUR 40.0m (prior year: EUR 25.0m) and a bank loan of EUR 27.3m.

The loan portfolio primarily includes annuity loans with an average remaining fixed-interest period of more than five years. The average weighted interest rate as of the reporting date remained low in the fiscal year.

The Group also has credit facilities that were unutilized as of the end of the fiscal year.

On balance, utilizations, reversals and allocations caused other provisions to increase by EUR 2.6m.

The loan-to-value ratio of the reporting year is presented below alongside the prior-year figures:

EUR m	**2021**	**2020**
Financial liabilities[1]	3,684.2	1,874.3
Cash and cash equivalents	-1,511.2	-43.5
Net financial liabilities	**2,173.0**	**18,30.7**
Investment property	11,666.6	10,543.9
Prepayments on investment property	120.6	79.3
Net LTV ratio (in %)	**18.4**	**17.2**

1 Financial liabilities are the total of current and non-current financial liabilities.

2.2.7 General assessment of the economic situation

In keeping with its corporate strategy, HOWOGE reviews opportunities to purchase existing housing stock in addition to pursuing its own new construction activities. In connection with the Vonovia and Deutsche Wohnen merger, the State of Berlin was offered around 20,000 apartments, of which HOWOGE acquired approximately 8,300 residential units and 250 commercial units in 2021 (transfer of benefits and burdens in January 2022) in addition to the growth it had already planned. This led to significant special effects for fiscal year 2021. The resulting one-time transaction and finance costs and one-time effects from the partial forgiveness of debt, reversal of provisions and adjustment of the funding strategy had a negative impact of EUR 40.7m on profit for the year of EUR 668.4m. At EUR 129.2m, unadjusted HGB FFO fell short of the adjusted HGB forecast of EUR 149.9m for 2021. HOWOGE's operating performance was nonetheless positive. HGB FFO adjusted for special effects amounted to EUR 165.3m (IFRSs: EUR 180.5m), higher than the forecast of EUR 149.9m. The IFRS forecast for fiscal year 2022 was derived from the HGB forecast based on actual figures for 2021.

2.3 Financial performance indicators

The key financial performance indicators for group management are funds from operations (FFO), cash flows from operating activities and profit or loss for the year. Operational management is carried out largely on the basis of the HGB figures. In the future, FFO will be adjusted for special effects from transactions, reorganizations and extraordinary, one-time transactions. Due to the change in the financing structure, HGB figures will be regularly converted to IFRS figures in a reconciliation for the purposes of internal management reporting from 2022 onwards. The HGB-based corporate budget will also be converted to an IFRS format.

In the Residential segment, management is mainly based on rents per square meter, revenue reductions caused by vacancies and tenants making rent reductions as well as operating costs for managing and maintaining properties.

Active borrowing and interest rate management as well as a regular liquidity forecast based on the current development of the business value and the market are used to manage the financing structure and debt-servicing ability of the Company as well as to ensure compliance with the covenants and maintain liquidity. In addition to the assessment of cash flows, a key performance indicator is the loan-to-value ratio (LTV).

HOWOGE's growth strategy also requires thorough management of additions to the portfolio from purchases and new-builds. Each project is checked for economic viability using the discounted cash flow method (DCF). For new-builds, ongoing project management monitors costs, deadlines and quality during the construction phase. Once facility management has commenced for such properties, initial letting and key inputs of the economic viability analysis are subject to regular review and integrated in management reporting.

In fiscal year 2021, HOWOGE considers cash flows from operating activities (less financing interest) according to German commercial law to be a key performance indicator. These cash flows represent the headroom for investments created in the years of consolidation and debt reduction. The primary objective of investments is to maintain these cash flows at their current level at a minimum in order to secure the Group's economic strength for a situation in which the interest rates rise and the macroeconomic situation deteriorates.

In the School Construction segment, management centers on the management fee coverage ratio as the key driver for the economic viability of school construction projects. Additionally, project-specific management of costs, quality and deadlines for new construction and refurbishment projects takes place.

This is integrated in a business plan along with additional key points for long-term planning, such as operating result, debt levels, rent increases, cost benchmarks and cost-benefit criteria for investments.

2.4 Non-financial performance indicators

Besides the financial performance indicators, the non-financial value drivers, which are key factors in business performance, are similarly a focus of corporate management.

As a municipal company, HOWOGE's objective in the Residential segment is socially responsible apartment rental and the development of new social housing. Additionally, we aim to maintain a high level of tenant satisfaction through targeted development of housing estates and customer-friendly processes. Key performance indicators at group level are the turnover rate, letting-related vacancies, the number of new construction projects initiated and the number of new apartments built. These are supplemented by a real estate score for strategic development of our housing estates.

In addition, HOWOGE is committed to sustainability and climate protection and aims to expand renewable energies and reduce carbon emissions. The key strategic performance indicator for this purpose is carbon emissions per residential unit. This is integrated in a detailed system of indicators for sustainability management.

With its vision "We make tomorrow's Berlin worth living in. Homes and more for the Berlin of tomorrow" HOWOGE has clearly positioned itself with a modern, responsible and forward-looking corporate strategy. The Group is maturing from a municipal property manager to a neighborhood and urban developer by placing sustainability and social responsibility at the heart of its portfolio strategy. In particular, it is setting standards for implementing innovative and resource-saving projects in its new construction projects as a socially responsible municipal company.

Public relations activities focusing on sustainability topics were continued successfully in the reporting year. HOWOGE attracted attention for its carbon-neutral residential estate Sewanstrasse in Berlin-Friedrichsfelde starring in the BBC film "Housing Europe" as an outstanding project combining sustainability and socially responsible rents.

The LinkedIn platform was added to HOWOGE's communication channels in 2021. HOWOGE shares information on sustainability, growth and employer branding from its company account. This network communication is supported by the sustainability report, which was issued in digital format only for the first time in the reporting year, and the interviews recorded in the course of the employer branding campaign. The Stadtkultur foundation established by HOWOGE in 2018 carried out an interim program in the reporting year in the run-up to the redevelopment of the former Karlshorst theater. In addition to reviving the location, the aim was to gage the demand from the Karlshorst community and the rest of

Berlin and to drum up interest among event organizers to rent out the theater from 2025. This revival was launched by renaming the theater "KAHO Raum für Kultur" and supported by active communication.

Due to the coronavirus pandemic, HOWOGE was not able to attend trade fairs or educational fairs for the real estate sector in reporting year 2021. Instead, work in various real estate networks was stepped up significantly and online communication was expanded further. We keep the public and our tenants informed on the company website www.howoge.de. Available apartments are presented online on our own website and on real estate portals, the joint website run by the housing companies owned by the State of Berlin www.inberlinwohnen.de and, since the beginning of November 2020, on the "Meine HOWOGE" rental app.

The letting process is largely digitized and thus non-discriminatory in accordance with the provisions of the AGG ["Allgemeine Gleichbehandlungsgesetz": German General Act on Equal Treatment], the WoVG ["Berliner Wohnraumversorgungsgesetz": Berlin Housing Supply Act] and the cooperation agreement with the Berlin Senate, with due regard to the prescribed quotas for letting to persons holding housing entitlement certificates (WBS) and special needs groups. HOWOGE employees are well aware of their special responsibility in the very tight Berlin residential market. Regular training on compliance topics and values are mandatory for all HOWOGE employees and executives.

2.5 Statement on corporate governance[11]

HOWOGE is obligated to issue a statement on corporate governance pursuant to Sec. 289f (4) HGB. It will be published in the 2021 annual financial statements of HOWOGE. The following section contains additional voluntary group disclosures relating to the proportion of women in management positions in the HOWOGE Group.

Participation of women and men in management positions

The composition of the supervisory boards and management boards of companies owned by the State of Berlin is governed by the LGG ["Landesgleichstellungsgesetz": Berlin Gender Equality Act]. Supervisory board members (shareholder representatives) are appointed by the shareholder, management board members are appointed by the supervisory board. Both are subject to the provisions of the LGG. Secs. 5, 6, 8 and 17 (4) LGG apply for management boards and Sec. 15 LGG applies for supervisory boards.

The LGG stipulates gender equality in the composition of the supervisory board.

Disclosures on the minimum proportion of women and men on the supervisory board

Pursuant to Art. 11 of the articles of association of HOWOGE, the supervisory board of HOWOGE comprises six members to be elected by the shareholder meeting, including one member in accordance

[11] Non-auditable disclosure

with the WoVG, and three members to be elected by employees pursuant to the DrittelbG ["Drittelbeteiligungsgesetz": German One-Third Employee Participation Act].

In 2021, HOWOGE's supervisory board had five women and four men. The percentage of women was thus 55.6%.

Disclosures on the targets for female representation in management positions

By resolution dated 5 March 2021, the supervisory board of HOWOGE acknowledged social responsibility targets for HOWOGE's future vision. In addition to other objectives, a target of 50% female representation in management positions was set for 2024; the abovementioned LGG provisions must be complied with in this context. As such, under the LGG, a target of 50% is set for each level of management.

The percentage of women in the abovementioned management positions stood at 47% in 2021.

The management levels break down as follows:

Management level	Women		Men	
	Number	%	Number	%
First management level (management board)	1	25	3	75
Second management level (heads of functions and divisions)	8	50	8	50
Third management level (departmental heads)	16	48	17	52

The highest management level is currently composed of Mr. Felgenhauer and Mr. Schiller. The various selection procedures were carried out taking the target focus and the LGG into account.

HOWOGE has a full-time female representative who monitors the implementation of and compliance with the LGG. She is involved in all selection procedures in the Group (regardless of the management level).

2.6 Non-financial report

Instead of a group non-financial statement in accordance with Sec. 315b HGB in conjunction with Sec. 289b HGB, HOWOGE has prepared a separate non-financial report for fiscal year 2021, which will be made available for 10 years on the Company's website at www.howoge.de.

3 Opportunities and risks

3.1 Opportunities

Identifying and communicating opportunities and areas of potential is an integral part of responsible corporate governance. The responses arising from the strategy and operating activities are the responsibility of the respective players. Regular consultations within and across divisions create the basis for identifying and communicating any areas of potential.

There is significant growth potential for HOWOGE when it comes to providing affordable housing for broad sections of the population based on the long-term maintenance and development of portfolio properties in a manner that caters to the needs of each specific neighborhood. As it steps up its new construction activities, HOWOGE has a major opportunity to actively shape sustainable urban development and design concepts and thus make a significant contribution to Berlin's future, reflecting the mandate from its shareholder. The experience gained from completed projects forms a sound basis for leveraging the identified potential in the future as well.

Besides new and demanding challenges, increasing digitalization and automation also offer considerable potential for the Company to enhance structures and procedures in a purposeful manner. In addition to the implementation of a new ERP system, long-term personnel development and the now recertified compliance and value management system are some of the key factors in this context. In order to ensure a fair and non-discriminatory letting process, the digitalization of the process is being continuously driven forward. Challenges arising from social changes are addressed by active neighborhood management. In order to unlock potential, the "processes and digitalization" unit and, with a view to the long-term development of our housing estates, the "new-builds in neighborhoods" department have been established.

To implement the requirements of the EU General Data Protection Regulation, which came into effect on 25 May 2018, an external data protection officer was appointed at the end of 2019, who identifies primary action areas, defines specific actions and supports implementation with the help of the internal data protection coordinator. New hires are provided with a basic understanding of personal data, rights and freedoms of individuals and the processing of personal data through a web-based training tool. Additionally, all group employees receive regular in-house specialist training.

There is revenue and cost-saving potential in the expansion of the value chain and the services offered by the Group. Projects such as the provision of landlord-to-tenant electricity or the gradual assumption of measurement and metering services have already been launched in recent years.

3.2 Risks

Standard process for integrated management of corporate risks

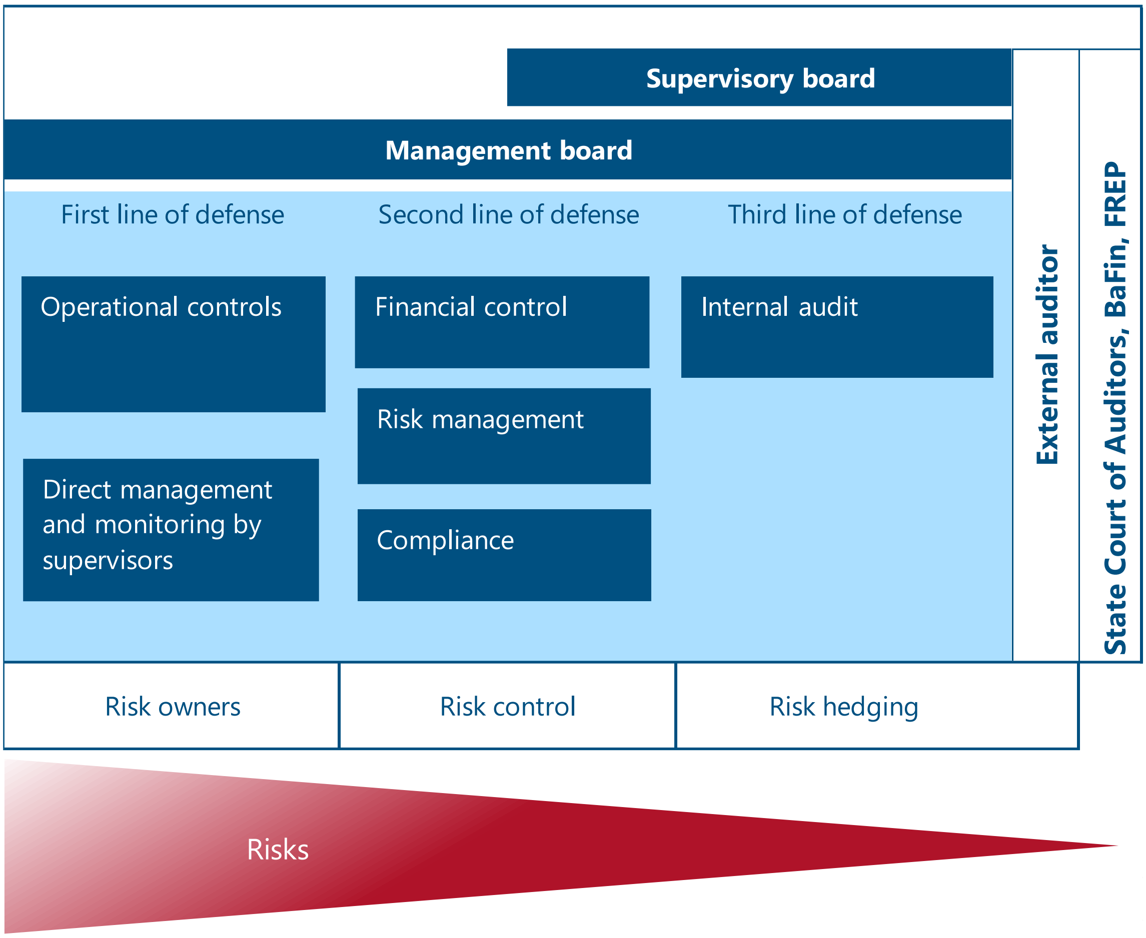
HOWOGE regularly assesses opportunities for boosting the further development and growth of the Group. Risks may have to be taken in order to capitalize on opportunities. This makes it essential to identify, assess and professionally manage all material risks. A group-wide structure for identifying, managing and controlling risks has been implemented in order to responsibly handle risks. The key components of this structure are the risk management system (RMS) and internal control system (ICS).

HOWOGE's general definition of risk is a potential negative deviation from defined corporate objectives, particularly one that poses a threat to economic success or the implementation of business plans, its good reputation or compliance with all relevant laws and agreements. This relates to all internal and external events, actions or omissions that pose a threat to the Company's success or existence as well as significant legal proceedings.

- Internal control system/financial reporting process

In keeping with the relevant legal provisions and standards customary in the industry, HOWOGE has set up an internal control system that comprises policies, procedures and activities to ensure process performance and financial reporting.

The three lines of defense model forms the framework for holistic governance, risk and compliance management (GRC management) in relation to corporate risks at HOWOGE. Overall, the HOWOGE model is based on an integrated approach that is illustrated in the following chart:



With respect to the financial reporting process, the purpose of the internal control system is to ensure the application of the statutory provisions and the correct and complete recording of all transactions. The processes are divided into key processes and business processes and the purpose of the ICS is to record, present, review and continuously update all recurring transactions correctly and completely in accordance with the statutory provisions.

The internal control system has the following objectives:

- Compliance with the legal rules and regulations relevant for HOWOGE
- Assurance of the appropriateness, completeness and reliability of internal accounting and external financial reporting
- Targeted monitoring of business processes
- Assurance of the effectiveness and efficiency of operations (primarily protecting assets and preventing and detecting misappropriation of assets)

The ICS is continuously expanded and optimized in order to meet business process requirements. Processes are regularly checked for currentness and revised or supplemented as needed.
The key features relating to the financial reporting process are as follows:

HOWOGE has a clear and transparent organizational, control and management structure that is documented on the intranet and in internal work instructions. The tasks in the financial reporting process are clearly defined and assigned to explicit roles.

Segregation of functions, principle of dual control and self-review are the key control elements in the financial reporting process. Moreover, the internal audit function regularly performs analytical procedures on the financial reporting process.

- The financial reporting process is supported by standard SAP software and the digital accounting workflow.
- IT access rights reflecting the authorizations defined in the guidelines ensure system-based control.
- There is an integrated centralized accounting system and centralized financial controlling for the group companies.
- The standard group-wide recognition, account assignment and measurement policies are reviewed and updated regularly.

Risk management

HOWOGE has implemented a group-wide risk management system (RMS), which comprises all measures required to ensure early identification, assessment and targeted management, monitoring and documentation of all risks relevant for the Group. It is an integral part of corporate management and ensures that the material going concern risks are covered.

A key element of the RMS is HOWOGE’s risk strategy, which sets clear risk targets and defines the Company’s risk culture. The risk strategy is aligned with the overall corporate strategy and is designed to secure the Company’s ability to continue as a going concern as well as to sustainably increase business value. Business success requires opportunities to be seized and the related risks to be identified and assessed. The aim is to make the most of opportunities, while entering into business risks deliberately and responsibly and managing them proactively, provided that a reasonable increase in value can be achieved. Risks to the Company's ability to continue as a going concern must be avoided.

The risk department is responsible for coordinating and monitoring the RMS, organizing the processes and for the methodologies. The organizational structure in place as well as regular consultation with the functional departments, compliance, internal audit and financial control enable a consistent, transparent, systematic and continuous approach, which thus creates the prerequisites for identifying, analyzing, evaluating, managing, documenting and communicating risks.

The existing RMS is subject to a continuous enhancement and optimization process so it can be adjusted in response to new internal and external developments. Further optimization of methods took place during the fiscal year in this context. The new statutory requirements of IDW Auditing Standard 340 (Revised) are currently being implemented.

The group-wide risk strategy was revised thoroughly in 2021.

The results of the semi-annual risk inventories are reported to the governing and supervisory bodies. Additionally, the management board and risk management regularly discuss the assessment and management of identified risks, making changes and taking action as necessary. Besides the semi-annual risk reports to the management board, risks with the potential to cause a net loss of EUR 2.5m or more must be reported immediately to the supervisory board and the shareholder.

All reports are based on the risk inventories, which are carried out according to a consistent, transparent, systematic and permanent approach and are founded on the following rating aspects and scales:

- Rating aspect/scale

In a standardized process based on a standard risk catalog – comprising eight risk categories (organizational and process risks, HR and management risks, financial risks, legal and compliance risks, real estate risks, market and location risks, operational services risks and, since 2021, capital market risks) – the existing risks are jointly analyzed, reviewed and assessed by risk owners, risk management and compliance during annual risk workshops. In order to specify and prioritize risks, HOWOGE assesses and rates risks in terms of their gross impact as well as their net impact and likelihood, considering the description of existing risk mitigation measures. The effect on liquidity and economic viability for an analysis period of five years is a key benchmark for assessment and rating of the potential impact. The individual risk rating is always based on the respective change in liquidity and the budget approved by the supervisory board.

To assess the risks, HOWOGE uses a rating matrix with four rating categories for the loss that could be caused by potential risks. Risk likelihood also has a four-category rating scale. The rating scale was revised in fiscal year 2021 as part of the risk strategy update.

The categories, which express the impact on economic viability and liquidity, are defined as follows:

– Low: net impact between EUR 0m and EUR 0.5m

– Medium: net impact between EUR 0.5m and EUR 2.5m

– High: net impact between EUR 2.5m and EUR 5m

– Very high: net impact of EUR 5m or more

Categories for risk likelihood are:

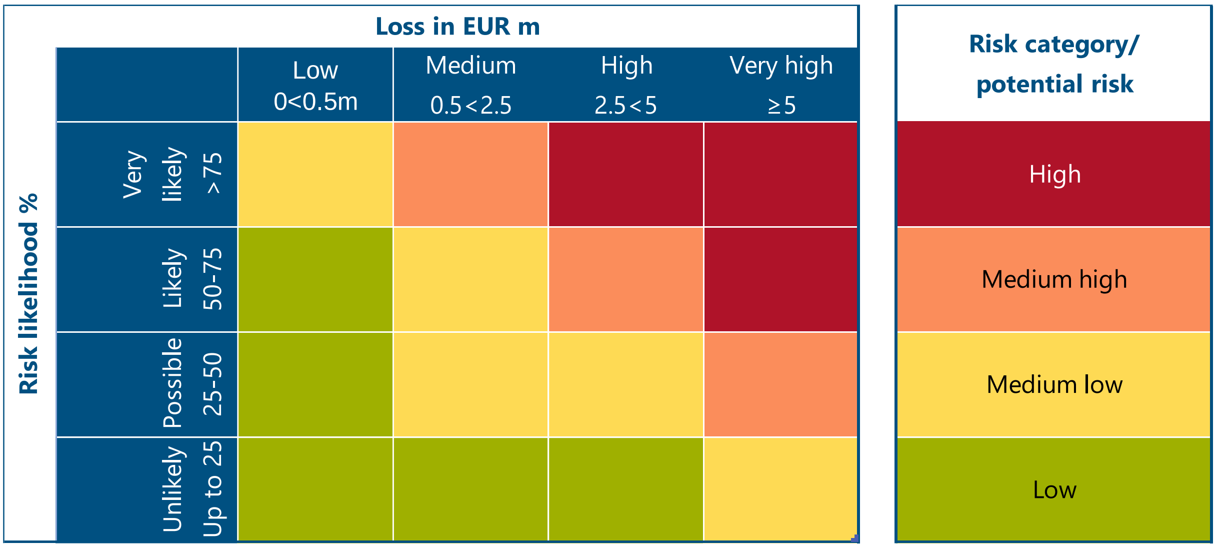
– Very likely: between 75% and 100%

– Likely: between 50% and 75%

– Possible: between 25% and 50%

– Unlikely: between 0% and 25%

This scale gives a rating matrix that classifies individual risk reports in a traffic light system (red, amber, green) according to their expected values (net impact multiplied by risk likelihood):



As a municipal housing company, HOWOGE has a low to medium risk appetite. High to very high risks should be avoided, with a risk-opportunity analysis performed in specific cases. Risks that are allocated to the red and amber spectrum of the rating matrix for the analysis period of five years and have an expected value (loss x risk likelihood) of more than EUR 2.5m on occurrence are considered to be particularly relevant.

