HOWOGE

HOWOGE Wohnungsbaugesellschaft mbH
IFRS Consolidated Financial Statements 2022

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

HOWOGE

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

I. Consolidated management report

31 December 2022

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

I. Consolidated management report

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1. Information on the Group

1.1 Business purpose and strategy

HOWOGE Wohnungsbaugesellschaft mbH and its subsidiaries ("HOWOGE" or the "Group") is one of Germany's biggest landlords based on housing stock. Its real estate holdings of around 75,400 residential units (as of 31 December 2022) in Berlin include rental apartments as well as over 1,100 commercial units, some 17,000 other units and numerous development plots, and have a current fair value of approximately EUR 13.4b. HOWOGE's core business as a property holder comprises the long-term management and development of the Company's own portfolio.

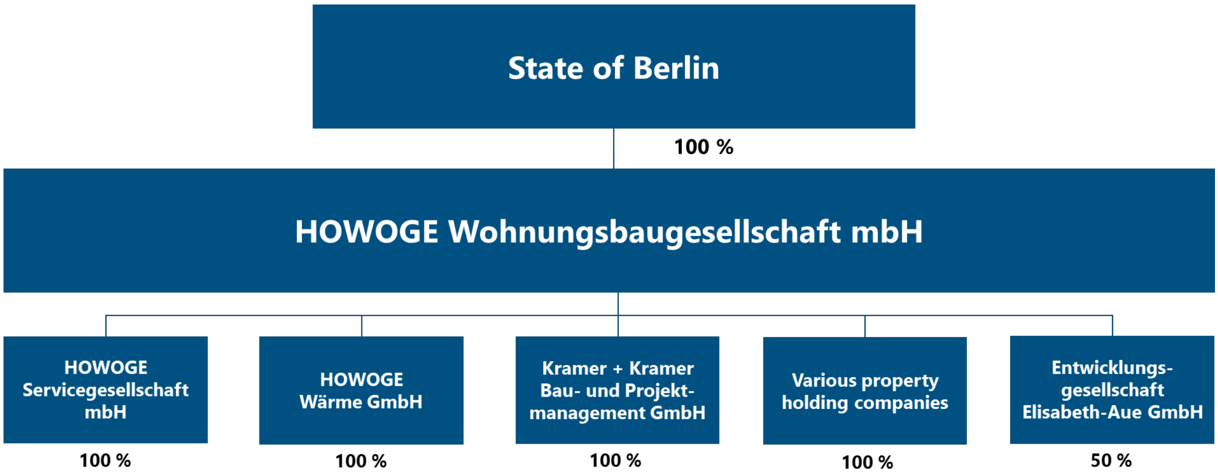
As one of six municipal housing companies belonging to the State of Berlin, HOWOGE pursues a social mandate to supply affordable housing to the people of Berlin.

HOWOGE intends to increase its housing portfolio to around 100,000 units in the medium to long term, many of which will be new-build construction. With a wide variety of housing offers and forward-looking sustainability and mobility concepts, the housing company creates housing estates with long-term stability. HOWOGE is also building and refurbishing schools for the State of Berlin under the Berlin School Building campaign, a business field that is economically separate from the core business.

HOWOGE has a solid financial footing with a sound capital structure and numerous financing opportunities and is guided by its commitment to sustainability. Since 2021, HOWOGE has issued bonds as an additional means of external financing alongside the use of equity and subsidies as well as conventional property financing by means of collateralized bank loans. The two international rating agencies Standard & Poor's and Fitch have given HOWOGE an issuer rating of A (S&P) and AA- (Fitch), both with a stable outlook (as of 1 August 2022). To ensure a defensive risk profile, the Company has defined a loan-to-value ratio of 50% as its maximum limit.

1.2 Group structure

Overview of the HOWOGE Group:



HOWOGE is a municipal housing company and is wholly owned by the State of Berlin. It is structured as a traditional holding group. HOWOGE Wohnungsbaugesellschaft mbH is responsible for the management and maintenance of its own housing stock as well as the overarching corporate management functions within the Group on behalf of all affiliates. Its responsibilities also include strategic tasks, investment decisions for portfolio management and provision of support services for all group companies. Service agreements are in place for this purpose between HOWOGE and the group companies.

Three subsidiaries are responsible for service, energy management and construction management:

HOWOGE Servicegesellschaft mbH provides ancillary residential services within the Group, including concierge, janitors and neighborhood assistance services. Its service portfolio also includes receptionist and secretarial services, system support and construction quality assurance.