- Overall assessment of risks and opportunities

Generally, the Company quantifies risks at group level. Risks are only quantified at entity level in specific cases. Of all the risks identified in the period under review, the particularly relevant risks for the Company and the Group and the corresponding management measures are addressed here. In this context, we first discuss the macroeconomic risks and significant standard risks that are reflected in HOWOGE's risk inventory and present their net impact and risk likelihood. Then we comment on the significant risk events (singular risks).

Risk reporting

- Macroeconomic risks

The German real estate market is partly shaped by macroeconomic factors that are beyond HOWOGE's control. Developments in the domestic and global economy as well as in financial markets can thus become risk factors for HOWOGE's business model.

The shortage of construction materials worsened from the beginning of 2021 onwards. As a result of the COVID-19 pandemic, demand had dropped considerably in the first half of 2020, leading to a reduction in global production capacities. When the global economy began to recover, especially in China and the US, demand grew faster in the third quarter of 2020 than it was possible to ramp up capacities, resulting in a disproportionate increase in prices for construction materials on top of supply constraints. High construction costs could pose a risk to HOWOGE's objective of increasing the supply of affordable housing. As yet, this is not a high risk for current construction projects. Increases in construction costs such as construction services and/or materials and/or tightening of regulations could have a negative impact on the economic viability of future construction projects.

The war in Ukraine that started in February 2022, after the reporting date, and the resulting sanctions will also have consequences. At the time the financial statements were prepared, no direct risks or impacts were identified for the HOWOGE Group. At present, risks arise from overall economic and political developments. In addition to the already significant rise in energy prices, there are potential risks relating to a wide range of financial and economic factors, including price increases on commodity markets, increases in the cost of construction materials, loss of rent due to the decline in our tenants' ability to pay, additional costs for housing refugees and other factors. Potential impacts are monitored closely.

As a result of coronavirus pandemic restrictions being increasingly rolled back, economic output recovered noticeably in the second quarter of 2021. However, this trend could be reversed by the fourth wave of the COVID-19 pandemic, with all the attendant measures to curb the further spread of the virus, which could have a renewed negative impact on the overall economic situation including the German real estate market.

[Risk likelihood: likely, loss: medium]

The measures implemented to curb the spread of COVID-19, in particular business shutdowns and other containment measures, resulted in a partial or complete loss of income for some of the Group's tenants, particularly commercial tenants, leading to deferred rent payments and in some cases a loss of rent payments or delayed or lower payments. If such measures are adopted once again during the fourth wave, the probability of further commercial tenant insolvencies will increase, which could lead to a loss of rent for the Group. Since the beginning of the COVID-19 pandemic, pandemic-related arrears have been recorded in a special report on a monthly basis and submitted to the management board. The financial impact of the pandemic on the total rental income of HOWOGE has been low to date.

Advancing digitalization is expected to lead to opportunities that outweigh the risks with respect to the employment and income situation of tenants in the long term. Digitalization also offers opportunities for the HOWOGE business model relating to efficiency improvements. The climate change megatrend could lead to risks as well as opportunities for HOWOGE's business activities. A significant increase in momentum for the global and European economies as well as a surge in immigration and the resulting increase in demand for affordable housing in the German real estate market present further opportunities.

Standard risks

The standard risk catalog contains group-wide potential risks – the eight risk categories of organizational and process risks, HR and management risks, financial risks, legal and compliance risks, real estate risks, market and location risks, operational services risks and, since 2021, capital market risks.

Organizational and process risks

- Project risks

[Risk likelihood: possible, loss: high]

The subcategory of project risks was added to the category of organizational and process risks and rated. There are currently no significant risks relating to costs and target achievement. The key project in 2021 involving the acquisition of around 8,300 apartments from Vonovia and Deutsche Wohnen and the resulting placement of a corporate bond on the Luxembourg Stock Exchange was concluded successfully with the issue of the bond in November 2021. At the same time, the relevant processes for publicly traded companies were implemented. For this purpose, HOWOGE employees were comprehensively briefed in a company-wide meeting and were made aware of their duties through additional training activities.

Due to the immense significance for the shareholder, the Berlin State Court of Auditors is reviewing selected aspects of the purchase from Vonovia and Deutsche Wohnen by three state-owned companies, including HOWOGE.

Potential risks arising from capital market orientation were analyzed and assessed in the course of the project and then separately presented under the new category 8. Capital market risks in the risk catalog. If appropriate, these will be integrated in the existing risk catalog under the category legal and compliance risks and financial risks in 2022.

HR risks

[Risk likelihood: likely, loss: low]

Hiring and filling specialist roles in the Company will be one of the key challenges in the years ahead and one that will become more urgent due to the purchase of the 8,300 residential units. The potential risk includes the loss of longstanding employees. The risk posed by demographic change has grown in the past few years. In addition to losing employees to regular retirement, early retirement also poses a challenge when it comes to ensuring that knowledge is passed on and finding suitable candidates for the positions. A detailed personnel and succession plan has been drawn up to reduce risks. Additionally, the existing personnel development plan for structured development of executives and talent management has been put on a more professional footing. The existing onboarding process to prevent new hires from quitting during their probation period has been enhanced and KPIs set to identify particularly affected areas at an early stage. "Demographics" has been added as another priority of personnel strategy in addition to the abovementioned aspects. An age structure report is prepared for monitoring purposes and used to identify HR policy measures. Furthermore, the HOWOGE employer branding campaign was successfully rolled out in September 2021.

Positioning HOWOGE as an attractive employer is a key factor in securing our ability to recruit suitable personnel in a highly competitive labor market. In order to keep qualified employees and executives motivated and retain them long term, HOWOGE offers a modern, pleasant and family-friendly working environment, an attractive remuneration package and the opportunity for personal development. Initiatives to promote team spirit outside of day-to-day operations also play an important role at HOWOGE.

Financial risks

- Interest rate risks

[Risk likelihood: unlikely, loss: very high (approximately EUR 39.5m)]

Interest rate risk for loans granted in the past and their fixed-interest periods which will end in the future is reflected under financial risks, since the new interest rates to be arranged are subject to market conditions at the time. The risk is mitigated by concluding new loan agreements with a long term of 15 to 20 years. Interest rate risks are controlled by staggering the dates on which fixed-interest periods end. The same approach is applied to mitigating interest rate risks from the corporate bonds issued. In addition to continuously tracking the term structure of interest rates, HOWOGE monitors and assesses risks over the term of the long-term business plan so as to identify potential interest rate fluctuations and deviations promptly.

- Liquidity risks

[Risk likelihood: unlikely, loss: low]

The Group's solvency at all times is ensured through liquidity planning and is continuously monitored. In the past fiscal year, HOWOGE had sufficient cash and cash equivalents to meet all obligations at all times. Due to the very stable cash flows from real estate management, no circumstances have been identified at present that could lead to a liquidity shortfall. In order to ensure solvency at all times, sufficient liquidity reserves and credit facilities are maintained.

Tax risks

[Risk likelihood: likely, loss: very high]

Changes in tax legislation or non-compliance could lead to a high tax burden, liability issues and fines. Risks resulting from tax audits could reach a relevant level.

Legal and compliance risks

- Changes in legislation, industry-specific provisions or regulatory frameworks

[Risk likelihood: very likely, loss: very high]

General legal risks and the disadvantages to HOWOGE resulting from the materialization of such risks could arise in particular if legal requirements are not complied with (fully). Additionally, risks can arise if new laws or ordinances are issued or existing laws or ordinances are amended or their interpretation changes. For example, risks relating to HOWOGE's residential properties could arise with respect to the technical equipment in buildings or the terms of rental agreements. Subject-specific changes/developments in legislation must be monitored by the relevant department and reported if necessary. Conventional areas of law and general changes in legislation are monitored by the legal department. If the changes are extensive, training activities including the areas in question are launched. Specialist journals (legal) and press releases are considered on an ongoing basis.

- Non-compliance with data protection regulations

[Risk likelihood: possible, loss: very high]

Failure to protect personal data from unauthorized access, use, processing, storage or transfer (within the meaning of Sec. 9 BDSG ["Bundesdatenschutzgesetz": German Federal Data Protection Act]) and non-compliance with the provisions of the EU General Data Protection Regulation (GDPR). Non-compliance with technical and organization measures.

- Compliance

[Risk likelihood: unlikely, loss: low]

Fraud is a risk particularly where HOWOGE employees have business, contractual or personal relationships with external individuals. When letting apartments, tenants could be offered benefits in contravention of the rules. Likewise, markets in which there is a housing shortage are particularly prone to improper practices when selecting tenants. These risks are counteracted by organizational measures, including using standardized rental agreements, setting target rents and informing prospective tenants that commissions are not charged for HOWOGE apartments. In the area of compliance and values, the focus is on enhancing HOWOGE's corporate culture and fostering awareness among employees and executives alike. For this purpose, the non-discriminatory letting process was refined in 2021. Compliance and values management helps to boost awareness of risk and compliance issues across the Company through regular training outside the box as well as extensive advisory and education efforts.

Education and training activities in the field of compliance as well as the involvement of the contract awards unit in public tenders reduce potential risks from conflicts of interest relating to the award of contracts or employees engaging in (unreported) sideline activities, private and business contacts that are not kept separate or unauthorized use or misuse of company property. Moreover, there is a binding code of conduct for all HOWOGE employees and a code of conduct that all business partners must adhere to. As an additional organizational measure, there is a clear segregation between the award of contracts and the invoice verification process.

Real estate risks

- Valuation risks

[Risk likelihood: possible, loss: very high]

The regular valuation of the real estate portfolio is based on diverse inputs that are in turn based on independent market and forecast data wherever possible. The discount rate, market rents and their development, macro and microlocation characteristics, structural vacancies within the normal market range, forecasts of inflation rates and official land values are key inputs. The assessment of the properties' technical condition and the weighting of the various inputs for valuation are not completely free of subjective assessments. In particular, forward-looking factors are naturally subject to the risk of increased uncertainty and thus misjudgments regardless of how much care is taken when collecting the base data. Any misjudgments could have a positive or negative impact on the value of the real estate portfolio. Due to the delay between the actual transaction and the publication of the statistics based on the transaction, there is measure of uncertainty in real estate valuation. Looking at the historical trend could imply an increase in market prices when in fact the market could already be in a consolidation phase or in the midst of a downturn. The resulting risk of incorrect valuations is reduced by continuous market monitoring.

Alternative investments could be equities and bonds, but also alternative forms of investment such as cryptocurrencies, precious metals or venture capital. This means that a comparative increase in the attractiveness of other investment forms (e.g., due to returns or liquidity advantages) could have a negative impact on demand and thus on real estate prices. The more sudden and unexpected the increase in demand for other investment forms, the stronger the potential impact on competing forms of investment, such that, depending on how strong the correlation with price trends is, either a sharp increase or sharp decrease in prices is possible. Like other sectors, the real estate sector is subject to a long cycle dictated by the long-term nature of investments. The dynamic price trends of previous years cannot be unconditionally extrapolated into the future. HOWOGE constantly monitors the real estate and capital markets to assess and harness the short, medium and long-term opportunities and risks arising from the cycle.

- Climate change

[Risk likelihood: unlikely, loss: low]

The subcategory of climate change risks was added to the category of real estate risks and rated. The impact of climate change can now be felt throughout Germany. We will have to get used to the idea that extreme weather events will occur more frequently in the future. Changes in the form of milder and wetter winters as well as hotter and drier summers can already be observed. Due to climatic changes, there is a risk of extreme weather conditions such as gale-force winds, torrential rain, heat and ultra violet radiation increasing the risk of accidents and impacting the health of workers at construction sites, leading to disruptions in construction work for occupational health and safety reasons. Construction costs and costs incurred to maintain or ensure the resilience of new buildings could rise. Moreover, there is a risk that new laws or regulations will raise construction standards, for instance by prescribing additional retention areas as a safeguard against torrential rain in order to prevent strain on sewers, or prescribing the preservation of vegetation on public areas.

Market and location risks

- Risk of supplier insolvency or non-performance/poor performance

[Risk likelihood: possible, loss: very high]

Cost increases due to new tenders, delays in completion and late rental income

- Construction cost risks

[Risk likelihood: unlikely, loss: very high (approximately EUR 133m)]

Being involved in the construction of new buildings and having to meet the shareholder's targets poses challenges in the form of constantly rising construction costs and the often limited availability of construction services. In order to limit the associated investment and construction risks, HOWOGE relies on stringent investment and project controlling, securing planning and building rights and permits early and on achieving better price and resource security by putting construction services out to tender at an early stage of the process. The process of obtaining planning and building rights and permits for new-build projects can be prone to delays caused by ongoing neighborhood complaints in the land-use planning process. In order to mitigate this risk, citizen participation approaches to land-use planning are frequently applied and district authorities are closely involved in the process.

- Vacancy and property profitability

[Risk likelihood: unlikely, loss: low]

The Group's regional focus on Berlin may be a general risk. Unfavorable economic, demographic and political developments in Berlin and the surrounding regions could have a negative impact on the Group's business activities, financial position, cash flows and operating profit.

In light of the consistently high demand for affordable housing in Berlin, vacancy and profitability risks are currently low for the locations HOWOGE operates in. Investment decisions are made with interdisciplinary consultation and on the basis of comprehensive analyses of the market, rents, costs, housing needs and target groups. For major investments, the investment recommendation is documented in a management decision document. All structural investments are evaluated during the planning process by passing through regular quality gates and during implementation in a "neighborhood controlling round." Budget adherence defines the upper limit of an investment.

- Price trends

[Risk likelihood: unlikely, loss: high]

Risks resulting from an unexpectedly sharp increase in market prices, such as higher purchase prices for old-build properties. Price increases can also inhibit growth (due to lack of availability) or lead to budget overruns.

Like other sectors, the real estate sector is subject to a long cycle dictated by the long-term nature of investments. The dynamic price trends of previous years cannot be unconditionally extrapolated into the future. HOWOGE constantly monitors the real estate and capital markets to assess and harness the short, medium and long-term opportunities and risks arising from the cycle.

- Transaction risks

[Risk likelihood: unlikely, loss: medium]

Purchases are made in a structured purchase process. Internal and external experts are involved in the surveys and checks to ensure reliable assessments of the quality of the housing stock. This approach also facilitates the development of measures to optimize the portfolio and the achievable rents. These checks also ensure that the necessary personnel resources and financing opportunities are determined.

Apart from misjudgments occurring in the purchase process, there is a risk of information or knowledge of defects only becoming apparent after the purchase has been closed. This entails a risk that such information could have a negative impact on economic assumptions and thus affect the valuation of the portfolio and/or its profitability. In addition, there is a chance that the purchased housing stock will outperform expectations as to rents, quality and letting rates thanks to HOWOGE’s extensive housing estate and rent management activities.

Operating performance

- Loss of rent

[Risk likelihood: unlikely, loss: medium]

As a housing company, HOWOGE is exposed to a risk of loss of rent. Precautions to minimize this risk are taken by running standardized credit checks on all new tenants and by identifying problematic tenancies.

Appropriate countermeasures are taken in response. Due to the coronavirus pandemic and the associated store opening bans, the risk of default rose for commercial tenants in particular. However, these do not represent a significant share of the overall portfolio.

Neighborhood stability

[Risk likelihood: unlikely, loss: low]

The growing imbalance in the social make-up of HOWOGE residents towards socially disadvantaged groups can lead to cost risks for preventive measures and to reputational risks. Financial and personnel costs are incurred in the housing estates to manage vandalism, tensions among tenants and lower customer satisfaction.

In order to stabilize the situation, community development activities are carried out in the affected housing estates on a case-by-case basis. In addition to customer service, in the area of operational portfolio management the social management department is tasked with helping households in need of assistance in order to avoid payment defaults and neighborhood conflicts. As part of its community management activities, HOWOGE provides financial support to associations and social institutions as they have a stabilizing effect on the housing estates. Training for HOWOGE employees on the ground, including on the subject of conflict management, is in place. A social scoring model to aid the needs-based distribution of funds has been established and is being expanded further.

In this respect, there is close collaboration with the "new-builds in neighborhoods" department, which is responsible for the preparation, management and in-project development of new residential construction projects in HOWOGE's large existing housing estates and complements new construction activities in terms of urban planning and social aspects. The aim is to integrate the new construction projects in the existing housing stock as seamlessly as possible and to create added value for the surrounding area – and for HOWOGE. Based on the needs in the housing estates, offers in the community and amenities to serve new-builds should be considered and developed. HOWOGE thus grasps the opportunity to further develop its housing estates and thereby make them attractive places for tenants with functioning neighborhoods.

Capital market risks

- Breach of regular and certain ad hoc disclosure obligations

[Risk likelihood: possible, loss: very high]

Failure by publicly traded companies to publish annual financial statements and other accounting documents on time may result in fines. Accordingly, suitable processes, including timetables for the (IFRS) financial statement close process, have been implemented.

- Breach of the insider trading ban

[Risk likelihood: possible, loss: very high]

The statutory rules on insider dealing (Market Abuse Regulation) must be complied with by all of HOWOGE's employees and governing bodies. If breached, those affected would be held personally liable and HOWOGE would sustain damage to its reputation; in addition, there is a significant risk of fines being imposed on HOWOGE. This can lead to a relevant risk for HOWOGE.

Information about the HOWOGE Group is regularly analyzed for its significance for the HOWOGE Group and, if the legal requirements are met, it is occasionally categorized as inside information as a precaution. Any actual inside information is only communicated to a defined group of people whose members are expressly informed of its confidentiality.

In addition, legally prescribed insider directories are kept and the persons listed therein receive a special briefing, as do as any persons who are likely to come into contact with inside information as soon as it is available.

- Covenant breaches

[Risk likelihood: unlikely, loss: very high]

Failure to comply with contractually agreed financial covenants may result in the risk of extraordinary termination of financing agreements. A breach of the terms of financing contracts may also lead to higher interest payments, unscheduled repayments and/or the realization of collateral or the demand for additional collateral.

The covenants of the corporate bonds issued for the first time are all profit-related and are therefore relatively weak. They are only tested – and documented accordingly – when new borrowings are arranged. Should HOWOGE fail to meet only one of the covenants at a reporting date (e.g., at year-end), this would not be a covenant breach within the meaning of the debt issuance documentation.

An internal control process has been implemented to ensure compliance with the financial covenants. The key indicators agreed in the financing agreements and in the debt issuance program were adhered to at all times in the past fiscal year. There are no indications that the financial covenants will not be complied with in the future.

- Debt risk/rating downgrade

[Risk likelihood: unlikely, loss: very high]

The leverage ratio has a significant impact on the assessment of HOWOGE's economic situation and thus on its access to the financing market. HOWOGE plans to maintain a conservative leverage ratio going forward and anticipates a stable earnings situation with a low average interest expense. The assessments and ratings issued by analysts, banks and S&P (A) and Fitch (AA-) are testimony to the HOWOGE Group's strong market position with regard to its leverage ratio. These credit ratings are not expected to deteriorate.

School construction

No relevant risks have been identified for the School Construction segment. Due to the agreements in place with the State of Berlin, there are currently no risks in this segment that could have an impact on HOWOGE's financial position, financial performance or liquidity.

However, poor execution or lengthy delays in school development projects could damage HOWOGE's reputation and cause distraction from the implementation of other projects and/or its strategy or lead to delays. In this context, the consequences of these risks, if they occur, could be exacerbated by the fact that school construction projects are also subject to close public scrutiny. Against this background, a communication plan has been developed in cooperation with the press office and agreed with the supervisory board. [Risk likelihood: possible, loss: medium]

Sustainability risks

In addition to the traditional monetary risks, since the fourth quarter of 2021 non-financial sustainability risks have also been assessed in terms of their impact on HOWOGE's risk situation. The risk workshops held with all functions and departments did not reveal any risks that are material to the environment and/or society (see also the non-financial statement).

Singular risks – risk events

The singular risks are essentially unchanged on the prior year.

- Change in the allocation of property tax

[Risk likelihood: unlikely, loss: very high (approximately EUR 65m)]

Property tax is one of the public charges due on a property. As a rule, it is deemed an operating cost and may be allocated to tenants in accordance with Sec. 2 No. 1 BetrKV ["Betriebskostenverordnung": German Operating Costs Ordinance]. A change in the amount of property tax that can be allocated would dramatically weaken HOWOGE's ability to invest and jeopardize planned new construction and modernization projects and the social services it offers.

- Limitation of the allocation of carbon pricing

[Risk likelihood: very likely, loss: very high (approximately EUR 7.6m)]

Under the coalition agreement forged by the new German government, the German Climate Protection Act shall be consistently enhanced in 2022 and an immediate-action climate protection program with all necessary laws, ordinances and measures shall be initiated. One of the objectives is to fairly split the carbon price payable on top of heating costs between landlords and tenants. As of 1 June 2022, a model graduated according to building energy efficiency classes is to be introduced to govern the allocation of the carbon price under the BEHG ["Brennstoffemissionshandelsgesetz": German Fuel Emissions Trading Act]. If this model is not adopted in time, the higher costs will be split 50:50 between landlords and tenants from 1 June 2022.

- Potential impact of the COVID-19 pandemic

[Risk likelihood: probable, loss: high (up to EUR 5m)]

The effects on liquidity and economic viability have been negligible to date. HOWOGE employees face a low risk of infection thanks to extensive protective measures (e.g., working from home arrangements, face masks and disinfectants, the launch of digital processes to avoid human contact; 3G (vaccinated, recovered or tested) and 2G+ (vaccinated or recovered and additionally tested) rules). The dedicated crisis unit continuously monitors infection rates, adapts the protective measures to changes in the pandemic situation and communicates them immediately in a special coronavirus blog.

- Reversion of local public infrastructure obligations

[Risk likelihood: possible, loss: very high (approximately EUR 6m)]

One legal risk is associated with an earlier sale of land in Falkenberg and the related urban development obligation to create local public infrastructure, the costs of which will revert to HOWOGE if the current owner becomes insolvent.

- Allocability of rental costs for smoke detectors

[Risk likelihood: very likely, loss: high (approximately EUR 3m)]

According to the last amendment to the Berlin Building Code of 17 June 2017, the installation of smoke detectors became mandatory by 31 December 2020. HOWOGE has equipped its housing stock with rented smoke detectors and allocates the rental costs to its tenants as part of the operating costs.

However, the allocability of rental costs as operating costs has been disputed throughout the country. Most recently, in its judgment of 8 April 2021 (ref.: 67 S 335/20, juris), Berlin Regional Court ruled that smoke detector rental costs could not be allocated to tenants. However, it considers the cost of servicing smoke detectors to be allocable. If this judgment is confirmed by the Federal Court of Justice, the costs of renting smoke detectors will have to be reimbursed to tenants.

Project-specific risks

In one construction project, neighbors challenged the building permit granted to us before the administrative courts. While their claims were dismissed in the actions for temporary relief, the plaintiffs are free to continue the legal proceedings. If they do so and, contrary to the previous decision, the court rules in their favor, HOWOGE would have to bear the costs of the construction project incurred to date, including costs of demolition. [Risk likelihood: very unlikely (3%), loss: very high (approximately EUR 23m)]

Further project-specific risks were reported in connection with two other construction projects. These entail cost and deadline risks arising on the one hand from a dispute over a termination and on the other hand due to the removal and disposal of pre-existing site contamination. The expected value of the risks for both projects is below the reporting threshold of EUR 2.5m. Both risks were eliminated in the first quarter of 2022. The termination-related dispute was set aside by reaching a settlement. The supervisory board approved the budget adjustment required to cover the additional costs caused by contaminated site.

As in the previous year, there is no relevant risk in the categories of HR and management risks, financial risk, real estate risks, market and location risks, operational services risks and capital market risks.

Overall assessment

In fiscal year 2021, there were no relevant risks that, either individually or in the aggregate, posed a threat to the continued existence of the HOWOGE Group. Given their expected value, the singular risks do not currently pose a going concern threat to the HOWOGE Group. At the time of reporting, the management board does not see any risks endangering the Company's continued existence for fiscal years 2022 and 2023. The opportunity and risk situation has not changed significantly compared to the prior year. Overall, opportunities and risks are considered to be balanced.

4 Outlook

At HOWOGE, management and planning is primarily done on the basis of the HGB figures. The following projected figures were reconciled from the HGB forecast to a IFRS forecast. Our forecast for fiscal year 2022 is based on the corporate budget prepared for the HOWOGE Group taking into account the current business development, significant macroeconomic factors and the Group's strategy. The budget was drawn up in accordance with the financial reporting framework applied in the consolidated financial statements.

As before, we do not expect the COVID-19 pandemic to have a major impact on our operations in 2022 and we assume that the Berlin rental housing market will remain stable on the back of consistently high demand for housing. The forecasts also reflect the assessments at the time of preparation with regard to the Ukraine war. The resulting sanctions and refugee movements may have a significant effect on financial and economic factors. The effects will depend on the pace of events; at the present time it is impossible to estimate their consequences, but they are being continuously evaluated to aid a swift response. If necessary, countermeasures will be taken and the forecast will be revised.

With 8,267 apartments added to the portfolio as of 1 January 2022, higher special effects are expected from the integration of the portfolio purchased from Vonovia/Deutsche Wohnen once again for fiscal year 2022. The Group is expected to report a profit in the region of EUR 54.8m for 2022 (IFRSs: around EUR 280m). Due to the first-time consolidation of the purchased portfolio and the resulting depreciation, the profit forecast for 2022 entails a measure of uncertainty. For 2022, we expect IFRS FFO to increase from EUR 180.5m in 2021 to EUR 186m. Cash flows from operating activities are expected to be in the vicinity of EUR 188m.

Of the planned adjusted IFRS FFO of EUR 186m at group level, more than 99% is attributable to the Residential segment. This includes a planned increase in actual rent in 2022 by EUR 59.3m to EUR 367.1m. On the basis of the planned additions from purchases and new-builds, we expect to own a housing stock of 75,150 apartments as of 31 December 2022. We forecast the average net rent (excluding heating and utilities) for residential units to increase from EUR 6.25/sqm to EUR 6.35/sqm as a result of additions, completed new-builds and moderate increases in rents for current tenants. We expect turnover and letting-related vacancy rates to be at the level of 2021. With regard to new lets and reletting, we are planning to achieve a WBS reletting rate of at least 63%, which would be 1% lower than the actual reletting rate in 2021, coupled with turnover of around 6%. We therefore expect both figures to be at the prior-year level. By the end of 2022, we expect to see a vacancy rate of 1.6%, which will partly be attributable to the first-time letting of completed new-build apartments. In 2022, we plan to start construction of more than 1,500 apartments and complete around 1,900 apartments from new-build projects.

HOWOGE anticipates a net LTV ratio (leverage ratio) of 29% and EBITDA of EUR 230m for fiscal year 2022.

In the School Construction segment, for 2022 we expect FFO of -EUR 2.0m due to upfront costs and additional borrowings in the order of EUR 200.0m compared to the actual figure for 2021. Construction work on new projects is expected to begin in 2022. Two further project agreements are currently being negotiated and are due to be signed in 2022. In addition, further project call-offs are planned for 2022. Capacities will be adapted to growth in the coming years as needed.

As of 31 December 2022, financial liabilities are forecast to amount to around EUR 269m. Actual developments may also differ materially from expectations about the anticipated development if the assumptions underlying the statements prove to be incorrect.

Furthermore, the Company is planning to reduce total emissions from its existing properties to just 7kg CO_2/sqm/year by 2045 and, for all of its new-builds, HOWOGE aims to limit emissions from their use to no more than 7kg CO_2/sqm/year.

Berlin, 22 March 2022

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

The Management Board

Felgenhauer Schiller

Appendix to the management report for fiscal year 2021

Declaration on the Berlin Corporate Governance Code

HOWOGE Wohnungsbaugesellschaft mbH, Berlin (HOWOGE), is subject to the German Corporate Governance Code (DCGC) in the version issued by the unit responsible for the management of holdings of the State of Berlin. We issue the following declaration on the basis of the recommendations of the Government Commission on the German Corporate Governance Code as amended on 16 December 2019 with due consideration to the guidelines for holdings issued by the Berlin Senate Department for Finance Berlin on 15 December 2015.

I. Collaboration of the management board and the supervisory board

The management board and the supervisory board worked together in a close and trusting relationship. The management board disclosed all business matters and information. Persons not belonging to either of the boards (involved/consulted third parties) were required to maintain confidentiality.

The supervisory board generally held meetings attended by the management board.

The management board consulted with the supervisory board on its strategic corporate planning and regularly reported on the progress of implementation.

The management board submitted all business of fundamental importance to the supervisory board for its approval where the provisions of the articles of association and management board's rules of procedure required it to do so. In addition to the provisions of the articles of association, the Company has rules of procedure for the supervisory board and rules of procedure for the management board.
The management board met its obligation to regularly report in writing and provide the required documents. The documents for meetings and other decision-making appointments were submitted sufficiently in advance of the relevant meeting date.

Plan and actual results were compared, deviations from plan were presented in a plausible and transparent manner and any necessary remedial action was recommended in an implementable form.

The management board and the supervisory board met their obligations with due regard to the rules of good corporate governance; they exercised the due diligence of fit and proper members of management and supervisory boards.

The D&O insurance policies were maintained, with different deductibles for the members of the management board and the supervisory board.

II. Management board

The management board acted solely in the interests of the Company and its business purpose as well as in the interests of achieving a sustainable increase in business value. The Company was not disadvantaged by any activities. The management board ensured that the legal provisions and internal policies were observed. The Company has an appropriate risk management and risk controlling system.

Responsibilities and cooperation within the management board are outlined in rules of procedure for the management board and a schedule of responsibilities. No chairperson or spokesperson for the management board has been appointed.

Remuneration is disclosed for each member in the notes to the financial statements by type of remuneration.

Management board remuneration features fixed and variable components. The variable component is defined in annual target agreements. The responsibilities and performance of each management board member, the current and expected economic situation of the Company as well as industry and segment comparisons were properly reflected in setting remuneration. The full supervisory board discussed and adopted the remuneration policy; it shall be reviewed regularly.

III. Supervisory board

The duties of the supervisory board are defined in the articles of association and its rules of procedure. The supervisory board was involved in decisions of fundamental importance for the Company and did not consider any supplementary regulations necessary. It did not make any other transactions contingent on its approval. The frequency of meetings and the allotted time were commensurate with the Company's requirements.

The full supervisory board adopted the employment and remuneration policy after advance deliberation by the personnel committee. The supervisory board did not define a maximum age for management board members. The chairman of the supervisory board and the management board kept in regular contact and liaised on corporate strategy, business performance and risk management. The management board reported to the chairman of the supervisory board about significant events as and when they occurred.

Five resolutions were passed by circulation outside of supervisory board meetings.

The supervisory board held four regular and one extraordinary meeting.

The supervisory board has the following committees:

- Committee for economics, finance and investment controlling
- Personnel committee
- Building committee

The committee for economics, finance and investment controlling and the personnel committee each held two meetings. The building committee held four meetings in 2021.

The committee for economics, finance and investment controlling also performs the tasks of the audit committee. The chairman of the supervisory board did not chair the committee for economics, finance and investment controlling. No former member of the management board is a member of the supervisory board.

Questions relating to property valuation were largely addressed in the meetings of the building committee and the committee for economics, finance and investment controlling.

The committee for economics, finance and investment controlling and the building committee have been granted decision-making powers in accordance with the rules of procedure. The chairpersons of the committees reported to the supervisory board on the subject and outcome of committee discussions.

Mr. Hendrik Jellema did not perform any other supervisory board, managing director or management board functions in fiscal year 2021.

Ms. Elfriede Baumann is a member of the following supervisory boards:

- Wiener Stadtwerke GmbH, Vienna
- ÖBB Holding AG, Vienna
- Rail Cargo Austria AG, Vienna

Mr. Jörn Lorenz did not perform any other supervisory board, managing director or management board functions in fiscal year 2021.

State Secretary Wenke Christoph was a member of the following supervisory boards:

- degewo AG
- Berlinovo Immobiliengesellschaft mbH
- Gewobag Wohnungsbau-Aktiengesellschaft Berlin
- Liegenschaftsfonds Berlin GmbH & Co. KG (Lifo) und Sondervermögen für Daseinsvorsorge- und nicht betriebsnotwendige Bestandsgrundstücke des Landes Berlin (SODA)

State Secretary Vera Junker was a member of the supervisory board and performed the following functions in the reporting year:

- Chair of the supervisory board of BIM Berliner Immobilienmanagement GmbH and Liegenschaftsfonds Berlin Verwaltungsgesellschaft as well as member of the supervisory board of SODA pursuant to the law that established the latter entity
- Member of the supervisory board of degewo AG
- Member of the supervisory board of Flughafengesellschaft Berlin-Brandenburg GmbH
- Member of the supervisory board of Berliner Institut für Gesundheitsforschung
- Member of the administrative board of IT Dienstleistungszentrum Berlin

State Secretary Dr. Frank Nägele was a member of the following supervisory boards:

- Tempelhof Projekt GmbH
- Tegel Projekt GmbH
- Digitalagentur Berlin GmbH

Mr. Frank Sparmann and Ms. Babett Buschmann did not have any other supervisory board, managing director or management board functions in fiscal year 2021.

Due to her absence, Ms. Wittke was unable to submit a declaration on the Berlin Corporate Governance Code in fiscal year 2021 and, consequently, no information is available on her activities.

Total remuneration comprises a fixed amount, which is disclosed for each member in the notes to the financial statements and in the consolidated financial statements.

The supervisory board submitted the annual target agreement it intended to conclude with the management board to the shareholder for assessment.

One serving member of the supervisory board attended less than half of the meetings due to absence.

IV. Conflicts of interest

The management board complied with the non-compete provisions. The managing directors neither demanded nor accepted benefits or unjustifiably granted any such benefits to third parties. The management board is not aware of any cases of improper acceptance of benefits among the Company’s employees.

The management board and the supervisory board safeguarded the Company’s interests and did not pursue any personal interests.

Appendix to the management report for fiscal year 2021

The managing directors were involved in the following committees in the course of their duties and in consultation with the chairman of the supervisory board, Mr. Jellema:

Mr. Thomas Felgenhauer had the following positions in fiscal year 2021:

- Co-opted member of the association committee of BBU Verband Berlin-Brandenburgischer Wohnungsunternehmen e.V.
- Member of the association committee of BBW Verband Berlin-Brandenburgischer Wohnungswirtschaft e.V.
- Delegate of the association committee of the National Association of Housing Companies (GdW) (since 21 September 2021)
- Member of the GdW Federal Working Committee for Municipal Housing Companies
- Member of the board of trustees of HOWOGE Stiftung Stadtkultur

Mr. Ulrich Schiller had the following positions in fiscal year 2021:

- GdW conference delegate
- Member of the advisory board of SLHC Smart living & Health Center
- Member of MHWK Marzahn-Hellersdorfer Wirtschaftskreis e.V.
- Member of the advisory board of Techem GmbH
- Member of Arbeitskreis Digitalisierung und Technische Fachkommission
- Member of ZIA Zentraler Immobilien Ausschuss Wohnen und Digitalisierung e. V.

No transactions with the Company concluded by members of the management board or related parties were submitted to the supervisory board for approval. Consequently, the supervisory board did not make use of the exemption for transactions with the Company. No supervisory board members submitted any consulting or service contracts or contracts for work and services or other contracts with the Company to the supervisory board for approval. The supervisory board did not issue any rules of procedure for specific transactions with the Company in the fiscal year. No loans were granted to members of the management board or of the supervisory board or to any relatives of board members.

V. Transparency

No facts came to light relating to the Company's area of activities with material implications for its assets, liabilities and financial position or its general business development.

Corporate information is also published on the internet.

VI. Financial reporting

The annual financial statements for fiscal year 2021 and the interim reports have been prepared in accordance with the recognized accounting policies and will be presented to the shareholder within the defined period (audited annual financial statements within 90 days after the end of the fiscal year, interim reports (quarterly reports) 45 days after the end of the reporting period).

The measurement policies are presented and are reasonable.
The interim reports are discussed by the supervisory board and the committee for economics, finance and investment controlling. The measurement policies are presented and are reasonable. The annual financial statements and interim financial statements contain a list of the Company's investees.

VII. Audit of the financial statements

The supervisory board received a statement by the external auditors that there were no

professional, financial or other obligations, including such obligations of the audit firm's boards, in relation to the Company and its board members. There were no reasons to doubt the independence of the audit firm, its boards or its lead auditors. The external auditors were requested to inform the chairman of the supervisory board immediately of any grounds for bias. The external auditor did not present any such grounds for bias.
The supervisory board issued the audit engagement to the external auditors. The fees are based on the outcome of a request for proposal issued in 2018 and 2020.

The external auditors did not become aware of any facts that would suggest any inaccuracies in this declaration on the Berlin Corporate Governance Code.

The auditors will participate in the financial statement discussions of the committee for economics, finance and investment controlling and of the supervisory board and report on significant results of the audit.

Berlin, 11 January 2022

Hendrik Jellema	Thomas Felgenhauer	Ulrich Schiller
Chairman of the Supervisory Board	Managing Director	Managing Director

HOWOGE

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

II. Consolidated financial statements

31 December 2021

This is a courtesy translation of the annual report. The German report is the sole authoritative version.

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

Consolidated statement of financial position

as of 31 December 2021

Assets **EUR k**	**Note**	**31 Dec 2021**	**31 Dec 2020**
Non-current assets			
Intangible assets	7.5	948	541
Investment property	7.1	11,666,622	10,543,853
Prepayments on investment property		120,559	79,296
Property, plant and equipment	7.2	34,936	32,912
Investments in associates and joint ventures	7.10	13,550	11,530
Financial assets	7.6	86,722	81,860
Rental and lease receivables	7.13	7	8
Receivables from other trade	7.13	43	163
Other financial assets	7.6, 7.13	-	-
Total non-current assets		**11,923,388**	**10,750,163**
Current assets			
Inventories for property and other inventories	7.12	21,438	19,477
Rental and lease receivables	7.13	23,197	21,523
Receivables from other trade	7.13	1,871	831
Contract assets	6.1	1,947	47,946
Other financial assets	7.6, 7.13	2,703	4,140
Other assets	7.11	41,316	36,594
Income tax receivables		1,372	1,779
Cash and cash equivalents	7.15	1,511,207	43,485
Assets held for sale	7.21	-	220
Total current assets		**1,605,051**	**175,995**
Total assets		**13,528,439**	**10,926,159**

Equity and liabilities in EUR k	Note	31.12.2021	31.12.2020
Equity			
Subscribed capital		25,000	25,000
(Other) capital reserves		317,901	311,565
Accumulated retained earnings		7,024,062	6,650,139
Consolidated net retained profit		666,218	367,144
Total equity	**7.16**	**8,033,181**	**7,353,848**
Non-current liabilities			
Other provisions	7.17	1,373	1,250
Financial liabilities	7.14	3,608,936	1,799,659
Trade payables	7.14	5,509	5,407
Tax liabilities		2,199	1,961
Other liabilities	7.18, 7.20	22,644	27,375
Deferred tax liabilities	7.19	1,662,622	1,515,511
Total non-current liabilities		**5,303,282**	**3,351,163**
Current liabilities			
Other provisions	7.17	7,078	4,637
Rental and lease liabilities	7.6, 7.14	9,888	8,797
Trade payables	7.6, 7.14	77,582	72,571
Contract liabilities	7.6, 7.14	11,592	55,717
Financial liabilities	7.6, 7.14	75,311	74,597
Tax liabilities		559	676
Other liabilities	7.18, 7.20	9,965	4,153
Total current liabilities		**191,975**	**221,148**
Total liabilities		**5,495,258**	**3,572,311**
Total equity and liabilities		**13,528,439**	**10,926,159**

Consolidated income statement and consolidated statement of comprehensive income

for the period from 1 January to 31 December 2021

in EUR k	Note	31 Dec 2021	31 Dec 2020
Rental and lease revenue (IFRS 16)		309,508	303,748
Revenue from operating costs (IFRS 16)		22,857	21,734
Revenue from real estate management	**6.1**	**332,365**	**325,482**
Revenue from operating costs (IFRS 15)		21,959	20,353
Revenue from heating costs (IFRS 15)		35,596	35,582
Revenue from management services and other trade		7,002	4,158
Other revenue		638	640
Other revenue from real estate management	**6.1, 7.20**	**65,195**	**60,733**
Total revenue		**397,560**	**386,215**
Profit or loss from the sale of property	6.3	107	-
Profit or loss from the remeasurement of investment property	6.2	671,274	294,165
Change in inventories for property and other inventories	7.12	1,961	17,807
Own work capitalized		2,882	2,216
Cost of materials	6.4	- 102,003	- 118,297
Personnel expenses	6.6	- 50,004	- 48,591
Amortization, depreciation and impairment	6.5	- 1,119	- 6,489
Impairment of financial assets	7.9	- 721	1,200
Other operating income	6.7	3,722	10,784
Other operating expenses	6.8	- 39,276	- 24,875
Profit or loss from investments accounted for using the equity method	7.10	2,033	498
Finance income	6.9	4,933	4,738
Finance costs	6.9	- 33,738	- 28,830
Profit or loss before taxes		**857,611**	**490,541**
Income taxes	6.10	- 175,844	- 109,146
Other taxes	6.11	- 13,393	- 13,100
Profit or loss for the period		**668,375**	**368,295**
Other comprehensive income		-	-
Total comprehensive income		**668,375**	**368,295**

In the fiscal years ended 31 December 2021 and 31 December 2020, there were no transactions resulting in other comprehensive income (IAS 1.7). In particular, HOWOGE is not exposed to any exchange rate fluctuations and does not account for financial instruments at fair value through OCI.

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

Consolidated statement of changes in equity

for the period from 1 January to 31 December 2021

in EUR k	Subscribed capital	(Other) capital reserves	Retained earnings	Reserve required by the articles of association	Accumulated retained earnings	Consolidated net retained profit	Total equity
1 Jan 2021	25,000	311,565	6,627,639	22,500	6,650,139	367,144	7,353,848
Contribution from land transfers	-	6,336	-	-	-	-	6,336
Allocation to retained earnings from consolidated profits earned	-	-	369,530	-	369,530	-369,530	-
Appropriation of retained earnings	-	-	-229	-	-229	229	-
Other changes	-	-	4,623	-	4,623	-	4,623
Total comprehensive income	-	-	-	-	-	668,375	668,375
31 Dec 2021	**25,000**	**317,901**	**7,001,563**	**22,500**	**7,024,062**	**666,218**	**8,033,181**

in EUR k	Subscribed capital	(Other) capital reserves	Retained earnings	Reserve required by the articles of association	Accumulated retained earnings	Consolidated net retained profit	Total equity
1 Jan 2020	25,000	309,773	5,868,146	22,500	5,890,646	757,962	6,983,381
Contribution from land transfers	-	1,792	-	-	-	-	1,792
Allocation to retained earnings from consolidated profits earned	-	-	759,342	-	759,342	-759,342	-
Appropriation of retained earnings	-	-	-229	-	-229	229	-
Other changes	-	-	380	-	380	-	380
Total comprehensive income	-	-	-	-	-	368,295	368,295
31 Dec 2020	**25,000**	**311,565**	**6,627,639**	**22,500**	**6,650,139**	**367,144**	**7,353,848**

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

Consolidated statement of cash flows

for the period from 1 January to 31 December 2021

Statement of cash flows

EUR k	**2021**	**2020**
Profit or loss before taxes	**857,611**	**490,541**
Non-cash expenses and income	**- 673,417**	**- 295,164**
(Gains)/losses on the remeasurement of investment property and assets held for sale	- 671,274	- 294,165
Amortization, depreciation and impairment/(reversals of impairment) of intangible assets and property, plant and equipment	1,119	6,489
(Decrease)/increase in provisions	2,565	2,386
Other non-cash expenses/(income)	- 3,793	- 9,376
(Gain)/loss on joint ventures accounted for using the equity method, and other investments	- 2,033	- 498
Working capital adjustments	**2,908**	**- 29,634**
Decrease/(increase) in rental and lease receivables, receivables from other trade and contract assets	43,404	- 7,383
Decrease/(increase) in inventories	- 1,961	- 18,172
(Decrease)/increase in trade payables and other liabilities, and contract liabilities	- 38,536	- 4,079
Reclassifications to other areas of activity	**28,625**	**28,111**
(Gains)/losses on disposals of investment property and assets held for sale	- 107	-
(Gains)/losses on the disposal of intangible assets and property, plant and equipment	- 73	4,020
Net finance costs/(income)	28,805	24,091
Other taxes paid	- 13,393	- 13,100
Income taxes paid	- 28,733	- 11,208
Cash flows from operating activities	**173,602**	**169,546**
Cash paid for investments in investment property	- 487,025	- 275,819
Cash received from disposals of investment property	-	-
Cash paid for investments in other non-current assets	- 7,247	- 61,338
- thereof in property, plant and equipment	4,023	- 10,016
- thereof in intangible assets	- 838	- 340
- thereof in financial assets	- 2,386	- 50,982
Cash received from disposals of other assets	73	-
- thereof in property, plant and equipment	73	-
- thereof in intangible assets	-	-
- thereof in financial assets	-	-
Interest received	-	41
Cash flows from investing activities	**- 494,199**	**- 337,116**
Cash received from borrowings	2,024,127	296,521
Cash repayments of borrowings	- 216,892	- 113,580
Proceeds from shareholder loans	15,000	-
Cash repayments of lease liabilities	- 604	- 592
Interest paid	- 33,305	- 28,806
Cash flows from financing activities	**1,788,326**	**153,543**
Net change in cash and cash equivalents	**1,467,729**	**- 14,027**
Cash and cash equivalents as of 1 January	**42,872**	**56,899**
Cash and cash equivalents as of 31 December	**1,510,601**	**42,872**

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

III. Notes to the consolidated financial statements

31 December 2021

This is a courtesy translation of the annual report. The German report is the sole authoritative version.

General notes to the consolidated financial statements

1.1 Information on the Group

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung is domiciled in Germany and registered with the local court of Berlin-Charlottenburg under register number HRB 44819 B. The Company's registered office is Stefan-Heym-Platz 1, 10367 Berlin. With over 78,700 rental units of its own relevant for valuation, as of the reporting date 31 December 2021 HOWOGE is one of Germany's biggest landlords.

As a municipal housing company, it is HOWOGE's objective to mature from a municipal property manager to a district and urban developer by placing sustainability and social responsibility at the heart of its portfolio strategy. In addition to property management, the Group's core activities include new housing construction and school construction.

These consolidated financial statements were prepared by HOWOGE's management board on 22 March 2022.

1.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements as of 31 December 2021 were prepared in accordance with all effective International Financial Reporting Standards (IFRSs) adopted by the European Union (EU) and the interpretations issued by the IFRS IC.

The income statement is classified using the nature of expense method.

The consolidated financial statements have been prepared on a historical cost basis, except for investment property and equity financial assets, which are measured at fair value, and any assets held for sale (IFRS 5), which are measured at the lower of carrying amount and fair value less costs to sell.

The consolidated financial statements were prepared on a going concern basis.

The consolidated financial statements are presented in euros, which is the Group's functional currency, and all values are rounded to the nearest thousand (EUR k), except when otherwise indicated.

These consolidated financial statements include comparative information for the prior reporting period.

1 New and amended standards and interpretations

2.1 Standards effective for the first time in the fiscal year

The Group applied for the first time certain standards and amendments, which are effective for fiscal years beginning on or after 1 January 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Covid-19-Related Rent Concessions (Amendments to IFRS 16) beyond 30 June 2021

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions – Amendments to IFRS 16, Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. In response to the ongoing pandemic, the practical expedient was extended to all lease payments due on or before 30 June 2022 by the Amendment to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021 published by the IASB on 31 March 2021. After EU endorsement as of 1 April 2021, these changes are effective for fiscal years beginning on or after 1 January 2021. These amendments had no impact on the consolidated financial statements of the Group.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On 27 August 2020, the IASB published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as part of phase 2 of its IBOR reform project. The amendments relate to accounting issues in connection with the introduction of alternative risk-free benchmark interest rates for financial instruments that previously referenced the interbank offered rates (IBOR). Phase 2 focuses on issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free interest rate. These amendments are applicable for fiscal years beginning on or after 1 January 2021. These amendments had no impact on the consolidated financial statements of the Group.

2.2 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. HOWOGE intends to adopt these new and amended standards and interpretations when they become effective.

First-time application of these amendments are not expected to have any effect on HOWOGE's consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts,* a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. After the IASB's decision on 17 March 2020 to change the effective date, IFRS 17 will be effective for fiscal years beginning on or after 1 January 2023 and is not applicable to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to IAS 1.69 to 76 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for fiscal years beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

Amendments to IFRS 3: Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for fiscal years beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 16: Proceeds before Intended Use

In May 2020, the IASB issued Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for fiscal years beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Company does not anticipate any impact on the consolidated financial statements.

Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for fiscal years beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the fiscal year in which it first applies the amendments.

Amendments to IFRS 9: Fees in the "10 per cent" Test for Derecognition of Financial Liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9 *Financial Instruments*. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the fiscal year in which the entity first applies the amendment. The amendment is effective for fiscal years beginning on or after 1 January 2022 with earlier adoption permitted.

The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the fiscal year in which the entity first applies the amendment. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Amendments to IAS 1 and IAS 8 to improve accounting policy disclosures and to clarify the distinction between accounting policies and accounting estimates

On 12 February 2021, the IASB issued amendments to improve accounting policy disclosures and to clarify the distinction between accounting policies and accounting estimates. Following feedback that more guidance was needed to help companies decide what accounting policy information should be disclosed, the Board issued amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments*. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Separately, the IASB also issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments to IAS 1 and IAS 8 will be effective for fiscal years beginning on or after 1 January 2023, with early application permitted. HOWOGE currently expects these amendments to have an impact on the consolidated financial statements and they will be taken into account prospectively once effective.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The IASB published *Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction* on 7 May 2021. The amendments clarify how entities should account for deferred tax in relation to transactions such as leases and decommissioning obligations. IAS 12 specifies how entities account for income taxes including deferred taxes. Under certain circumstances, entities are exempt from recognizing deferred taxes on initial recognition of assets or liabilities (initial recognition exemption). Previously, there was uncertainty as to whether the exemption applies to transactions in connection with leases (when a lessee recognizes an asset and a liability at the lease commencement) and decommissioning obligations (when an entity recognizes a liability and includes the decommissioning costs in the cost of the asset).

According to the amendments, this exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise; if this is the case, deferred taxes have to be recognized for such transactions.

The amendments are effective for fiscal years beginning on or after 1 January 2023. Earlier adoption is permitted. The Group is currently evaluating any impact on the consolidated financial statements.

3 Consolidation principles

3.1 Subsidiaries

The consolidated financial statements as of 31 December 2021 include the separate financial statements of HOWOGE and its subsidiaries, Wohnungsbaugesellschaft Lichtenberg mbH (WBL), HOWOGE Servicegesellschaft mbH (Servicegesellschaft), HOWOGE Wärme GmbH (Wärme GmbH) and Kramer + Kramer Bau- und Projektmanagement GmbH (Kramer + Kramer) which have identical fiscal years (calendar year). All companies have their registered office in Berlin.

Subsidiaries are entities controlled by the Group. The Group is deemed to control an entity if it has rights to variable returns from its involvement with the investee and the Group has the ability to use its power over the investee to affect its returns. If subsidiaries are fully consolidated, their assets and liabilities are included in full in the consolidated financial statements. Inclusion of subsidiaries in the consolidated financial statements begins on the date on which the Group first gains control and ends when the Group loses this control.

Acquisition accounting is based on the acquisition method, according to which cost is offset against the Group’s share in equity at the date of acquisition. All intragroup receivables and liabilities, income and expenses and gains and losses resulting from intragroup transactions are eliminated.

On 28 January 2020, HOWOGE acquired 100% of the shares in KW Goecke S.A.R.L., Bertrange, Luxembourg. The purpose of the entity is to construct a residential rental building on the land at Goeckestrasse 32 – 24 in Berlin-Lichtenberg. The entity is to be legally merged into HOWOGE in 2022. The share acquisition is treated as an asset deal for accounting purposes and not as a business combination since KW Goecke S.A.R.L. does not constitute a business pursuant to IFRS 3.

The financial statements of HOWOGE and its subsidiaries were consistently prepared in accordance with uniform accounting policies.

3.2 Joint ventures

Joint arrangements classified as joint ventures as accounted for using the equity method. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. HOWOGE has a 50% investment in the development company Elisabeth-Aue GmbH, Berlin (Elisabeth-Aue), which is classified as a joint venture and is accounted for in the consolidated financial statements using the equity method.

The effects of transactions between the entities included in the consolidated financial statements are eliminated during preparation of the consolidated financial statements. Profits and losses from transactions with equity-accounted investees are only eliminated to the extent of the Group's interest in the investee.

4 Accounting policies

Investment property

Investment property comprises the properties of HOWOGE that are held to earn rentals or for capital appreciation and not for owner occupation or sale in the ordinary course of business. The investment property includes residential property (some of which is used commercially), undeveloped land, project developments and land subject to hereditary building rights granted to third parties (hereditary building rights granted to third parties).

Investment property that is held for sale and whose sale is considered to be highly probable within the next 12 months is accounted for under assets held for sale in current assets in accordance with IFRS 5.

Mixed-use properties are divided into owner-occupied and leased sections if it is legally possible to partition the respective property and neither the owner-occupied nor the leased components are insignificant. The leased section is allocated to investment property and the owner-occupied section to property, plant and equipment. The components are allocated on a basis proportionate to the respective areas.

Properties are transferred from the investment property portfolio when there is a change in use, evidenced by commencement of owner occupation or development with a view to sale.

Investment property is initially recognized at cost including transaction costs unless it was acquired as part of a business combination. The properties are subsequently measured at fair value in accordance with the option in IAS 40 in conjunction with IFRS 13. Changes in the fair values of the properties are recognized in profit or loss for the period.

Prepayments on real estate purchases are reported under prepayments on investment property. Prepayments on real estate purchases made as part of a business combination are reported under prepayments on investment property in the case of an asset deal or under other assets in the case of a share deal.

Costs incurred subsequently to add to, replace part of, or service a property (IAS 40.17) are recognized as part of the carrying amount of an asset if, under the component approach (IAS 40.19), the replacement of parts creates a whole and the costs can be measured reliably. They are also recognized if the activities enhance future use and the costs can be measured reliably. The costs recognized as part of the carrying amount of an asset are not amortized as amortization is not applied when the fair value measurement option of IAS 40 is exercised.

As of the reporting date 31 December 2021 and the comparative period 31 December 2020, the fair values of the properties were based in full on valuations by an independent appraiser. A valuation model equivalent to that recommended by the International Valuation Standards Committee was applied. The management board has established a valuation process according to which the valuation of the real estate portfolio is tendered out annually to an external party on the basis of predefined criteria. Criteria for the selection of the independent appraiser include independence, reputation, market knowledge and whether professional standards are maintained.

The fair values of the investment property and property held for sale are determined based on the forecast net cash inflows from the management of the properties using the discounted cash flow method (DCF method). Undeveloped properties are valued regularly based on the official land values under an indirect sales comparison approach. Deductions are made, in particular to reflect the readiness for development and the potential use as well as the probability of development and available infrastructure. Project developments are measured using the multi-period excess earnings method until construction has been completed. For any structures on the properties that need to be removed (demolitions), the related demolition costs are included as part of the DCF method for residential properties and in the official land value for undeveloped land or the multi-period excess earnings for project developments. Hereditary building rights granted to third parties are measured as encumbered land under an indirect sales comparison approach as for undeveloped land. The value of the hereditary building right comprises the land value discounted over the term of the hereditary building right and the capitalized rent agreed for the hereditary building right.

The earnings in the DCF model mainly comprise anticipated rental income (current net rent, market rents and market rent development) taking reductions from vacancies into account. The anticipated rental income for each location is derived from current rent indices and tables and from studies on geographic prosperity.

Costs include maintenance expenses and administrative expenses. In Germany, these are derived from the Second Computation Ordinance *(II. Berechnungsverordnung*, "II. BV") and adjusted for inflation in the period under review. The II. BV is a German ordinance that governs the calculation of the economic efficiency of housing. Other costs are rent payable for hereditary building rights, non-allocable operating costs, reletting costs and other special factors impacting value (e.g., maintenance backlog). Modernization work on the properties is taken into account in the form of adjustments to current maintenance expenses and adjusted amounts for market rent.

Due to the limited availability of market data or data not directly observable in the market and valuation inputs, the complexity of real estate appraisal and the specifics of properties, the fair value measurement of investment property is allocated to Level 3 of the fair value hierarchy of IFRS 13.86 (valuation on the basis of unobservable inputs).

The valuation is based on homogeneous valuation units that meet the criteria of economically connected and comparable land and buildings.

These include:

5 Geographic location (same micro-location and geographic proximity)
6 Similar use types, building category, year of construction category, property condition and number of levels
7 Same property features, such as rent levels, rent controls, hereditary building rights and full or partial ownership

As a municipal housing company, HOWOGE plays a key role in increasing the municipal housing stock and therefore in supplying broad sections of the population, especially middle and low-income households, with inexpensive housing. This gives rise to the following contractual obligations, which were taken into account in connection with the valuation of investment property if they have a significant effect on the valuation.

Rent increase restrictions apply to approximately 1,827 residential units; for this portfolio of funded housing, cost rents or the agreed rent amounts are realized until the end of the extended rent restriction period. These amounts are mostly below market rents, giving rise to reduced income and therefore effects on the market value. An additional 44 units are subject to rent controls due to the obligation to provide inexpensive housing for a period of five years from the completion of construction (according to the purchase agreement). In addition, HOWOGE has signed the cooperation agreement "Affordable rents, new residential construction and supply of social housing" (supplement to the cooperation agreement in 2021). Under this agreement, for new construction projects for which construction started on or after 1 July 2017, 50% of units are to be let to tenants holding housing entitlement certificates (WBS) subject to rent and occupancy restrictions and the other 50% in the freely funded new construction segment at less than EUR 10/sqm per month on average with appropriately differentiated pricing. These restrictions can prevent HOWOGE from realizing future market rent increases for newly constructed properties, which would also have an effect on the profitability and market values of the properties. In the calculation of multi-period excess earnings, it is assumed that in the unlikely event of a sale, the letting requirements pertaining the new construction project will continue to be met by the buyer. According to the information provided, no sales are expected at present.

In terms of the effects of the cooperation agreement on the Group's portfolio properties, it is assumed that rents will be increased and apartments re-let based on the usual market conditions that apply to a third party. The voluntary commitment under the agreement is not directly taken into account. Instead, the letting policies of the owner are factored in using the reletting assumptions based on actual lets in the recent past.

The discontinuation of the rent cap affects the value of the investment property portfolio. An analysis of the valuation inputs showed that the further development is primarily dependent on the anticipated minimum and average development of rents within the next five years. It is thus expected that the value of the residential properties will rise by 1.2% (2.99%) due to the anticipated minimum (average) development of rents in the next five years. Prior to the discontinuation of the rent cap, the importance of the development of rents for the value of the investment property portfolio was much lower at 0% and 0.45%. Note *6.1 Investment property* contains an overview of the key value drivers.

Germany's Federal Constitutional Court declared the Berlin rent cap unconstitutional on April 2021. As a result, the rent cap was no longer valid for reletting, although rent price controls ("Mietpreisbremse") continued to apply.

Restrictions relating to the termination of rental agreements include restrictions on terminations for own use of the property and due to reasonable economic use. In some cases, lifelong termination protection can apply.

See *note 7.14 Financial liabilities* for information on investment property encumbered with real property liens in favor of various creditors.

Inventories for property and other inventories

Inventories are measured at the lower of cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are recognized at cost and depreciated straight line over their expected economic useful life.

Depreciation is charged on the basis of the following group-wide useful lives:

- Residential buildings: 25 to 80 years
- Commercial and other buildings: 25 years
- Other equipment, furniture and fixtures: 3 to 13 years

Intangible assets

Purchased intangible assets are recognized at cost. Purchased intangible assets relate to software licenses that have a limited useful life. The software licenses are amortized straight line over expected economic lives of three to five years from the date on which they are made available. The useful life is three years for software recognized as an asset and five years for ERP systems recognized as assets.

Impairment of assets

Intangible assets and property, plant and equipment are tested at least annually for impairment pursuant to IAS 36 *Impairment of Assets*. Asset impairment tests are carried out at an asset level. If the recoverable amount of an asset cannot be determined, the impairment test is carried out on the basis of the cash-generating unit (CGU) to which the asset belongs. Impairment losses are recognized in profit or loss.

If the recoverable amount of an asset is lower than the carrying amount, an impairment loss is immediately recognized on the asset through profit or loss.

Investment property is not included in the impairment test pursuant to IAS 36 as it is recognized at fair value.

Leases

- Accounting for leases as the lessee

Leases as defined by IFRS 16 are all contracts that convey to HOWOGE the right to use an identified asset for a period of time in exchange for consideration.

Lease liabilities under lease agreements that constitute leases within the meaning of IFRS 16 are recognized at the present value of the future lease payments discounted using the incremental borrowing rate for an equivalent maturity. To determine the incremental borrowing rate for an equivalent maturity, a risk-free interest rate with maturities of between 1 and 30 years was used and a risk premium for the relevant maturity applied. This method for determining the incremental borrowing rate for an equivalent maturity is also used in subsequent periods.

On the assets side, right-of-use assets are recognized in the amount of the lease liability taking any lease payments made in advance or initial direct costs into account.

The lease liabilities are adjusted on the basis of financial principles by adding the interest expenses for the period and subtracting the amount of lease payments made. Right-of-use assets are recognized at cost less depreciation and impairment losses.

Right-of-use assets that meet the definition of investment property (IAS 40) are subsequently measured at fair value in accordance with the accounting rules of IAS 40 based on their initial recognition.

If there are changes in the lease term or amount of lease payments the present value is recalculated and the lease liability and right-of-use asset are adjusted accordingly.

Periods from options to extend or terminate a lease that are granted unilaterally are assessed on a case-by-case basis and only taken into account if it is sufficiently probable that they will be exercised, e.g., due to economic incentives.

In addition to conventional vehicle leases with 3-year fixed terms, HOWOGE also leases parking spaces (10-year terms) and land, some of which for the purpose of subleasing. The latter leases, i.e., the long-term hereditary building rights agreements, have the most significant effect on assets, liabilities, financial position and financial performance. Under these agreements, land is leased for the purpose of renting out residential properties constructed on the land. They have terms of approximately 99 years. Right-of-use assets from hereditary building rights granted to the Group are recognized at fair value in accordance with IAS 40 if they meet the definition of investment property.

There is an accounting policy choice for leases of low-value assets. HOWOGE exercises the option not to recognize such leases in the statement of financial position. Lease payments made on leases of low-value assets are therefore expensed straight line over the term of the lease.

- Accounting for leases as the lessor

In line with the statutory requirements, rental agreements for the residential properties contain options for the tenants to terminate at short notice. These agreements are classified as operating leases in accordance with IFRS 16 because substantially all the risks and rewards related to the properties are retained by HOWOGE.

The same applies to the current agreements for commercial units (commercial use of a proportion of the residential properties) and for the rental of HOWOGE's own broadband cable networks. Operating lease income is recognized in the statement of comprehensive income under rental and lease revenue straight line over the term of the corresponding agreements.

In some cases, HOWOGE has also identified subleases. These relate to subleases of hereditary building rights and to land with parking spaces that has been subleased until the end of the original head lease. HOWOGE has therefore classified these subleases as finance leases. The portion of the right-of-use asset attributable to the sublease was derecognized and a net investment recognized in the amount of the expected lease payments. The related finance income is recognized over the term in line with the payment schedule based on a constant periodic rate of return on the net investment.

Financial assets and liabilities (financial instruments)

Pursuant to IFRS 9 in conjunction with IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. If the trade date and settlement date for financial assets can differ, they are initially accounted for at the settlement date. Financial instruments are initially measured at their acquisition-date fair value. If the transaction price is different to the fair value the difference is either recorded directly in the income statement or allocated over the term or repricing time period depending on the level at which the fair value is determined. Trade receivables that do not contain significant financing components are initially recognized at the transaction price. IFRS 9 breaks financial assets down into the following measurement categories:

- Financial assets at amortized cost (at amortized cost)
- Financial assets at fair value through profit or loss (FVPL)
- Financial assets at fair value through other comprehensive income (FVOCI)

Classification is based on two criteria, the solely payments of principal and interest (SPPI) criterion and the business model criterion. First, the nature of the future cash flows from a financial asset must be assessed. The SPPI criterion is met if the cash flows represent solely payments of principal and interest on predefined dates. The SPPI criterion must be met as the first prerequisite for measuring a financial asset at amortized cost.

For the second classification criterion, an entity must test its business model, i.e., determine its intentions in terms of generating profits from the investment in the financial asset. A distinction is made between business models aimed solely at collecting the contractual cash flows and those that are held with the intention to sell. Other business models that combine both objectives or whose objective is initially unclear are also possible. For the second classification criterion, an entity must test its business model, i.e., determine its intentions in terms of generating profits from the investment in the financial asset.

By contrast, financial liabilities are assigned to the categories:

- Financial liabilities at amortized cost (at amortized cost)
- Financial liabilities at fair value through profit or loss (FVPL)

In accordance with IFRS 9, both the business model under which the financial asset is held and the characteristics of the financial asset's cash flows are taken into account when classifying financial assets.

Depending on how the financial instruments are classified, they are recognized at fair value or amortized cost using the effective interest (EIR) method in subsequent periods. The fair value is the market or exchange price. If no active market or stock exchange price can be determined for a financial instrument, the fair value is calculated using appropriate financial models, such as accepted option pricing models, or by using the market interest rate to discount future cash flows. Amortized cost is the acquisition cost minus principal repayments, reductions for impairment and the amortization using the EIR method of any difference between the acquisition cost and the maturity amount.

Financial assets are derecognized when the contractual rights to the cash flows from an asset expire, or the Group transfers the rights to receive the cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any differences arising at derecognition are recognized in profit or loss.

The Group derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire. If there are changes in the contractual terms or contract extensions, the Group assesses whether these represent substantial modifications to the contractual terms. If this is the case, the Group accounts for the changes or extensions by derecognizing the original liability and recognizing a new liability. Any difference between the carrying amount of the original liability and the fair value of the new liability and any processing and other transaction costs are expensed immediately.

If a financial instrument (whether asset or liability) measured at amortized cost is not derecognized based on changes to the contractual terms, the new carrying amount is determined as the present value of the renegotiated or modified contractual cash flows using the EIR and any difference between the new and original carrying amount is recognized in profit or loss. The carrying amount is adjusted for any processing or other transaction costs, which are amortized using the EIR method.

- Receivables and other assets

Rental and lease receivables, receivables from other trade and other financial assets are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost.

HOWOGE also recognizes the cash surrender values of life insurance policies taken out as loan collateral under non-current financial assets. They are recorded in the income statement using the gross method by presenting the insurance premiums under other operating expenses in the operating result. Increases in the cash surrender values communicated by the insurers are shown as finance income in net finance costs.

- Receivables and liabilities from unbilled operating costs

HOWOGE recognizes unbilled allocable operating costs separately as contract assets as of the reporting date less the amount of prepayments of operating expenses received from tenants, provided the related requirements are met. Allocable costs that meet the recognition criteria and tenant prepayments are presented as a net item. If the costs are higher than the prepayments, a financial liability (contract liability) is presented. See section *n) Revenue recognition* for further details.

- Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits, other short-term, highly liquid financial assets with an original term of no more than three months and bank overdrafts that are subject to insignificant changes in value.

- Financial liabilities

Financial liabilities are initially recognized at fair value less transaction costs, premiums and discounts. The fair value at the grant date is the present value of the future payments calculated using a market rate of interest for an equivalent maturity and risk profile.

Subsequent measurement is at amortized cost using the EIR method. The EIR is determined at the date on which the financial liability originates.

- Bonds

The bonds issued in fiscal year 2021 were initially measured at fair value less the directly attributable transaction costs and the discount. They are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the income statement.

- Government grants

HOWOGE receives government grants in the form of interest-subsidized loans. The interest-subsidized loans are property loans and are presented as financial liabilities. They offer advantages over standard market loans such as lower interest, interest-free and repayment-free periods and repayment subsidies.

Interest-subsidized loans are initially recognized at present value based on the market interest rate applicable at the time the loan was raised. The difference between the nominal amount and the present value of the loan is recognized as deferred income under other liabilities. It is amortized to income straight line over the residual term of the respective loans, which are subsequently measured at amortized cost.

Repayment subsidies are recognized in accordance with IAS 20.7 when there is reasonable assurance that the conditions attaching to them will be complied with and the grants will be received. For expense subsidies in the form of rent or similar subsidies, the difference between the nominal amount and the present value of the loan is recognized under other liabilities and amortized to income as the expenses are incurred. They are presented under other revenue from real estate management. Repayment subsidies granted as investment subsidies are deducted from the acquisition cost recognized for the loans. The loans are measured at amortized cost in subsequent periods.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. The other borrowing costs are expensed in the period in which they occur.

Impairment of financial instruments

Under IFRS 9, the impairment model used is based on expected credit losses. The impairment rules are applicable to debt instruments that are measured at amortized cost in subsequent periods. Under the general approach, expected losses are already accounted for at initial recognition. The standard introduces a three-stage model to determine expected losses.

Under the general approach, financial instruments are initially allocated to the first stage. A risk provision is recorded by recognizing a loss allowance at an amount equal to the 12-month expected credit losses. If the credit risk increases significantly, the financial instrument is transferred to stage 2. Now the loss allowance is measured at an amount equal to the lifetime expected credit losses.

HOWOGE applies the simplified approach in IFRS 9 afforded for rental receivables, trade receivables and contract assets pursuant to IFRS 15. Under the simplified approach, a loss allowance is measured at an amount equal to the lifetime expected credit losses irrespective of the credit quality. This is recorded in a separate account on initial recognition.

Due to their contractual arrangements, rental receivables are normally past due immediately on recognition and are forwarded to a collection agency after approximately 30 days. The receivables are then deemed as defaulted and are derecognized.

Loss allowances for cash and cash equivalents and other financial assets are calculated using the general approach. Since the counterparties have good credit ratings the expected credit losses are generally negligible.

For the loss allowance for financial instruments classified as at amortized cost, the credit risks of the individual debtors are initially grouped based on shared credit risk characteristics. The respective debtors are allocated to groups according to the nature of the business relationship. The loss allowance is determined based on a diversified analysis of the debtors. The analysis draws on information on historical payment defaults, current market information, such as credit default swaps, and forward-looking estimates such as external ratings. Since the lease receivables are mainly current and already past due when they are recognized, under the simplified approach, this information is used directly to derive a probability of default. Under the general approach, loss allowances are calculated individually for significant debtors, while clusters are formed for less significant debtors to calculate loss allowances.

The quantification of the expected credit losses is largely based on the three inputs probability of default, loss given default and the financial asset’s exposure at default. The credit risks and associated loss allowances are reviewed regularly and adjusted if necessary. There were no changes to the techniques used to estimate loss allowances in the reporting period.

Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to the cash flows from an asset expire, or the Group transfers the rights to receive the cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any differences arising at derecognition are recognized in profit or loss.

The Group derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire. If there are changes in the contractual terms or contract extensions, the Group assesses whether these represent substantial modifications to the contractual terms. If this is the case, the Group accounts for the changes or extensions by derecognizing the original liability and recognizing a new liability. Any difference between the carrying amount of the original liability and the fair value of the new liability and any processing and other transaction costs are expensed immediately.

If a financial instrument (whether asset or liability) measured at amortized cost is not derecognized based on changes to the contractual terms, the new carrying amount is determined as the present value of the renegotiated or modified contractual cash flows using the EIR and any difference between the new and original carrying amount is recognized in profit or loss. The carrying amount is adjusted for any processing or other transaction costs, which are amortized using the EIR method.

Fair value of financial instruments

HOWOGE measures financial instruments at fair value at each reporting date (for details of the measurement of investment property, see also *note 7.1 Investment property*). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

HOWOGE uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted or market price in an active and open market.
- Level 2: Quoted price in an active market for similar financial instruments or in an inactive market for identical or similar financial instruments or observable inputs other than quoted prices.
- Level 3: Valuation techniques using unobservable inputs.

For assets and liabilities that are normally recognized at fair value in the financial statements, HOWOGE determines whether transfers have taken place between hierarchy levels by reassessing the classification at the end of each reporting period (based on the lowest level input that is significant to the entire fair value measurement).

Except otherwise stated, the fair value of cash and cash equivalents, trade receivables and trade payables is equivalent to the carrying amount due to their short-term nature.

See *note 7.7 Fair value of financial instruments* for information on the calculation of the fair value of financial instruments.

Assets held for sale

In accordance with IFRS 5, assets held for sale exclusively comprise assets which the Group has decided to sell as of the respective reporting date, provided the sale of the property is deemed as highly likely to occur with 12 months of the decision and active marketing efforts have been undertaken.

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell in accordance with IFRS 5. Investment property classified as held for sale is measured at fair value pursuant to IAS 40.

Other provisions

Provisions are recognized if there is a legal or constructive obligation as a result of a past event, utilization is likely and the probable amount of the necessary provision can be estimated reliably. Provisions are discounted if the effect is material. Effects from the unwinding of the discount on provisions due to the passage of time are recognized in interest expenses. The discount rate is a pre-tax rate that reflects current market assessments.

Provisions for onerous contracts are recognized if the economic benefits expected to be received under the contract are lower than the unavoidable costs of meeting the obligations. The provision is recognized at the lower of the present value of the settlement obligation or any compensation or penalty in the event of exiting from the contract or failing to fulfill it.

Contingent liabilities are possible obligations to third parties that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events or obligations that arise from past events which are unlikely to result in an outflow of resources or whose amount cannot be measured with sufficient reliability. Contingent liabilities are not recognized pursuant to IAS 37.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. To recognize revenue, the criteria of IFRS 15 or IFRS 16 must also be met.

HOWOGE mainly generates revenue from the lease of land, buildings and rental apartments and the associated operating, heating and ancillary costs. It distinguishes between revenue (largely revenue from rents) within the scope of IFRS 16 *Leases* and revenue from the provision of services or supply of goods that falls within the scope of IFRS 15 *Revenue from Contracts with Customers*.

- Revenue from real estate management

-> Rental and lease revenue (IFRS 16)

Revenue from the rental and lease (IFRS 16) of real estate is recognized straight line over the term of the agreement where the relevant rental and lease agreements are classified as operating leases.

-> Revenue from operating costs (IFRS 16)

Operating costs comprising property tax and insurance (building and liability insurance) are also recognized in the statement of comprehensive income straight line over the term of the corresponding agreements as revenue from operating costs (IFRS 16) as a component of revenue from real estate management, but separately from rental and lease revenue (IFRS 16).

- Other revenue from real estate management

-> Revenue from operating and heating costs (IFRS 15)

In addition, HOWOGE also generates revenue (IFRS 15) from payments for operating, heating and ancillary costs if the related services have already been rendered. They are not netted, in accordance with the principal method, in particular due to HOWOGE’s business model under which a high share of services that are relevant for operating costs are rendered in-house and because tenants consider HOWOGE to be primarily responsible for providing the services. HOWOGE also bears an inventory risk in respect of all services not rendered in-house due to the invoicing bases customary in the real estate industry (rental space). The only exceptions are allocated operating costs in connection with cold water and charges for street cleaning and rubbish collection for which HOWOGE acts as an agent within the meaning of IFRS 15 since HOWOGE does not obtain control over the services before they are transferred to the customers or provided for the customers. The relevant allocations are netted with the corresponding expenses. Services provided to tenants but not yet billed for which HOWOGE acts as the agent are shown under other assets.

Revenue from operating, heating and ancillary costs is determined based on the costs incurred and are equivalent to the contractually agreed transaction price. The corresponding prepayments are due at the beginning of each month. Revenue is recognized over the month. In the subsequent year, the prepayments are netted with the actual operating costs.

Rental income from operating, heating and ancillary costs recognized during the year in relation to which HOWOGE acts as the principal represent assets that are recognized separately from the rent receivables (IFRS 15.105, .107). Prepayments additionally give rise to a contract liability. Prepayments received from installments are recognized as contract liabilities. Contract assets and contract liabilities are not netted because services rendered are not allocated to prepayments received at the level of the individual agreements outside of the year-end operating and ancillary cost billing. HOWOGE has begun to establish a process that will allow these items to be netted in the future.

Technical netting of the contract liabilities and contract assets from operating costs and heating costs was performed as of 31 December 2021 for the prepayments received, which was done using a calculated allocation key based on the work in process figures (see note *6.1 Revenue from real estate management and other revenue from real estate management*).

-> Revenue from management services and other trade

Income from other services comprises revenue from services (such as construction and project management) and third-party management.

Income from other services is recognized as revenue over time if the customer simultaneously receives the benefits from and uses the service or HOWOGE owes an asset which has no alternative use and has an enforceable right to payment. In all other instances, revenue is recognized at a point in time when the customer accepts the service. The transaction price and its maturity are based on the agreed contractual modalities.

-> Other revenue

Group entities receive government grants, including repayment subsidies to fund social housing construction. Rent restrictions apply to the subsidized housing. Expense subsidies that are granted in the form of rent subsidies are recognized in profit or loss as the expenses are incurred. They are presented in other revenue from real estate management under other revenue.

-> Interest and similar income

Interest income is recognized using the EIR method on an accrual basis.

Income taxes

Income tax expenses equal the sum of current tax expenses and deferred taxes.

HOWOGE is liable for taxes in Germany only. Estimates are required in some instances to assess the income tax assets and liabilities. It cannot be ruled out that the tax authorities will arrive at a different assessment. To account for the associated uncertainty, uncertain tax assets and liabilities are recognized when HOWOGE considers the probability of occurrence to be greater than 50%. A change in the estimate, e.g., due to final tax assessment notices, has an effect on the current and deferred tax items. An estimate of expected tax payments is made to recognize uncertain income tax items.

Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax base when calculating the taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences; deferred tax assets are recognized to the extent that it is probable that there will be taxable profits against which the deductible temporary differences can be used or there are deferred tax liabilities. Deferred tax assets also include tax reductions arising from the expected use of existing tax loss carryforwards (or comparable matters) in subsequent years whose realization is sufficiently probable. Deferred tax liabilities and assets are calculated based on the tax rates (and tax laws) expected to be applicable at the time the liability is settled or the asset is realized. The tax provisions in effect as of the reporting date or enacted by the *Bundestag*, the lower house of parliament, and, potentially, by the *Bundesrat*, the upper house of parliament, are used for the calculation. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to settle the liability or realize the asset.

Current and deferred taxes are recognized in the income statement. Deferred taxes are only offset if there is a legally enforceable right to set off the reported amounts, they exist in respect of the same taxation authority and the realization period is the same. In accordance with the provisions of IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

5 Significant accounting judgments, estimates and assumptions

5.1 Exercise of options and judgments

In applying the entity's accounting policies, management exercises options and makes judgments that can significantly affect the amounts recognized in the consolidated financial statements as follows:

- Evaluating whether the investment property acquired in a business combination is a business or the acquisition of an individual asset or group of assets can be subject to judgment.
- HOWOGE measures investment property at fair value. If management had elected to use the cost model as permitted under IAS 40, the carrying amounts of the investment property would differ considerably, as would the corresponding income or expense items.
- The criteria used to evaluate how to classify a financial asset can involve judgment.
- When accounting for leases in accordance with IFRS 16, the assessment of the likelihood of renewal or termination options being exercised can require judgment, in particular if there are no economic incentives to exercise or refrain from exercising options.
- The requirement to incorporate forward-looking information in the calculation of expected credit losses results in the use of judgment with regard to the effect of changes in economic factors on expected credit losses.
- Since a definition of the term "a separate major line of business or geographical area of operations" (IFRS 5) is not specified, judgment may be exercised when it comes to disposal groups in connection with property sales.

5.2 Estimates and assumptions

The preparation of consolidated financial statements requires, to a certain extent, the use of estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the reporting date and the presentation of income and expenses during the reporting year.

The actual amounts can differ from the estimates if the conditions do not develop as expected. In such a case, the assumptions and, where necessary, the carrying amounts of the relevant assets or liabilities are adjusted prospectively.

Specific estimates and assumptions that relate to individual financial statement items are explained in addition in the respective sections of the notes. Assumptions and estimates are continuously reviewed and are based on past experience and other factors, including expectations as to future events which appear reasonable under the circumstances.

The assumptions and estimates entailing a significant risk of an adjustment of carrying amounts of assets and liabilities largely relate to the determination of the fair values and residual values of investment property.

The best indications of the fair value of investment property are current quoted prices for similar properties in an active market. However, as this information is not always available, HOWOGE uses standardized valuation techniques.

See *note 7.1 Investment property* for a detailed description of the discounted cash flow (DCF) method applied. For reporting purposes, the respective fair values of the investment property held by HOWOGE are calculated pursuant to IAS 40 in conjunction with IFRS 13. Changes in the relevant market conditions, such as current rent levels and vacancy rates, can affect the values. Any changes in the fair value of the investment portfolio are recognized in the Group's profit or loss for the period and can therefore have a significant effect on HOWOGE's financial performance.

Measurement of the financial liabilities at amortized cost using the EIR method takes the expected contractual cash flows into account. Some of the agreements do not have fixed terms. Consequently, the values used for the amount and term of these cash flows are based on assumptions made by management.

In determining the amount of current and deferred taxes, the Group considers the effects of uncertain tax positions and whether additional taxes and interest might be payable. This evaluation is based on estimates and assumptions and can involve several judgments about future events. New information may become available that causes the Group to change its judgments about the appropriateness of the existing tax liabilities; such changes in the tax liabilities will have effects on the tax expense in the period in which such a finding is made.

Tax matters also involve uncertainty in respect of their assessment by the tax authorities. Even if HOWOGE is satisfied that it has presented tax matters correctly and in a legally compliant manner, it cannot be ruled out that tax authorities will arrive at different conclusions in individual cases. If it is likely that tax assessments will change, risk provisions are recognized accordingly. It is otherwise considered not likely that tax risks from prior years will result in any liabilities. An assessment of uncertain tax positions assumes that the tax authorities have full knowledge of all related information when making their examinations. However, in the event of unfavorable developments, HOWOGE could be exposed to additional liabilities in the high single-digit or lower double-digit million euro range. The calculations are based in particular on past experience of the outcomes of previous tax audits and their effects for the subsequent periods as well as the currently applicable tax legislation and prevailing opinion. As such, there may be deviations from the current estimates in the future.

Deferred tax assets are recognized to the extent that it can be demonstrated that it is probable that taxable profit will be available in the future against which the temporary difference can be utilized. At each reporting date, the deferred tax assets are reviewed and reduced to the extent that it is no longer probable that sufficient taxable income will be available in the future to allow the benefit of that deferred tax asset to be utilized.

As part of the application of IFRS 15, determining the timing of satisfaction of performance obligations and determining the stage of completion when recognizing revenue over time can be subject to judgment.

Further assumptions and estimates generally relate to determination of uniform useful lives within the Group, assumptions about the underlying value of land and buildings, the recognition and measurement of provisions and the recoverability of future tax relief.

6 Notes to the income statement

6.1 Revenue from real estate management and other revenue from real estate management

Rental and lease revenue

EUR k	**2021**	**2020**
Rental and lease revenue (IFRS 16)	309,508	303,748
Revenue from operating costs (IFRS 16)	22,857	21,734
Revenue from real estate management	**332,365**	**325,482**
Revenue from operating costs (IFRS 15)	21,959	20,353
Revenue from heating costs (IFRS 15)	35,596	35,582
Revenue from management services and other trade	7,002	4,158
Other revenue	638	640
Other revenue from real estate management	**65,195**	**60,733**
Total revenue	**397,560**	**386,215**

Revenue from real estate management

- Rental and lease revenue (IFRS 16) and revenue from operating costs (IFRS 16)

Revenue from real estate management is recognized straight line over the term of the agreement where the relevant rental and lease agreements are classified as operating leases. Total lease income from operating leases comes to EUR 309,508k (2020: EUR 303,748k). Revenue from real estate management also includes revenue from allocable operating costs (property tax, building and liability insurance) of EUR 22,857k (2020: EUR 21,734k).

The future undiscounted lease payments from operating leases are due as follows:

Maturity analysis of future lease payments (undiscounted)

EUR k	31 Dec 2021	31 Dec 2020
Due within 1 year	322,686	310,010
Between 1 and 2 years	335,247	323,705
Between 2 and 3 years	345,702	337,660
Between 3 and 4 years	366,727	351,296
Between 4 and 5 years	394,302	368,182
More than 5 years	2,254,008	2,007,462

Other revenue from real estate management

- Revenue from operating costs (IFRS 15), revenue from heating costs (IFRS 15) and revenue from management services and other trade (IFRS 15)

HOWOGE generates revenue from the transfer of goods and services from the following main areas:

- Operating and heating costs: over time
- Revenue from management services and other trade: over time and at a point in time (see the comments in note *4 Accounting policies*).

Other trade includes the generation of electricity and heat for third parties and administration services provided for third-party properties.

- Contract assets and liabilities (IFRS 15)

Contract assets and liabilities (IFRS 15)

EUR k	31 Dec 2021	31 Dec 2020
Current contract assets from operating costs	1,437	18,464
Current contract assets from heating costs	577	30,837
Impairment loss (IFRS 9)	- 66	- 1,356
Total contract assets	**1,947**	**47,946**
Current contract liabilities from operating costs	1,034	16,352
Current contract liabilities from heating costs	10,559	39,365
Total contract liabilities	**11,592**	**55,717**

The decrease in contract assets and liabilities (IFRS 15) is attributable to the first-time offsetting (in the amount of EUR 46,641k) of contract assets and contract liabilities as of 31 December 2021.

Revenue from operating costs relates to contract liabilities of EUR 16,352k (not netted) at the beginning of the period (1 January 2020: EUR 14,346k). At the beginning of the fiscal year, they contrasted with contract assets of EUR 18,464k (1 January 2020: EUR 14,877k). As of 31 December 2021, the offset contract liabilities amounted to EUR 1,034k and the offset contract assets to EUR 1,437k.

Revenue from heating costs relates to contract liabilities of EUR 39,365k (not netted) at the beginning of the period (1 January 2020: EUR 36,730k). At the beginning of the fiscal year, they contrasted with assets of EUR 30,837k (1 January 2020: EUR 29,387k). As of 31 December 2021, the offset contract liabilities amounted to EUR 10,559k and the offset contract assets to EUR 577k.

- Other revenue

Group entities receive government grants, including repayment subsidies to fund social housing construction. Rent restrictions apply to the subsidized housing. Expense subsidies that are granted in the form of rent subsidies are recognized in profit or loss as the expenses are incurred. They are presented in other revenue from real estate management under other revenue. In the fiscal year, corresponding income of EUR 638k (2020: EUR 640k) was recognized.

See note *7.20 Government grants* for further details.

6.2 Profit or loss from the remeasurement of investment property

Profit or loss from the remeasurement of investment property amounts to EUR 671,274k (2020: EUR 294,165k).

Accordingly, in connection with the remeasurement, unrealized changes in fair value were recognized in profit in loss in addition to the changes in fair value realized from sales. In the fiscal year, unrealized changes in fair value of EUR 671,274k (2020: EUR 294,165k) were recognized in the consolidated statement of comprehensive income.

Rental income and income from residential services related to investment property came to EUR 309,508k in the fiscal year (2020: EUR 303,748k). Operating expenses directly connected with this property came to EUR 39,813k in the fiscal year (2020: EUR 41,323k). These include expenses for maintenance, non-allocable operating costs, personnel expenses from property management and residential services.

The fair value adjustment to residential properties mainly resulted from portfolio purchases, the commissioning of completed project developments and the assumptions on property market trends used for property valuation, including the judgment by the Federal Constitutional Court of 15 April 2021, which ruled that Berlin's rent cap was not constitutional and therefore null and void.

In addition, the "anticipated rent trends in years 1 to 5" were increased by an average of 2.54% compared to the prior year.

The fair value adjustments to project developments mainly resulted from the commissioning of completed project developments, the start of construction of new project developments and the individual progress on construction of project developments.

In addition, the positive development of the fair value adjustment was generally influenced by the interest rate trend.

6.3 Cost of materials

EUR k	2021	2020
Facility management expenses	99,932	101,527
thereof operating costs	57,395	58,921
thereof maintenance and modernization	32,886	35,464
thereof other cost of purchased services	9,650	7,142
Expenses for land held for sale	0	2
Expenses for other goods and services	110	16,769
Total cost of materials	**100,042**	**118,297**
Change in inventories for property and other inventories	1,961	
Cost of materials according to the income statement	**102,003**	

Expenses for other goods and services in the prior year were dominated by HOWOGE's activities as part of the Berlin School Building campaign. The cost of materials for school construction is due to activities extending beyond the basic model.

6.4 Amortization, depreciation and impairment

Amortization, depreciation and impairment of non-financial assets

EUR k	2021	2020
Impairment of property, plant and equipment	688	3,820
Amortization and impairment of intangible assets	431	2,669
	1,119	**6,489**

The much higher amortization and impairment of intangible assets recorded in 2020 compared to the figure for 2021 is attributable to the derecognition of software, for which the last amortization charge was recorded in fiscal year 2020.

Depreciation of right-of-use assets presented under property, plant and equipment is shown separately in note *7.2 Property, plant and equipment* and *note 7.3 Leases as the lessee*; it amounted to EUR 30.8k in the fiscal year (2020: EUR 10.5k).

6.5 Personnel expenses

Employee benefits expenses

EUR k	2021	2020
Wages and salaries	41,242	40,817
Social security costs	8,238	7,260
Pension costs	524	514
	50,004	**48,591**

Pension costs relate to payments into a direct insurance policy or reinsured employee benefit fund. The company pensions are accounted for as defined contributions in accordance with IAS 19.

Group headcount developed as follows:

	31 Dec 2021	31 Dec 2020
Management board (HOWOGE Wohnungsbaugesellschaft)	2	2
Salaried employees (including management of subsidiaries)	621	552
Wage earners	275	250
Trainees	29	27
Students	6	6
	933	**837**

By company, the development breaks down as follows:

	31 Dec 2021	31 Dec 2020
HOWOGE	629	573
Servicegesellschaft	235	205
Kramer + Kramer	29	28
Wärme GmbH	40	31
	933	**837**

6.6 Other operating income

EUR k	2021	2020
Reversal of provisions	2,783	2,205
Out-of-period income	346	368
Income from cost allocations	124	495
Miscellaneous other income	469	7,716
	3,722	**10,784**

In 2020, miscellaneous other operating income was shaped by the release of rent payments received in advance for hereditary building rights (EUR 7.0m) to profit or loss, since the hereditary building right was reacquired in the fiscal year.

6.7 Other operating expenses

EUR k	2021	2020
Audit and consulting fees	15,801	5,726
IT costs	9,293	7,393
Non-staff expenses	3,894	2,643
Insurance premiums	2,620	2,528
Advertising and sponsorship costs	2,120	2,311
Training costs	1,697	1,541
Development studies	1,090	403
Contributions to associations	376	395
Donations	317	656
Out-of-period expenses	101	165
Miscellaneous other operating expenses	1,969	1,116
	39,276	**24,875**

The significantly higher other operating expenses compared to 2020 are largely due to a greater need for auditing and consulting services, including support for the acquisition, financing and preparation of the migration of the purchases made in the reporting period.

The auditor's total fees pursuant to Sec. 314 (1) No. 9 HGB ["Handelsgesetzbuch": German Commercial Code] for 2021 break down as follows:

EUR k	
Audit services	320
Audit-related services	388
Total fees	**708**

The audit services comprise the fees for the audit of the consolidated financial statements and the subsidiaries included in the consolidated financial statements. The fees for audit-related services concern procedures in connection with a capital market action and the assurance engagement relating to disclosures on the implementation of the "guaranteed basic income" pilot project.

6.8 Finance income and costs

EUR k	2021	2020
Finance income from the unwinding of the discount on a lease receivable	41	41
Finance income from the cash surrender value of insurance policies held	4,881	4,694
Other finance income	11	3
Finance income	**4,933**	**4,738**
Finance costs from loan liabilities	- 31,055	- 28,123
Finance costs from lease liabilities	- 470	- 474
Finance costs from provisions	- 58	- 64
Amortization of government grants received	690	594
Other finance costs	- 2,845	- 764
Finance costs	**- 33,738**	**- 28,830**
Net finance costs	**- 28,805**	**- 24,091**

Finance costs largely stem from the interest on property financing loans. See note *7.14 Financial liabilities* for the development of current and non-current liabilities.

The income and expenses and gains and losses from financial instruments (net gains and losses) recognized in the income statement break down by measurement category as follows:

	Net gains and losses from interest		Net gains and losses from fair value measurement		Net gains and losses from impairments	
EUR k	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Financial assets (at fair value)	-	-	4,881	4,694	-	-
Financial assets (at amortized cost)	- 535	- 206	-	-	-44	1,815
Financial liabilities (at amortized cost)	- 33,275	- 28,718	-	-	43	60
	- 33,810	**- 28,924**	**4,881**	**4,694**	**- 1**	**1,875**

The net gains and losses of the financial assets measured at fair value stem from the performance of the life insurance policies held (cash surrender values of insurance policies held), which are recognized under non-current financial assets.

The financial assets at amortized cost include bank balances that accrued negative interest in the fiscal year. Expenses were also incurred from the change in impairment losses recognized in accordance with IFRS 9.

Financial liabilities largely comprise fixed-interest agreements (loans).

Net gains from impairments are due to the lower bad debt losses in the past fiscal year and the resulting lower ECL rate.

6.9 Income taxes

The tax expense and income attributable to income taxes breaks down by origin as follows:

EUR k	**2021**	**2020**
Current income taxes	24,056	10,890
Out-of-period current income taxes	4,677	318
Deferred taxes	147,111	97,939
	175,844	**109,146**

On the basis of earnings before taxes and the imputed income taxes, the reconciliation to actual income taxes is as follows:

EUR k	**2021**	**2020**
IFRS profit or loss before taxes	857,611	490,541
Group tax rate in %	30.18%	30.18%
Anticipated tax expense	**258,784**	**148,021**
Trade tax effects	- 85,869	- 31,152
Non-deductible business expenses and off-balance sheet add-backs	197	9
Tax-free income and off-balance sheet deductions	- 1,618	- 6,430
Deductibility of other taxes	4,344	- 4,271
Other tax effects	5	2,969
Income taxes according to the statement of comprehensive income	**175,844**	**109,146**
Effective tax rate in %	**20.5%**	**22.3%**

The deferred taxes from non-current assets and non-current liabilities are expected to reverse more than 12 months after the reporting date.

The tax rate used to determine the imputed income taxes takes account of both the current tax rates and the rates expected in the future based on the current legal situation (combined tax rate for corporate income and trade tax of 30.175% and for group companies that are exempt from trade tax, a corporate income tax rate of 15.825%).

6.10 Other taxes

Other taxes of EUR 13,393k (2020: EUR 13,100k) mainly contain property tax.

7 Notes to the consolidated statement of financial position

7.1 Investment property

The fair values of investment property developed as follows in fiscal years 2021 and 2020:

Other additions	25,048	25,651	120,806	-	171,504
Reclassification to assets held for sale	-	-220	-	-	-220
Reclassification between categories	72,070	-47,632	-20,079	-4,360	-
Fair value adjustment	295,944	14,430	-16,255	47	294,165
31 Dec 2020	**10,124,720**	**170,250**	**247,120**	**1,763**	**10,543,853**

EUR k	**Residential properties**	**Undeveloped land**	**Project development**	**Hereditary building rights granted to third parties**	**Total**
1 Jan 2021	**10,124,720**	**170,250**	**247,120**	**1,763**	**10,543,853**
Purchases	150,167	5,664	-	-	155,831
Other additions	150,247	49,924	96,004	-	296,175
Reclassification to assets held for sale	-	-	-	-	-
Reclassification between categories	368,921	-50,888	-318,033	-	-
Reclassification to property, plant and equipment	-511	-	-	-	-511
Reclassification from property, plant and equipment	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value adjustment	417,050	64,449	189,709	66	671,274
31 Dec 2021	**11,210,595**	**239,398**	**214,800**	**1,829**	**11,666,622**

The fair values of investment property are all assigned to Level 3 of the fair value hierarchy (IFRS 13). There were no reclassifications to/from other levels of the fair value hierarchy as of the respective reporting dates.

Purchases relate to investment property acquired, contributed by the shareholder or recognized for the first time in the fiscal year because the benefits and burdens were transferred in the fiscal year (see below for details). In the fiscal year (as in the prior year), there were no additions from acquisitions by way of business combinations within the meaning of IFRS 3.

Other additions comprise subsequent acquisition costs, primarily relating to project developments, as well as capitalized expenses in connection with capitalizable maintenance and refurbishment work.

Reclassification between undeveloped land/project developments and residential properties relate to development projects completed in the relevant fiscal year.

The hereditary building rights are hereditary building rights granted to third parties for land owned by the Group, for which HOWOGE is the lessor and which are classified as an operating lease (IFRS 16).

The increase in prepayments made by EUR 42m to EUR 121m is mainly due to the prepayment of real estate transfer tax.

The net valuation effect from adjustments to fair value related to portfolio property (net) in 2021 and 2020 and is included in the profit or loss from the remeasurement of investment property.

Additions in the fiscal year comprise both purchases (or contributions by the shareholder) and investments in portfolio properties. The entire housing stock of HOWOGE has undergone complex maintenance and modernization in the last 25 years. There are only a few remaining properties that are being comprehensively refurbished on a case-by-case basis.

Complex maintenance was carried out on the following properties in 2021:

- Grevesmühlener Strasse 16 – 20
- Hendrichplatz 2 – 10, Ruschestrasse 22-33b
- Leopoldstrasse 18, 18a, 19, 19a, 20
- Rosenfelder Strasse 1, 1a/Skandinavische Strasse 10 – 13a
- Turmstrasse 45

In line with the 2035 strategy, HOWOGE will focus on making its properties more energy efficient in the years to come. In order to achieve the 2050 climate targets, it will be necessary to further reduce carbon emissions. We will only succeed in doing so by developing technical and other innovations together with Wärme GmbH. Additionally, all new construction projects will be built to meet the KfW40 standard at a minimum.

HOWOGE has expressed interest in the contribution of a large number of state-owned properties. The following properties were contributed in 2020:

- Wittenberger Strasse 40
- Ernst-Barlach-Strasse 1 – 6

In addition, the following properties were contributed by the shareholder in 2021:

- Traffic area at Lückstrasse 33
- Ernst-Barlach-Strasse 1 – 6

HOWOGE is also active in the purchase of developments in order to achieve its growth targets. As part of this growth strategy, HOWOGE has added 15 developments to the portfolio relevant for valuation since 2015. The residential portfolio increased by 279 apartments in the reporting year as a result of new buildings constructed by the Group (Melli-Besse-Strasse 64 – 70/Strasse am Flugplatz 65 – 69d (101 apartments, partial acceptance) and Neustrelitzer Strasse 65 (105 apartments) and Hauptstrasse 37 – 49 (73 apartments)).

The handover of the completed development at Lauterplatz 2 – 10 added another 238 apartments to the residential portfolio.

The portfolio was expanded by another 607 apartments following the acquisitions of housing stock at Mehringplatz 12 and 14/Friedrichstrasse 246, Wilhelmstrasse 2 – 6, Ruschestrasse 43, Margaretenstrasse 13 – 14 and Anton-Saefkow-Platz 8 and 10.

The reporting year was dominated by the letting of the completed development and our own new construction activities. With three projects ready for letting, a total of 416 apartments were placed on the rental market. The new building rental team took care of the letting process.

The situation on the real estate markets continues to be shaped by comparatively low returns on purchase prices. The observations from the market transactions conducted in the fiscal year are reflected in the discount and capitalization rates used to determine fair values. The selected valuation methods account for both the general market environment and the continued strength of HOWOGE's operating activities.

When determining the fair values of residential properties using the discounted cash flow (DCF) method, lease payments for hereditary building rights granted to the Group are included in cash flows. Therefore, the corresponding lease liabilities must be added for the investment property recognized at fair value in the statement of financial position pursuant to IAS 40.77:

EUR k	31 Dec 2021	31 Dec 2020
Fair value according to external valuation	11,642,796	10,519,916
Adjustments to lease liabilities	23,826	23,937
Fair value in the statement of financial position	11,666,622	10,543,853

The following table shows the valuation technique used in measuring the fair value of investment property, and the significant unobservable inputs.

The factors take into account current developments, in particular the rent price controls ("Mietpreisbremse") in Berlin.

The valuation inputs were as follows as of 31 December 2021 and as of 31 December 2020:

Valuation inputs as of 31 December 2021

		Fair value (in EUR k)	Valuation method	Market rent EUR/m² or parking space per month	Maintenance costs EUR/m² or parking space per year	Administrative costs EUR/unit or parking space p.a. or % of GRI p.a.	Stabilized vacancy rate in %
				min / average / max	min / average / max	min / average / max	min / average / max
Residential properties*		11,186,769	DCF	-	-	-	0.00% / 0.50% / 100.00%
	Residential	-	-	6.00 / 7.55 / 15.00	2.40 / 10.45 / 15.00	215.00 / 227.00 / 450.00	-
	Commercial (office/retail/ other commercial use)	-	-	0.50 / 8.58 / 19.53	2.00 / 10.28 / 15.00	3.00%	-
	Garages	-	-	20.00 / 70.24 / 142.50	14.70 / 71.61 / 73.50	39.00	-
	Outdoor parking spaces	-	-	10.00 / 30.68 / 60.00	6.30 / 31.45 / 31.50	39.00	-
Undeveloped land / hereditary building rights granted to third parties		241,227	Capitalization of earnings method/ sales comparison approach	-	-	-	-
Project developments		214,800	Residual value	-	-	3.00% / 4.31% / 5.00%	-
	Residential	-	-	6.50 / 8.81 / 9.95	9.00	-	-
	Commercial (office/retail/ other commercial use)	-	-	13.50 / 14.25 / 17.50	7.50 / 7.58 / 9.00	-	-
	Garages	-	-	75.00 / 78.36 / 80.00	50.00	-	-
	Outdoor parking spaces	-	-	15.00 / 46.14 / 100.00	30.00	-	-
Total portfolio (IAS 40)		**11,642,796**		-	-	-	-

	Discount rate in %	Capitalization rate in %	Anticipated development of rents from year 1 to 5 in %	Anticipated development of rents from year 6 to 10 in %
	min / average / max	min / average / max	min / average / max	min / average / max
Residential properties*	3.18% / 4.36% / 6.73%	1.38% / 2.36% / 4.93%	1.20% / 2.99% / 3.30%	1.00% / 1.99% / 2.20%
Undeveloped land / hereditary building rights granted to third parties	-	-	-	-
Project developments	-	1.20% / 1.44% / 3.10%	-	-
	-	-	-	-

Valuation inputs as of 31 December 2020

		Fair value (in EUR k)	Valuation method	Market rent EUR/m² or parking space per month	Maintenance costs EUR/m² or parking space per year	Administrative costs EUR/unit or parking space p.a. or % of GRI p.a.	Stabilized vacancy rate in %
				min / average / max	min / average / max	min / average / max	min / average / max
Residential properties		10,100,783	DCF	-	-	-	0.00% / 0.51% / 100.00%
	Residential	-	-	2.21 / 6.29 / 15.00	2.40 / 10.46 / 15.00	215.00 / 227.70 / 450.00	-
	Commercial (office/retail/ other commercial use)	-	-	0.25 / 7.04 / 18.50	2.00 / 10.25 / 15.00	3.00%	-
	Garages	-	-	20.00 / 62.51 / 142.50	14.70 / 69.52 / 73.50	39.00	-
	Outdoor parking spaces	-	-	10.00 / 29.30 / 60.00	6.30 / 31.45 / 31.50	39.00	-
Undeveloped land / hereditary building rights granted to third parties		172,013	Capitalization of earnings method/ sales comparison approach	-	-	-	-
Project developments		247,120	Residual value	-	-	1.50% / 3.47% / 5.00%	-
	Residential	-	-	6.50 / 8.31 / 10.28	9.00	-	-
	Commercial (office/retail/ other commercial use)	-	-	12.50 / 16.88 / 22.50	7.50	-	-
	Garages	-	-	50.00 / 67.24 / 80.00	50.00	-	-
	Outdoor parking spaces	-	-	15.00 / 52.59 / 100.00	30.00	-	-
Total portfolio (IAS 40)		**10,519,916**		-	-	-	-

	Discount rate in %	Capitalization rate in %	Anticipated development of rents from year 1 to 5 in %	Anticipated development of rents from year 6 to 10 in %
	min / average / max	min / average / max	min / average / max	min / average / max
Residential properties	3.25% / 4.20% / 6.80%	1.30% / 2.26% / 5.00%	0.00% / 0.45% / 3.30%	1.00% / 1.99% / 2.20%
Undeveloped land / hereditary building rights granted to third parties	-	-	-	-
Project developments	-	1.25% / 1.70% / 2.25%	-	-

The following sensitivities arose as of 31 December 2021 and as of 31 December 2020:

Sensitivity analysis as of 31 December 2021

	Fair value (EUR k)	Valuation method	Capitalization rate sensitivity					
			+0.25%			-0.25%		
			Fair value (EUR k)	**Absolute variance**	**Percentage variance**	**Fair value (EUR k)**	**Absolute variance**	**Percentage variance**
Residential properties	11,186,770	DCF	10,363,854	-822,916	-7.36%	12,342,809	1,156,039	10.33%
Undeveloped land/ hereditary building rights granted to third parties	241,227	Capitalization of earnings method/sales comparison approach	241,227	-	-	241,227	-	-
Project developments	214,800	Residual value	214,800	-	-	214,800	-	-
Total portfolio (IAS 40)	**11,642,796**		**10,819,881**	**-822,916**	**-7.85%**	**12,798,836**	**1,156,039**	**10.33%**

	Fair value (EUR k)	Valuation method	Discount rate sensitivity					
			+0.25%			-0.25%		
			Fair value (EUR k)	**Absolute variance**	**Percentage variance**	**Fair value (in EUR k)**	**Absolute variance**	**Percentage variance**
Residential properties	11,186,770	DCF	11,006,601	-180,169	-1.61%	11,492,700	305,930	2.73%
Undeveloped land/ hereditary building rights granted to third parties	241,227	Capitalization of earnings method/sales comparison approach	241,227	-	-	241,227	-	-
Project developments	214,800	Residual value	214,800	-	-	214,800	-	-
Total portfolio (IAS 40)	**11,642,796**		**11,462,628**	**-180,169**	**-1.61%**	**11,948,727**	**305,930**	**2.73%**

	Fair value (EUR k)	Valuation method	Market rent sensitivity					
			+2.00%			-2.00%		
			Fair value (EUR k)	**Absolute variance**	**Percentage variance**	**Fair value (in EUR k)**	**Absolute variance**	**Percentage variance**
Residential properties	11,186,770	DCF	11,365,921	179,151	1.60%	11,120,741	-66,029	-0.59%
Undeveloped land/ hereditary building rights granted to third parties	241,227	Capitalization of earnings method/sales comparison approach	241,227	-	-	241,227	-	-
Project developments	214,800	Residual value	214,800	-	-	214,800	-	-
Total portfolio (IAS 40)	**11,642,796**		**11,821,948**	**179,151**	**1.60%**	**11,576,768**	**-66,029**	**-0.59%**

Sensitivity analysis as of 31 December 2020

	Fair value (EUR k)	Valuation method	Capitalization rate sensitivity					
			+0.25%			-0.25%		
			Fair value (in EUR)	Absolute variance	Percentage variance	Fair value (in EUR)	Absolute variance	Percentage variance
Residential properties	10,100,783	DCF	9,273,805	(826,978)	-8.19%	11,138,174	1,037,391	10.27%
Undeveloped land/ hereditary building rights granted to third parties	172,013	Capitalization of earnings method/sales comparison approach	172,013	-	-	172,013	-	-
Project developments	247,120	Residual value	247,120	-	-	247,120	-	-
Total portfolio (IAS 40)	**10,519,916.08**		**9,692,938**	**(826,978)**	**-7.86%**	**11,557,307**	**1,037,391**	**9.86%**

	Fair value (EUR k)	Valuation method	Discount rate sensitivity					
			+0.25%			-0.25%		
			Fair value (in EUR)	Absolute variance	Percentage variance	Fair value (in EUR)	Absolute variance	Percentage variance
Residential properties	10,100,783	DCF	9,883,080	(217,703)	-2.16%	10,322,391	221,608	2.19%
Undeveloped land/ hereditary building rights granted to third parties	172,013	Capitalization of earnings method/sales comparison approach	172,013	-	-	172,013	-	-
Project developments	247,120	Residual value	247,120	-	-	247,120	-	-
Total portfolio (IAS 40)	**10,519,916.08**		**10,302,213**	**(217,703)**	**-2.07%**	**10,741,524**	**221,608**	**2.11%**

	Fair value (EUR k)	Valuation method	Market rent sensitivity					
			2.00%			-2.00%		
			Fair value (in EUR)	Absolute variance	Percentage variance	Fair value (in EUR)	Absolute variance	Percentage variance
Residential properties	10,100,783	DCF	10,182,720	81,937	0.81%	10,020,982	(79,801)	-0.79%
Undeveloped land/ hereditary building rights granted to third parties	172,013	Capitalization of earnings method/sales comparison approach	172,013	-	-	172,013	-	-
Project developments	247,120	Residual value	247,120	-	-	247,120	-	-
Total portfolio (IAS 40)	**10,519,916.08**		**10,601,853**	**81,937**	**0.78%**	**10,440,115**	**(79,801)**	**-0.76%**

7.2 Property, plant and equipment

EUR k	Land and land rights with residential buildings	Land and land rights with commercial and other buildings	Land and land rights without buildings	Assets under con- struction	Con- struction pre- paration costs	Furniture, fixtures and office equipment	Right- of-use assets	Total
Cost								
1 Jan 2020	**6,586**	**8,846**	**3,365**	**7,961**	**1,986**	**9,448**	**19**	**38,212**
Additions	-	-	-	10,016	-	1,703	19	11,738
Disposals	-	-	-	-	-	- 178		- 178
31 Dec 2020	**6,586**	**8,846**	**3,365**	**17,978**	**1,986**	**10,973**	**38**	**49,771**
Additions	509		-		-	4,023	64	4,595
Acquisition of a subsidiary	-	-	-	-	-	-	-	-
Disposals	-	-			-	- 228	-	- 228
Assets held for sale						-	-	-
Revaluation adjustment						-	-	-
Reclassification						1,567	-	1,567
31 Dec 2021	**7,095**	**8,846**	**3,365**	**17,978**	**1,986**	**16,335**	**102**	**55,706**
Depreciation and impairment							-	
1 Jan 2020	**474**	**5,006**	**-**	**-**	**-**	**7,721**	**12**	**13,213**
Depreciation for the fiscal year	237	2,503				1,070	11	3,820
Disposals						- 171	-	- 171
31 Dec 2020	**711**	**7,509**	**-**	**-**	**-**	**8,620**	**22**	**16,861**
Depreciation for the fiscal year	237	420	-	494		2,922	31	4,104
Disposals						- 195	-	- 195
Assets held for sale						-	-	-
Reclassification						-		-
31 Dec 2021	**948**	**7,930**	**-**	**494**	**-**	**11,347**	**53**	**20,770**
Net carrying amount								
31 Dec 2021	**6,148**	**917**	**3,365**	**17,484**	**1,986**	**4,988**	**49**	**34,936**
31 Dec 2020	**5,874**	**1,337**	**3,365**	**17,978**	**1,986**	**2,353**	**16**	**32,912**

7.3 Leases as the lessee

The Group has entered into leases of vehicles, parking spaces, hereditary building rights and office equipment, furniture and fixtures as a lessee. The practical expedient pursuant to IFRS 16.5(b) is used for the leases of office equipment, furniture and fixtures. The lease payments related to these leases are recognized as expenses on a straight-line basis over the term of the lease.

The following amounts were recognized in profit or loss in the reporting period:

Lease expenses

EUR k	2021	2020
Depreciation and impairment of right-of-use assets	31	11
Interest expenses on lease liabilities	470	474
Expense relating to leases of low-value assets	58	58
Total amount recognized in profit or loss	**559**	**542**

Depreciation of right-of-use assets relates to leased vehicles. Interest expenses were incurred in connection with hereditary building rights granted to the Group as well as leased vehicles. The right-of-use assets corresponding to the hereditary building rights granted to the Group were classified as investment property and valued accordingly on subsequent measurement.

In the fiscal year, there were outflows of cash and cash equivalents of EUR 662k (2020: EUR 650k) for leases. No variable lease payments were made.

The development of right-of-use assets is presented under *note 7.2 Property, plant and equipment*.

Maturity of lease liabilities (undiscounted)

EUR k	31 Dec 2021	31 Dec 2020
Within 12 months	603	588
1 to 3 years	1,194	1,167
3 to 5 years	1,163	1,163
More than 5 years	46,385	46,967
	49,345	**49,885**

The following table shows the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings; note *7.14 Financial liabilities*) and the movements during the period:

Development of lease liabilities

EUR k	2021	2020
As of 1 January	**23,948**	**24,056**
Additions	64	11
Accretion of interest	470	474
Payments	- 604	- 592
As of 31 December	**23,879**	**23,948**

	31 Dec 2021	31 Dec 2020
thereof current	116	98
thereof non-current	23,763	23,850

7.4 Leases as the lessor

Investment property

In line with the statutory requirements, rental agreements for the residential properties contain options for the tenants to terminate at short notice. These agreements are classified as operating leases in accordance with IFRS 16 because substantially all the risks and rewards related to the properties are retained by HOWOGE. The same applies to the current agreements for commercial units (commercial use of a proportion of the residential properties).

Operating lease income is recognized in the statement of comprehensive income under rental and lease revenue straight line over the term of the corresponding agreements.

For undiscounted lease payments from operating leases in which HOWOGE is the lessor, see note *6.1. Revenue from real estate management*.

Subleases

Some of the leased parking spaces and hereditary building rights granted to the Group have been subleased. As the terms of the subleases within the meaning of IFRS 16 and the term of the underlying leases match, HOWOGE has classified the subleases as finance leases.

The following table shows the maturity of the undiscounted lease receivables (net investment) from subleases:

Maturity of lease receivables (undiscounted)		
EUR k	**31 Dec 2021**	**31 Dec 2020**
Within 12 months	59	64
1 to 2 years	54	59
2 to 3 years	54	54
3 to 4 years	54	54
4 to 5 years	54	54
More than 5 years	3,584	3,638
	3,860	**3,924**

Finance income from the recognized net investment is discussed in *note 6.8 Finance income and costs* in connection with interest income.

7.5 Intangible assets

Intangible assets exclusively relate to purchased software licenses.

EUR k	**Software**	**Goodwill**	**Total**
Cost			
1 Jan 2020	**14,867**	**357**	**15,224**
Additions	340	-	340
31 Dec 2020	**15,208**	**357**	**15,564**
Additions	838	-	838
Acquisition of a subsidiary	-	-	-
Disposals	-	-	-
31 Dec 2021	**16,046**	**357**	**16,402**
Amortization and impairment			
1 Jan 2020	**11,998**	**357**	**12,355**
Amortization for the fiscal year	2,669	-	2,669
31 Dec 2020	**14,667**	**357**	**15,024**
Amortization	431	-	431
Disposals	-		-
31 Dec 2021	**15,098**	**357**	**15,455**
Net carrying amount			
31 Dec 2021	**948**	**-**	**948**
31 Dec 2020	**541**	**-**	**541**

Goodwill

The goodwill resulted from the first-time consolidation of Kramer + Kramer (Residential segment) as of 1 January 2018, which was fully expensed as of 31 December 2021, as in the prior year.

7.6 Financial assets and financial liabilities

The following tables present the carrying amounts and the fair values of financial assets and financial liabilities; current and non-current items are combined.

The relevant measurement categories pursuant to IFRS 9 *Financial Instruments* as well as the categories of the three-level hierarchy relevant for determining the fair value pursuant to IFRS 13 *Fair Value Measurement* are also shown. Financial assets and financial liabilities are generally valued according to Level 2 of the fair value hierarchy, unless stated otherwise in the following tables.

Measurement categories as of 31 December 2021

EUR k	IFRS 9 measurement category	**Carrying amount 31 Dec 2021**	**Fair value 31 Dec 2021**	thereof Level 1	thereof Level 2	thereof Level 3
Financial assets		86,722				
thereof in scope:						
Investments	At fair value through profit or loss	84,669	84,669	-	-	84,669
Rental and lease receivables	Amortized cost	23,204	23,204	-	-	-
Receivables from other trade	Amortized cost	1,914	1,914	-	-	-
Other financial assets	Amortized cost	2,703	2,703	-	-	-
Cash and cash equivalents	Amortized cost	1,511,207	1,511,207	-	-	-
		1,623,697	**1,623,697**	**-**	**-**	**84,669**
Financial liabilities		1,923,697				
thereof in scope:						
Bonds	Amortized cost	1,689,252	1,709,190	1,709,190	-	-
Liabilities to banks	Amortized cost	1,931,028	2,042,689	-	2,042,689	-
Liabilities to shareholders	Amortized cost	40,088	41,032	-	41,032	-
Rental and lease liabilities	Amortized cost	-	-	-	-	-
Trade payables	Amortized cost	83,091	83,091	-	-	-
Other liabilities		16,133				
thereof in scope:						
Other financial liabilities	Amortized cost	175	175	-	-	
		3,743,634	**3,876,650**	**1,709,190**	**2,083,721**	**-**
Thereof aggregated by IFRS 9 measurement category:						
Financial assets at fair value through profit or loss		84,669				
Financial assets at amortized cost		1,539,029				
Financial liabilities at amortized cost		3,743,634				

Measurement categories as of 31 December 2020

EUR k	IFRS 9 measurement category	Carrying amount 31 Dec 2020	Fair value 31 Dec 2020	thereof Level 3
Financial assets		81,860		
thereof in scope:				
Investments	At fair value through profit or loss	79,788	79,788	79,788
Rental and lease receivables	Amortized cost	21,531	21,531	-
Receivables from other trade	Amortized cost	994	994	-
Other financial assets	Amortized cost	4,140	4,140	-
Cash and cash equivalents	Amortized cost	43,485	43,485	-
		149,938	**149,938**	**79,788**

Financial liabilities		1,874,256		
thereof in scope:				
Bonds	Amortized cost	-	-	-
Liabilities to banks	Amortized cost	1,825,259	2,048,672	-
Liabilities to shareholders	Amortized cost	25,049	25,262	-
Rental and lease liabilities	Amortized cost	8,797	8,797	-
Trade payables	Amortized cost	77,978	77,978	-
Other liabilities		31,528		
thereof in scope:				
Other financial liabilities	Amortized cost	5,980	6,018	
		1,974,591	**2,166,727**	**-**

Thereof aggregated by IFRS 9 measurement category:

Financial assets at fair value through profit or loss	79,788
Financial assets at amortized cost	70,150
Financial liabilities at amortized cost	1,974,591

For assets related to contracts with customers (IFRS 15) and leases (IFRS 16) see the relevant notes (*7.3 Leases as the lessee, 7.4 Leases as the lessor* and *6.1 Revenue from real estate management and other revenue from real estate management*).

7.7 Fair value of financial instruments

The fair value of financial instruments recognized at fair value through profit or loss in the statement of financial position and for which no quoted prices on active markets are available for identical instruments (Level 1) or similar instruments is determined using a financial valuation method provided by insurers, in which the relevant inputs are based on unobservable market data (Level 3).

The fair values of financial instruments not recognized at fair value in the statement of financial position are determined as follows:

- The fair value of liabilities to banks and other financial liabilities is determined as the present value of future cash inflows and outflows assuming an interest rate for an equivalent maturity. The latter is derived from a risk-free component and a HOWOGE-specific risk discount.
- The fair value of the liabilities from the bonds issued is derived from the prices traded in the market.
- In all other cases, due to the short-term maturities of trade receivables not subject to factoring agreements, the carrying amounts of trade payables, other financial assets as well as cash and cash equivalents as of the reporting date do not deviate significantly from their fair values.

There were no reclassifications between Level 1 and Level 2 in the reporting period.

7.8 Collateral

Overall, financial assets of EUR 84,669k were pledged as collateral as of 31 December 2021 (31 December 2020: EUR 79,788k). As in the prior year, collateral in the fiscal year mainly comprised 18 long-term life insurance policies for 11 policyholders with terms until 2055 at the latest. The claims from these insurance policies have been assigned to HOWOGE in full. The life insurance policies have been assigned as collateral for a credit line granted (EUR 75.5m).

7.9 Risk management for financial instruments

The HOWOGE Group is exposed to credit risks and liquidity risks due to its business activities and related financing. These risks are managed as described below.

Internal settlement risks are mitigated by strict functional segregation of responsibilities. The Group only enters into business relationships with banks that have good credit ratings.

All relevant risks and risk management measures are systematically identified, categorized and documented electronically in the course of a half-yearly risk inventory. The aim is to identify and monitor material risks and going concern risks at an early stage. For this purpose, standard risks are documented in a risk catalog and concrete issues from which specific individual risks arose are summarized in a half-yearly risk report to the management board. Pursuant to the articles of association, specific individual risks starting from a threshold of EUR 2.5m are also communicated to the supervisory board in a half-yearly report. Additionally, there is a group-wide ad hoc reporting obligation for significant changes in the risk situation. Risk assessment is aimed at quantifying significant risks. If this does not seem possible or reasonable, at least a qualitative estimate is made for each case in accordance with a standardized format.

Credit risk

The Group is exposed to credit risk due to the possibility of a counterparty of a financial asset not being able to meet its obligations. The credit risks to the Group mainly arise from operating activities and also from non-current financial assets.

The maximum credit risk is equal to the carrying amounts. The carrying amounts of trade receivables and rental receivables as well as financial assets from contracts with customers contain a loss allowance for lifetime expected credit losses.

The Group only enters into business relationships with banks that have good to excellent credit ratings.

In terms of operating performance, potential credit risks from portfolio management are considered to be low. The implemented rent management system ensures prompt collection of due rents and enables systematic identification of rent arrears and dunning. In the fiscal year, support for co-obligors and collaboration with public authorities to avoid evictions were expanded. Overall, the potential effects on the Group are therefore considered to be low.

Portfolio analyses and market studies are performed regularly with regard to market and location in order to identify any credit risks at an early stage. The results do not point to any decline in demand in Berlin. Due to the current market situation, an increase in rent losses and vacancies is still considered to be unlikely or low.

Additionally, business relationships with customers and lessees are exposed to a low credit risk due to the contractual arrangements. Generally, such relationships are settled by payments made in advance. Rental receivables are already past due on first-time recognition, but they can still be realized for the most part. Since rental receivables and contract assets relate to a mostly homogeneous customer base, the expected credit losses are determined based on historical default rates, adjusted for future expectations. Rental receivables are secured in the amount of EUR 20,571k (2020: EUR 21,956k).

Loss allowances for rental and lease receivables are presented in the following table:

EUR k	2021	2020
As of 1 January	**2,216**	**2,903**
Allocation	7,920	7,752
Reversal	- 7,920	- 8,776
Change in calculation parameters	408	768
Utilization	- 175	- 431
As of 31 December	**2,448**	**2,216**

Loss allowances for contract assets are presented below:

Changes in loss allowances

EUR k	2021	2020
As of 1 January	**1,356**	**2,919**
Allocation	66	1,356
Reversal	- 1,356	- 2,919
Change in calculation parameters	-	-
Utilization	-	-
As of 31 December	**66**	**1,356**

The changes in loss allowances through allocations and reversals relate to new or settled receivables that led to a change in the gross carrying amount.

In fiscal year 2021, expected credit losses determined using the simplified approach amounted to 60% for rental and lease receivables (31 December 2020: 60%) and around 3.3% for contract assets (31 December 2020: 2.7%). Financial assets that are individually assessed and subject to loss allowances have a probability of default of around 75.7% (31 December 2020: 64%). No significant expected credit losses within the meaning of IFRS 9 were identified for the other financial assets based on historical data.

The Group is not exposed to any significant credit risk concentrations.

Interest rate and currency risk

There is no risk arising from increasing or decreasing interest rates for interest-bearing financial liabilities, since all financial liabilities entered into are subject to a fixed-interest arrangement.

Additionally, the Group is not exposed to any risk arising from fluctuations in the fair value of longer-term financial liabilities due to changes in fixed interest rates on the capital market, since the capital providers cannot assert any rights to early repayments and the financial liabilities are recognized at amortized cost.

All transactions are denominated exclusively in euros, therefore there are no currency risks for the Group.

Liquidity risk

The operating activities of the group companies require financing requirements to be met cost-effectively and adequately. Central cash management therefore prepares a regular liquidity forecast.

Available financial instruments comprising bilateral loans are used to cover the financial requirements.

Investment activities of the group companies are exclusively financed by loans from banks or shareholders. There are no cash pool agreements with group companies. If specific events lead to an unexpected financing requirement, the HOWOGE Group can draw on existing liquidity.

The Group had cash and cash equivalents of EUR 1,511,207k as of 31 December 2021 (31 December 2020: EUR 43,485k).

Undiscounted cash outflows arising from financial liabilities can be classified by residual term based on the contractually agreed maturities as follows:

in EUR k	Up to 1 year	1 to 5 years	More than 5 years	Total
Bonds	11,153	544,642	1,262,280	**1,818,074**
Liabilities to banks	174,982	507,039	1,510,560	**2,192,581**
Liabilities to shareholders	276	1,104	40,903	**42,283**
Rental and lease liabilities	9,888	-	-	**9,888**
Trade payables	77,582	5,509	-	**83,091**
Other financial liabilities	648	-	-	**648**
				4,146,566

[1] Liabilities to banks and shareholders comprise interest liabilities

31 Dec 2020

EUR k	Up to 1 year	1 to 5 years	More than 5 years	Total
Bonds	-	-	-	**-**
Liabilities to banks	106,658	436,357	1,588,787	**2,131,802**
Liabilities to shareholders	-	-	25,284	**25,284**
Rental and lease liabilities	8,797	-	-	**8,797**
Trade payables	72,571	5,407	-	**77,978**
Other financial liabilities	1,240	4,740	-	**5,980**
				2,249,841

[1] Liabilities to banks and shareholders comprise interest liabilities

A reconciliation of the statement of financial position items to financial liabilities is presented under note *7.6 Financial assets and financial liabilities*.

The Company has not violated any covenants with regard to its financial liabilities.

For fixed-interest primary financial instruments, future interest payments are forecast using the latest contractually defined interest rates. The analysis exclusively comprises cash outflows from financial liabilities.

The cash outflows in the maturity analysis are not expected to occur at significantly different dates or significantly different amounts.

7.10 Investments in associates and joint ventures

HOWOGE has a 50% investment in the development company Elisabeth-Aue GmbH, Berlin (Elisabeth-Aue). The Group's investment in this joint venture is accounted for in the HOWOGE consolidated financial statements using the equity method and the same HOWOGE accounting policies as used for the measurement of investment property are applied (i.e., the land is measured at fair value). The reconciliation of this financial information to the carrying amount of the investment in this joint venture in the consolidated financial statements is set out below:

Statement of financial position of Elisabeth-Aue (condensed) EUR k	**31 Dec 2021**	**31 Dec 2020**
Current assets, including cash and cash equivalents of EUR 1,650k (2020: EUR 1,561)	17,539	14,809
Non-current assets	-	-
Current liabilities, including tax liabilities of EUR 0.6k (2020: EUR 0.1k)	88	25
Non-current liabilities	0	0
Equity	**17,451**	**14,784**
HOWOGE's share in equity: 50% (2020: 50%)	8,726	7,392
Carrying amount of the Group's investment before adjustment	**7,361**	**7,392**
Adjustment for IAS 40 measurement of the land	6,189	4,138
Carrying amount of the Group's investment after adjustment	**13,550**	**11,530**

Income statement of Elisabeth-Aue (condensed)	**2021**	**2020**
Revenue from contracts with customers	26	25
Other operating income	0	0
Cost of purchased goods and services	-29	-28
Depreciation and impairment of property, plant and equipment	-	-
Other operating expenses	-30	-25
Total comprehensive income for the fiscal year	-33	-28
Group's share of profit (50%) before adjustment	**-17**	**-14**
Adjustment for IAS 40 measurement of the land	2,050	513
Recognized Group's share in profit after adjustment	**2,033**	**498**

The carrying amount of the joint venture was increased by subsequent acquisition costs in reporting year 2021. These subsequent acquisition costs comprise HOWOGE's proportionate share of EUR 1.3m. The joint venture had no contingent liabilities or obligations as of 31 December 2021 and 2020. There were no financial liabilities other than those presented in the above table. There were no significant finance costs or income in both fiscal years.

Elisabeth-Aue cannot distribute its profits without authorization from the two joint venture partners.

7.11 Other assets

Other non-current assets of EUR 1 (2020: EUR 1) comprise the carrying amount of the investment of HOWOGE in GbR Dolgenseestrasse (2021: 0.4%; 2020: 0.4%).

Other current assets of EUR 41,316k (31 December 2020: EUR 36,594k) include operating costs not yet billed for which HOWOGE is not the primary service provider, i.e., acts as an agent and which are only invoiced to the customer in the year-end billing. In the fiscal year, they amounted to EUR 40,054k (31 December 2020: EUR 35,369k). The unbilled operating costs are valued at acquisition cost. Other current assets comprise assets relating to prepaid services not yet rendered.

7.12 Inventories for property and other inventories

Inventories for property comprise work in process relating to planning and project services for customers. Work in process is valued at acquisition cost. They also include capitalized costs in connection with the preparation and execution of the school construction projects for the State of Berlin.

Inventories

EUR k	**31 Dec 2021**	**31 Dec 2020**
Own work capitalized (school construction)	20,591	18,361
Work in process (planning and project services)	847	1,117
Other	-	-
	21,438	**19,477**

Own work capitalized (school construction) relates to expenses incurred in the fiscal year attributable to the planning and preparation costs for the School Building campaign. Changes in inventories for property and other inventories of EUR 1,961k in the income statement are attributable to this project.

No other costs for inventories were expensed in the fiscal year or the prior year.

7.13 Rental and lease receivables, receivables from other trade and other financial assets

The following table presents the gross rental and lease receivables, receivables from other trade and other financial assets (where applicable, before credit risks within the meaning of IFRS 9) alongside loss allowances and maturities. The amounts that are past due or credit impaired refer to the gross receivable (total).

Rental and lease receivables – maturity and impairment

EUR k	Gross current receivables	Non-current gross receivables	Total gross receivables	thereof past due	thereof credit impaired
Rental and lease receivables	23,726	20	**23,746**	2,730	2,216
Receivables from other trade	831	163	**994**	163	
Other financial assets	4,140	-	**4,140**		
Contract assets	49,302	-	**49,302**		1,356
As of 31 December 2020	77,999	183	**78,182**	2,892	3,571
Rental and lease receivables	25,645	-	**25,645**	2,806	2,448
Receivables from other trade	1,871	18	**1,890**	-	-
Other financial assets	2,703	43	**2,746**	43	-
Contract assets	2,014	-	**2,014**	-	66
As of 31 December 2021	32,233	61	**32,294**	2,849	2,514

7.14 Financial liabilities

31 Dec 2021 EUR k	Current	Non-current
Liabilities from bonds	4,013	1,685,239
Liabilities to banks	71,095	1,859,934
Liabilities to shareholders	88	40,000
Lease liabilities	116	23,763
Financial liabilities	**75,311**	**3,608,936**
Rental and lease liabilities	**9,888**	**-**
Trade payables	**77,582**	**5,509**
Contract liabilities	**11,592**	**-**
Other financial liabilities	**10,524**	**24,843**
Total	**184,898**	**3,639,287**

31 Dec 2020 EUR k	Current	Non-current
Liabilities from bonds	-	-
Liabilities to banks	74,499	1,750,760
Liabilities to shareholders	-	25,049
Lease liabilities	98	23,850
Financial liabilities	**74,597**	**1,799,659**
Rental and lease liabilities	**8,797**	**-**
Trade payables	**72,571**	**5,407**
Contract liabilities	**55,717**	**-**
Other financial liabilities	**1,240**	**4,740**
Total	**212,922**	**1,809,806**

The purchase of the portfolios from Vonovia and Deutsche Wohnen was financed by issuing a corporate bond. A debt issuance program with a total volume of EUR 4.0b was established for this purpose, under which 3 tranches comprising a total amount of EUR 1.7b and featuring different terms (3, 7 and 12 years) were issued.

EUR 1,900,072k (2020: EUR 1,799,551k) of liabilities to banks are secured by real property liens and EUR 55,960k (2020: EUR 46,211k) are secured by state guarantees.

For other financial liabilities see note *7.18 Other liabilities*.

7.15 Cash and cash equivalents

EUR k	31 Dec 2021	31 Dec 2020
Cash and cash equivalents	1,511,207	43,485
- thereof freely available	1,510,601	42,872
Cash and cash equivalents	**1,511,207**	**43,485**

Cash and cash equivalents comprise cash and short-term, highly liquid investments. Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. Cash and cash equivalents include earmarked funds amounting to EUR 607k (2020: EUR 613k).

Cash and cash equivalents are recognized at amortized cost.

7.16 Equity

Changes in equity components are shown in the statement of changes in equity.

Subscribed capital

Subscribed capital amounted to EUR 25k in the fiscal year (2020: EUR 25k).

Reserves

The Group's reserves comprise consolidated equity earned and (other) capital reserves as well as accumulated retained earnings.

Consolidated equity earned comprises the profits of the consolidated entities for the prior and current periods, provided they have not been distributed.

For development of the individual reserves, see the consolidated statement of changes in equity.

Capital management

For capital management, equity comprises the subscribed capital, capital reserves, reserve required by the articles of association and other retained earnings (the latter two together: accumulated retained earnings). The primary objective of the HOWOGE Group's capital management is to secure the Group's economic strength.

HOWOGE considers funds from operations (FFO), which is cash flow from operating activities (less financing interest), to be a key performance indicator. This cash flow represents the headroom for investments created in the years of consolidation and debt reduction. The primary objective of investments is to maintain this cash flow at its current level at a minimum in order to secure the Group's economic strength for a situation in which the interest rates rise and the macroeconomic situation deteriorates. This is integrated in a business plan along with additional key points for long-term planning, such as operating result, debt levels, rent increases, cost benchmarks and cost-benefit criteria for investments.

7.17 Other provisions

Other provisions are recognized when HOWOGE has a legal or constructive obligation as a result of a past event that is uncertain with regard to settlement and/or amount. They are recognized at the present value of the expected settlement amount.

Non-current provisions are recognized at the settlement value discounted to the reporting date using risk-free interest rates for an equivalent maturity.

Other employee-related provisions comprise provisions for employee benefits relating to long-service awards as well as target achievement bonuses, individual and group bonuses.

Miscellaneous other provisions primarily contain provisions for financial statements and consulting fees, litigation cost provisions and an archiving costs provision for the retention of business documents.

Other provisions mainly consist of provisions for IT expenses and expenses for external auditing and consulting services, including support for the acquisition, financing and preparation of the migration of the purchases made in the reporting period.

Cash outflows from provisions within one year are estimated at around EUR 7,078k (2020: EUR 4,637k). Other cash outflows from provisions are longer term.

Development of other provisions

EUR k	1 Jan 2020	Utilization	Reversal	Allocation	31 Dec 2020
Provision for litigation costs	67	12	13	343	385
Other provisions	557	530	33	2,108	2,103
Provision for financial statement costs	112	101	0	149	160
Provision for retention of business documents	127	13	-	19	132
Provision for advertising fund	66	7	-	7	65
Warranty provision	135	-	-	32	166
Provision for consulting fees	28	16	0	18	30
Miscellaneous other provisions	**1,091**	**679**	**47**	**2,676**	**3,042**
Provision for long-service awards	822	51	-	153	924
Provisions for employee bonuses	1,587	1,320	84	1,736	1,920
Provisions for employees	**2,409**	**1,371**	**84**	**1,890**	**2,844**
Total other provisions	**3,500**	**2,049**	**131**	**4,566**	**5,885**
thereof current	2,408				4,637
thereof non-current	1,092				1,250

EUR k	1 Jan 2021	Utilization	Reversal	Allocation	31 Dec 2021
Provision for litigation costs	385	-	60	-	325
Other provisions	2,103	1,439	668	3,403	3,398
Provision for financial statement costs	160	131	30	426	426
Provision for retention of business documents	132	9	6	11	128
Provision for advertising fund	65	6	-	6	65
Warranty provision	166	-	16	-	151
Provision for consulting fees	30	17	2	20	32
Miscellaneous other provisions	**3,042**	**1,602**	**780**	**3,866**	**4,526**
Provision for long-service awards	924	30	-	174	1,067
Provisions for employee bonuses	1,920	1,471	285	2,694	2,859
Provisions for employees	**2,844**	**1,501**	**285**	**2,868**	**3,926**
Total other provisions	**5,885**	**3,103**	**1,065**	**6,734**	**8,452**
thereof current	4,637				7,078
thereof non-current	1,250				1,373

7.18 Other liabilities

Other liabilities EUR k	31 Dec 2021	31 Dec 2020
Other liabilities	**32,610**	**31,528**
thereof financial (notes 7.6, 7.14)	175	5,980
thereof non-financial	32,435	25,548
Advance rent payment for hereditary building rights	-	-
Liabilities to employees	648	359
Government grants	24,057	23,846
Other	7,730	1,343
Other non-financial liabilities	**32,435**	**25,548**
thereof current	9,790	2,913
thereof non-current	22,644	22,635

Additionally, as of the end of the fiscal year, liabilities to employees of EUR 648k (2020: EUR 359k) comprised accrued vacation.

Other liabilities relate to the binding commitment to donate around EUR 6,000k to the Stadtkultur foundation, which was made in 2018 and the full amount of which was not requested in the fiscal year.

For government grants from interest-subsidized and repayment-subsidized loans, see note *7.20 Government grants*.

7.19 Deferred tax assets and liabilities

Deferred tax assets and liabilities arose from temporary differences between the IFRS carrying amounts and tax bases as well as tax loss carryforwards and break down as follows:

EUR k	31 Dec 2021		31 Dec 2020	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property and property, plant and equipment	-	1,672,416	-	1,538,058
Investments in associates and joint ventures	-	4,089	-	1,157
Non-current financial assets	-	620	-	625
Rental and lease receivables and receivables from other trade	739		57	-
Contract assets	20		409	-
Other financial assets, current	-	6	-	7
Other assets, current	-	-	54	
Assets held for sale	-	-		23
Other provisions	679	-	225	-
Non-current financial liabilities	3,374		7,197	-
Current financial liabilities	35		30	-
Trade payables	29	-	29	-
Other liabilities	-	292	-	291
	4,875	**1,677,422**	**8,001**	**1,540,160**
Tax loss carryforwards	9,925		16,649	
Total deferred taxes	**14,800**	**1,677,422**	**24,650**	**1,540,160**
Offsetting	- 14,800	- 14,800	- 24,650	- 24,650
Amount recognized in the statement of financial position	**-**	**1,662,622**	**-**	**1,515,511**

Deferred tax assets and liabilities are offset against each other if they have the same tax creditor and taxation authority as well as the same maturity. As a result, the deferred tax assets and liabilities presented below are recognized.

The change in deferred tax liabilities is mainly due to investment property.

The deferred taxes from non-current assets and non-current liabilities are expected to reverse more than 12 months after the reporting date according to the above table.

Deferred taxes on loss carryforwards

EUR k	31 Dec 2021	31 Dec 2020
Tax loss carryforwards	9,942	16,666
thereof trade tax	18	18
thereof corporate income tax	9,925	16,649
Unusable loss carryforwards	- 18	- 18
	9,925	**16,649**

Deferred tax assets on tax loss carryforwards are recognized in the amount of any deferred tax liabilities from temporary differences. Net deferred tax assets on loss carryforwards are recognized to the extent that is probable that the Company will generate taxable profits in the future. The loss carryforwards do not generally expire. Loss carryforwards from trade tax were not recognized since they are attributable to a subsidiary exempted from trade tax and, based on the circumstances, it is assumed that they will not be utilized in the next five years.

Interest expenses are deductible up to the amount of interest income. Beyond this amount, deductibility is restricted to 30% of taxable EBITDA of the fiscal year (interest limitation rule), unless the exemption threshold or the equity escape clause applies.

Interest expenses that were not deductible in the current fiscal year are carried forward to the following years (interest carryforward). Deferred tax assets are recognized on the interest carryforward to the extent that it is probable that the Company can use the interest carryforward in the following fiscal years. The interest limitation rule did not apply in the fiscal year (or the prior year).

No deferred tax liabilities were recognized on temporary differences arising from investments in subsidiaries, associates and joint ventures that will not reverse in the foreseeable future (2020: EUR 267k).

Development of deferred taxes

EUR k	31 Dec 2021		31 Dec 2020	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Deferred taxes as of 1 January	**-**	**1,515,511**	**-**	**1,417,572**
Deferred tax expense in the income statement	-	147,111	-	97,939
Deferred taxes in connection with first-time consolidation	-	-	-	-
Change in deferred taxes on available-for-sale financial assets recognized in other comprehensive income	-	-	-	-
Deferred taxes recognized directly in equity	-	-	-	-
Other	-	-	-	-
Deferred taxes as of 31 December	**-**	**1,662,622**	**-**	**1,515,511**

7.20 Government grants

HOWOGE receives government grants in the form of interest-subsidized and repayment-subsidized loans. For interest-subsidized loans, the difference between the nominal amount and the present value of the loan is recognized as deferred income under other liabilities. It is amortized to income straight line over the residual term of the respective loans, which are subsequently measured at amortized cost, and presented in net finance costs under interest expenses.

Repayment subsidies in the form of expense subsidies are also recognized under other liabilities and amortized to income as the expenses are incurred. They are presented under other revenue from real estate management. Repayment subsidies granted as investment subsidies are deducted from the acquisition cost recognized for the loans.

In the fiscal year (and prior year), deferred income was recognized under other liabilities for interest-subsidized loans or repayment subsidies recognized as liabilities as follows:

Government grants (deferred under liabilities)

EUR k	2021	2020
As of 1 January	**23,846**	**16,571**
Received during the year	1,539	8,509
Amortized to profit or loss	1,328	1,234
As of 31 December	**24,057**	**23,846**
	31 Dec 2021	**31 Dec 2020**
thereof current	1,412	1,211
thereof non-current	22,644	22,635

In the fiscal year, income from repayment subsidies of EUR 638k (2020: EUR 640k) was recognized and presented under other revenue from real estate management; income from interest subsidies of EUR 690k (2020: EUR 594k) was recognized and presented under interest expenses.

There are no unfulfilled conditions or contingencies attached to this grant.

7.21 Assets held for sale

As of the end of fiscal year 2020, HOWOGE recognized an investment property held for sale (Strasse 9 No. 17) at its fair value of EUR 220k. This is undeveloped land without an economic use for HOWOGE.

The purchase agreement was notarized in 2020 and the benefits and burdens were transferred at the beginning of 2021.

8 Notes on the statement of cash flows

The cash funds underlying the statement of cash flows only comprise cash and cash equivalents. They are equivalent to the cash and cash equivalents recognized in the statement of financial position less amounts that are not freely available.

The freely available cash funds in the statement of cash flows break down as follows:

EUR k	31 Dec 2021	31 Dec 2020
Cash and cash equivalents	1,511,207	43,485
- thereof freely available	1,510,601	42,872
Cash and cash equivalents	**1,511,207**	**43,485**

The change in cash flows from investing activities is attributable to a higher volume of investments by the HOWOGE Group in the reporting year.

The significant rise in cash flow from financing activities is due to the issue of a bond in the second half of 2021.

There are credit lines of EUR 77,000k at Aareal Bank AG, EUR 25,000k at DKB Bank and EUR 100,000k at BerlinHyp which had not been utilized as of the reporting date.

In the reporting year, income taxes of EUR 28,733k were paid (2020: EUR 11,208k). Moreover, interest of EUR 33,305k was paid, thereof EUR 470k for leasing (2020: EUR 28,806k, thereof EUR 474k for leasing) and interest of EUR 4,933k (2020: EUR 41k) was received.

EUR k	31 Dec 2020	Cash flows	Change in fair value	New leases	Other	31 Dec 2021
Current interest-bearing loans and borrowings (excluding lease liabilities)	74,499	- 74,499			71,095	71,095
Current lease liabilities	98	- 98		18	98	116
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	1,775,809	- 175,698			299,823	1,899,934
Non-current lease liabilities	23,850	- 506		30	388	23,763
Total	**1,874,256**	**- 255,451**			**376,054**	**1,994,907**

EUR k	31 Dec 2019	Cash flows	Change in fair value	New leases	Other	31 Dec 2020
Current interest-bearing loans and borrowings (excluding lease liabilities)	77,750	- 77,750			74,499	74,499
Current lease liabilities	96	- 96		6	92	98
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	1,556,753	- 64,162			283,218	1,775,809
Non-current lease liabilities	23,960	- 496		5	381	23,850
Total	**1,658,559**	**- 142,504**			**358,190**	**1,874,256**

9 Notes to the segment reporting

HOWOGE is managed using aggregated and strategic performance indicators at group level and specific metrics according to German commercial law for the operational management of the Residential and School Construction segments.

HOWOGE is engaged in property transactions in the public interest as part of the Berlin School Building campaign. In this context, the School Construction segment performs the traditional coordination and management functions of a building owner.

Residential

HOWOGE’s main business activity is managing residential properties in the context of active portfolio management. Portfolio management comprises modernizing and maintaining the real estate portfolio, managing rent agreements and providing assistance to tenants. The focus of management activities is supplying suitable housing for broad sections of the population. The Residential segment also includes expanding the housing stock by constructing new dwellings and purchasing existing buildings for our own portfolio.

The performance indicators for managing the Residential segment are the development of the number of apartments, residential facility management and the development of the rent per square meter, vacancies and turnover. This includes the scope of reletting to tenants holding housing entitlement certificates (WBS) as well as the administrative expenses for facility management.

The Residential segment covers all the Group’s expenses that are not attributable to school construction. Its income is mainly derived from renting out apartments, commercial space and other properties.

School construction

A master agreement between HOWOGE and the State of Berlin to support the Schooling Building campaign of the State of Berlin was signed in January 2019. As it currently stands, HOWOGE will build approximately 18 new schools as well as up to 8 schools using modular wooden construction and will remodel 13 school complexes. A total of approximately EUR 3.1b has been earmarked for this investment program in the long-term corporate budget, which will be financed by funds from a shareholder loan during the planning phase, bridge financing in the form of state guarantees during the construction phase and a forfaiting program during the rental phase.

Aside from the number of projects in preparation or under construction, the operating result, investment volume and financing arrangements are reported for the School Construction segment.

Accounting policies

No differences arise from the allocation of centrally incurred costs. The School Construction segment is allocated costs directly for personnel and other expenses incurred by the segment and indirectly for expenses attributable to the School Construction segment, such as costs for the use of offices and infrastructure, as well as personnel expenses for services provided for the School Construction segment by other corporate functions, such as payroll accounting. Indirect cost allocation is largely based on time sheets.

Income is currently generated from services for the State of Berlin in connection with the School Building campaign. After completion, income will be generated by letting out the schools to the relevant districts of Berlin.

No differences arise from the allocation of jointly used assets.

No differences arise from the allocation of liabilities incurred jointly. During the start-up phase, school construction will be financed by the shareholder loan from the State of Berlin. The specific school building and refurbishment projects will be funded by property-specific loans. This allows interest expenses to be directly allocated to the segment.

Measurement methods were not changed.

There were no asymmetric allocations from the use of assets and their depreciation.

No operating segments have been aggregated to form the two above reportable operating segments.

The management board is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

The segment results reflect the subtotals in the consolidated income statement. Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Finance costs, finance income, other income, and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis. Intersegment revenues are eliminated on consolidation.

Set out below is the reconciliation of the segment results to profit or loss for the period in the consolidated income statement:

Reconciliation of profit or loss

EUR k	Residential (HGB)	School Construction (HGB)	HGB Total operating segments	Adjustments	Group HGB	Reconciliation IFRS	Group (IFRS)
External customers	435,048	71	435,120		435,120	-37,560	397,560
Intersegment	-	-	-	-	-	-	-
Total revenue	**435,048**	**71**	**435,120**	-	**435,120**	**-37,560**	**397,560**
Own work capitalized	2,032.15	1,120.08	3,152.24	-	3,152.24	-270	2,882
Profit or loss from the remeasurement of investment property	-	-	-	-	-	671,274	671,274
Cost of materials	- 145,803	- 65	- 145,867	-	- 145,867	43,864	- 102,003
Employee benefits expenses	- 50,004	- 2,145	- 52,149	800	- 51,349	1,345	- 50,004
Amortization, depreciation and impairment	- 77,879	-	- 77,879	-	- 77,879	76,038	- 1,840
Share of profit or loss from investments	-			-	-	2,033	2,033
Net finance costs	- 32,961	- 102	- 33,063	-	- 33,063	4,258	- 28,805
Other operating expenses	- 43,448	- 1,171	- 44,619	-	- 44,619	5,343	- 39,276
Taxes	- 42,602	477	- 42,125	-	- 42,125	- 147,111	- 189,236
Other operating income	6,574	-	6,574		6,574	- 2,852	3,722
Profit or loss from the sale of property	-	-	-	-	-	107	107
Change in inventories for property and other inventories	-	-	-	-	-	1,961	1,961
Segment result	**50,958**	**-1,814**	**49,144**	800	**49,944**	**618,431**	**668,375**

The differences between the HGB and IFRS figures are generally due to the different accounting policies and total EUR 618,431m. The main effect stems from the investment property measured at a fair value of EUR 671,274m, HOWOGE having opted to apply the fair value method. In this context, regular building depreciation and impairment losses of EUR 76,038m as recognized under the HGB were eliminated. Under IFRSs, gains or losses arising from a change in the fair value of investment property are recognized in profit or loss (IAS 40.35). Both unrealized gains and impairment losses are also recognized in profit or loss. This leads also to a change in deferred taxes (IAS 12), which therefore have to be adjusted by EUR 147,111m under IFRSs.

In addition, there is a difference of EUR 37,560m between revenue under IFRS 15 and revenue recognized under the HGB, which is largely due to the different IFRS accounting treatment of unbilled operating costs, which are recognized under miscellaneous other assets. In this context, cost of materials was adjusted downwards by EUR 43,864m in total compared to the HGB figure.

The EUR 4,258m difference in net finance costs between the HGB and the IFRS figure is largely attributable to the different accounting treatment of the bond issued under IFRS 9 (EIR method). Other operating expenses were also adjusted for the directly allocable expenses for the bond in this connection.

Another adjustment was made to other operating income because provisions for potential losses cannot be recognized under IFRSs. In addition, under IFRSs the income from partial debt forgiveness was recognized in accordance with IAS 40 and not under net other operating expenses.

Set out below is the reconciliation of the segment result to adjusted EBITDA showing the significant non-cash adjustment items.

EUR k	**Residential (HGB)**	**School Construction (HGB)**	**Total operating segments (HGB)**	**Recon-ciliation (IFRS)**	**Group (IFRS)**
Segment result	50,958	- 1,814	49,144	619,231	668,375
Finance income	- 11		- 11	- 42	- 53
Finance costs	37,853	102	37,955	- 4,216	33,738
Profit or loss from investments accounted for using the equity method	-	-	-	- 2,033	- 2,033
Taxes	29,209	- 477	28,733	147,111	175,844
Intersegment sales (elimination)	-	-	-	-	-
Amortization, depreciation and impairment	77,879	-	77,879	- 76,760	1,119
Profit or loss from the remeasurement of investment property				- 671,274	- 671,274
EBITDA	**195,888**	**- 2,189**	**193,699**	**12,018**	**205,717**
EBIT	**118,009**	**- 2,189**	**115,820**	**88,778**	**204,598**
Cash flows from operating activities	**163,345**	**- 2,300**	**161,045**	**12,557**	**173,602**
Indebtedness	**3,630,636**	**67,348**	**3,697,984**	**1,797,274**	**5,495,258**

All revenue is generated in Germany. Non-current assets amount to EUR 25k in the School Construction segment and EUR 11,898k in the Residential segment.

10 Information on group companies and related party disclosures

Subsidiaries

Share in %	Main business activity	31 Dec 2021	31 Dec 2020
Wohnungsbaugesellschaft Lichtenberg mit beschränkter Haftung	Holding company	100	100
HOWOGE Servicegesellschaft mbH	Ancillary residential services	100	100
HOWOGE Wärme GmbH	Supplier of heating energy and hot water to the group portfolio	100	100
Kramer + Kramer Bau- und Projektmanagement GmbH	Project management services	100	100
KW Goecke S.A.R.L.	Special purpose entity	100	100

On 28 January 2020, HOWOGE acquired 100% of the shares in KW Goecke S.A.R.L. The purpose of the entity was to construct a residential rental building on the land at Goeckestrasse 32 – 24 in Berlin-Lichtenberg. The entity is to be legally merged into HOWOGE in 2022. The share acquisition is treated as an asset deal for accounting purposes and not as a business combination since KW Goecke S.A.R.L. does not constitute a business pursuant to IFRS 3.

All subsidiaries listed above have their registered office in Berlin, Germany, with the exception of KW Goecke S.A.R.L., which has its registered office in Bertrange, Luxembourg.

Shareholder

The sole shareholder of HOWOGE Wohnungsbaugesellschaft mbH is the State of Berlin. With regard to the State of Berlin, there was the following matter to be reported in the period under review (2021):

- In fiscal year 2021, two properties were transferred by resolution of the shareholder and their contribution value was allocated to the capital reserves. These are:
  - Alfred-Kowalke-Strasse – East 22, contribution value EUR 400,000
  - Alfred-Kowalke-Strasse – 22 and 24, contribution value EUR 284,000

Joint ventures

In line with the wish of the shareholder, the State of Berlin, HOWOGE holds 50% of the development company Elisabeth-Aue GmbH, Berlin (Elisabeth-Aue). The development company Elisabeth-Aue GmbH was founded as a joint venture with GESOBAU AG. The purpose of the company is to develop land, especially in the development area Elisabeth-Aue in Berlin Pankow. Planning is on hold until further notice as a result of the coalition negotiations.

Since the State of Berlin also indirectly holds shares in Elisabeth-Aue GmbH, HOWOGE makes use of the exemption pursuant to IAS 24.25 with respect to the disclosure of transactions with Elisabeth-Aue GmbH. Since the coalition agreement for the legislative period from 2016 to 2021 has put the planning for the development of the area on hold, the activities of Elisabeth-Aue GmbH are restricted to fulfilling its responsibilities as the property owner. Accordingly, HOWOGE did not conduct any significant business transactions with Elisabeth-Aue GmbH.

Information on management board compensation

Key management personnel at HOWOGE include the members of the management board and supervisory board.

The management board comprises:

- Ulrich Schiller
- Thomas Felgenhauer

Ulrich Schiller is responsible for the following areas within the HOWOGE Group:

1. Operational portfolio management
2. Strategic portfolio management
3. Technical management
4. New buildings
5. School construction
6. Corporate communications and marketing
7. Processes and digitalization
8. HOWOGE Wärme GmbH
9. Kramer + Kramer

Thomas Felgenhauer is responsible for the following areas within the HOWOGE Group:

1. Finance and financial control
2. Legal and procurement
3. Group accounting
4. Information technology and organization
5. Human resources
6. HOWOGE Servicegesellschaft mbH

The supervisory board comprises:

Mr. Hendrik Jellema	Chairman
Dr. Frank Nägele	Deputy Chairman (until 28 February 2022)
Ms. Elfriede Baumann	Member Chair of the economics, finance and investment controlling committee
Ms. Kerstin Wittke	Member
Mr. Jörn Lorenz	Member
Mr. Frank Sparmann	Member
Ms. Babett Buschmann	Member
Ms. Vera Junker	Member (until 31 January 2022)
Ms. Wenke Christoph	Member (until 25 January 2022) Chair of the building committee
Ms. Jana Borkamp	Member (from 1 February 2022)
Mr. Christian Gaebler	Member (from 26 January 2022)
Mr. Holger Sykulla	Guest representative from the tenants' council

The compensation paid to the Group's key management personnel that requires disclosure pursuant to IAS 24 includes the compensation paid to the active management board and supervisory board.

The active members of the management board and the supervisory board were compensated as follows:

EUR k	**2021**	**2020**
Short-term benefits	534	561
Payments into defined contribution pension plans	54	54
Total compensation	**588**	**615**

Short-term benefits include the basic compensation, special payments including performance-based compensation and non-cash benefits (company vehicle, accident insurance) and social security contributions. Post-employment benefits are due to contributions to pensions plans and are presented under personnel expenses in the income statement.

No advances or loans were issued to members of the management board or supervisory board.

11 Events after the reporting date

Agreements signed for Vonovia/Deutsche Wohnen portfolios

In the context of the remunicipalization of portfolios previously owned by Vonovia and Deutsche Wohnen through their purchase by three state-owned enterprises, HOWOGE will acquire the lion's share consisting of 8,267 apartments and 233 commercial units.

The apartments are situated in almost all of Berlin's districts, especially at Kottbusser Tor in Friedrichshain-Kreuzberg, the Thermometer estate in Steglitz-Zehlendorf and the High Deck estate in Neukölln.

Berlin, 22 March 2022

HOWOGE Wohnungsbaugesellschaft

mit beschränkter Haftung

The Management Board

Felgenhauer Schiller

HOWOGE

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

IV. Independent Auditor’s Report

This is a courtesy translation of the annual report. The German report is the sole authoritative version.

INDEPENDENT AUDITOR'S REPORT

To HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung for the financial year from January 1 to December 31, 2021. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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 § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1 to December 31, 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. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 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:

❶ Measurement of investment properties

❷ Bond issue in the reporting year

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:

❶ **Measurement of investment properties**

① Investment properties amounting to EUR 11,666.6 million (86.2% of total assets) are reported in the Company's consolidated financial statements as of December 31, 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, unrealized changes in market value are subsequently measured and recognized at fair value through profit or loss. In the financial year ended, EUR 671.3 million in unrealized changes in market value were recognized through profit or loss in the consolidated income statement and the consolidated statement of comprehensive income.

As of the reporting date, HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung had the fair value of land and buildings under management, project developments of residential and commercial buildings, and undeveloped land appraised by an external appraiser. The fair values of the properties under management are calculated on the basis of the forecast net cash inflows using a discounted cash flow model. Undeveloped land is usually measured based on an indirect comparison of indicative land values. Project developments are measured using the residual value method until construction is completed.

The measurement of investment properties is based on a large number of relevant parameters which are normally subject in some respects to uncertainties with regard to estimates and judgments. Significant measurement parameters include in particular expected cash flows, the assumed future vacancy rate and the discount and capitalization rate. The projected net values upon completion, projected development costs until completion, financing costs, and developer margin are the parameters used for calculating the residual value. 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 subject to substantial judgments and estimates and there is the risk that the changes in fair value which are recognized through profit or loss do not fall within an appropriate range.

② As part of our audit we evaluated the methodology employed for the purposes of the valuation, among other things with the assistance of our internal experts from Valuation, Modeling & Analytics. We assessed, among other things, whether the discounted cash flow model used for calculating the fair value met the conceptional requirements of the relevant measurement standards, also with regard to conformity with IAS 40 in conjunction with IFRS 13. In this context, we also assessed the expertise, skills, and objectivity of the external appraiser.

Using this as a basis, we recorded and assessed the appropriateness and effectiveness of the internal controls in place at the Company.

We then assessed the audit procedures with regard to the homogeneity of the properties being valued, the correctness and completeness of the property portfolios and the appropriateness of the measurement parameters used, such as the expected cash flows, the assumed future vacancy rate and the discount and capitalization rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value.

As part of our audit procedures, we prepared a comparison calculation on the basis of the standardized German income approach (*Ertragswertverfahren*) pursuant to the German Property Valuation Regulation (*Immobilienwertermittlungsverordnung*, "ImmoWertV"). With respect to the properties under construction, we prepared comparison calculations using the residual value method to assess the appropriateness of the valuations. For undeveloped land, we compared the information observable on the market for the valuation (sources include appraisal committees).

Furthermore, we also conducted on-site visits for both a random sample and a specific selection of properties. On-site visits were made both to properties under construction and properties under management.

The valuation technique applied by the executive directors of the Company is appropriately structured and suitable for calculating fair values. The underlying assumptions reflect the current market parameters.

③ For information about the recoverability of investment properties, please see sections 4. a) and 7.1 of the notes to the consolidated financial statements.

❷ Bond issue in the reporting year

① In the reporting year, the Company issued a corporate bond comprising three tranches and a total volume of EUR 1.7 billion. The unsecured, fixed-rate tranches mature in 3, 7 and 12 years. The tranches are traded on the regulated market of the Luxembourg Stock Exchange.

The carrying amount of the bond as reported in the Company's consolidated financial statements as of December 31, 2021 is EUR 1,689.3 million (12.5% of total assets).

At initial recognition, the bond tranches were recognized at fair values less transaction costs. The fair value as of the issue date corresponds to the transaction price. There are no derivatives that would have to be accounted for separately from the host contract. Subsequent measurement takes place at amortized cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are added. In view of the significant volume of the bond, its materiality for the consolidated financial statements, the effects of the resulting capital market orientation for the Company and the associated risk for the net assets and financial position, this matter was of particular significance for our audit.

② We involved specialists with the relevant skills and knowledge from Corporate Treasury Solutions (CTS) for the purpose of auditing the accounting treatment and measurement of the bond tranches. As part of our audit of the accounting treatment of the bond tranches, we inspected the bond terms and conditions, among other things. We particularly evaluated deposit slips as supporting documentation of payment receipts. Furthermore, we also obtained supporting documentation about the bond from the Luxembourg Stock Exchange. We have assessed the respective bond terms and conditions of the issued tranches with regard to the measurement parameters and separable derivatives. In this context, we also assessed the determination of the effective interest rate. On this basis, we assessed the calculation of the amortized cost of all issued tranches as of the reporting date. For the purposes of auditing the fair values of the bonds measured at amortized costs disclosed in the notes to the consolidated financial statements, we assessed in full the fair value measurement on the basis of the comparison calculations.

The presentation of bond tranches by the executive directors of the Company is appropriate. In our view, the measurement method used and the underlying assumptions and valuation parameters are appropriate.

③ For information about the bond tranches reported under financial liabilities, please see sections 4. g) and 7.6 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- section "2.5. Corporate Governance Statement" of the group management report.
- the declaration of compliance with Berlin's Corporate Governance Code attached to the management report as an appendix.

The other information comprises further the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB, which we obtained prior to the date of our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the shareholders' meeting on August 16, 2021. We were engaged by the supervisory board on January 5, 2022. We have been the group auditor of HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin, without interruption since the financial year 2019.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Berlin, March 22, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Dr. Frederik Mielke) Wirtschaftsprüfer (German Public Auditor)	(sgd. ppa. Marius Möller) Wirtschaftsprüfer (German Public Auditor)