HOWOGE Wärme GmbH is responsible for supplying 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 Bau- und Projektmanagement GmbH 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. Its responsibilities include a large number of services in the area of construction and project management as well as construction-related consulting services.

All of the Group’s rental units are held by HOWOGE and 13 holding companies, of which 11 originated from the portfolio acquisition of around 8,300 residential units, whose economic transfer took place in 2022. Wohnungsbaugesellschaft Lichtenberg mbH (WBL) is the largest holding company in the Group with a portfolio of approximately 41,000 residential units.

HOWOGE also holds a 50% investment in the development company Elisabeth-Aue GmbH, which 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.

1.3 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.

1.3.1 Financial and non-financial key performance indicators relevant for management

The Group's performance is managed using the following key performance indicators that are calculated and assessed on a monthly basis.

Funds from operations (FFO) is a liquidity-based performance indicator and shows the Group's operating cash flow. The figure is calculated by deducting interest and tax expenses affecting cash from adjusted EBITDA and adding loan repayment policies. Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization, impairment and reversals of impairment. One-time effects, such as transaction costs, restructuring costs or earnings effects from disposals, are adjusted accordingly. The interest coverage ratio is another key performance indicator and shows the Company's ability to service interest payments from current operations. It is calculated by dividing adjusted EBITDA by current interest expenses. The loan-to-value (LTV) ratio is an indicator used to manage investments and indebtedness. The LTV ratio is determined by calculating the ratio of net financial liabilities to the fair value of investment property. Profit or loss for the period is also one of the HOWOGE Group's key performance indicators.

The following non-financial key performance indicators are used for the Residential segment:

Operational management is primarily carried out on the basis of average net rent (excluding heating and utilities) per square meter and the vacancy rate for the entire housing portfolio. In its rental business, the Group ensures that it achieves a certain quota of letting to persons holding housing entitlement certificates (WBS) in relation to total letting. In its reletting activities, the Group aims to achieve a WBS rate of at least 63%.

The School Construction segment is managed on the basis of the segment result and the investment volume.

2. Economic report

2.1 Economic conditions

The Economic Forecast Winter 2022 by the IW ["Institut der Deutschen Wirtschaft": German Economic Institute] points to a recession for the German economy. While economic output still saw more than 1.5% growth in 2022, real GDP is expected to contract by 0.75% in 2023. Since there is currently no end in sight to Russia's invasion of Ukraine, there are risks to comprehensive energy supply in Germany as well as high energy costs for the entire economy, even though the threat of gas shortages has been mitigated for the winter of 2022/2023. The record prices for energy have decreased somewhat from their peak levels in the summer of 2022, but are still high. The same holds true for material shortages in manufacturing and construction. The cost shocks and an inflation rate of 7.9% (for 2022) are sapping the buying power of private households, and companies are also reluctant to invest in light of the uncertain economic outlook. However, the government has implemented significant aid packages to cushion the effects of the energy crisis.[1]

The economic downturn does not seem to be having a major effect on the labor market for the time being, with employment figures expected to remain largely stable in the coming year. However, average working hours are likely to decrease as companies once again resort to making greater use of short-time work. Longer-term developments on the labor market will depend on how effectively business and policymakers address the current challenges (e.g., supply chains, energy prices).[2]

The deteriorating external situation also had a negative impact on the Berlin economy, which still saw above-average growth of 3.7% in the first half of the year (compared to 2.8% for the whole of Germany), followed by a decline in the purchasing power of society as a whole in the wake of the energy crisis, with energy prices rising by 36% in September compared to the same month of the prior year. Economic growth for Berlin is expected to be weaker in the second half of 2022, but should still reach a positive 2.3% (compared to 1.5% for Germany as a whole). In 2023, Germany is likely to head into a recession (-0.9%), while, in the best case scenario, the Berlin economy stands to break even. Berlin has a comparatively low industrial density, which mitigates the effects of the downturn, as well as an extremely dynamic labor market. With employment growth of 4.2% in 2022, Berlin outstripped all other federal states and was more than double the German average (1.8%). Nearly all sectors are still reporting job vacancies, mainly in transport, logistics and safety, retail, sales and tourism as well as in healthcare, education and social services.[3]

The labor market owes its vigor in part to the city's consistently dynamic growth. In its population report, the Berlin Senate forecasts the city to swell to 3.963 million people by 2040. The Berlin population count is expected to rise steadily until 2040, with an increase of 5.0% on the 2021 figure. Approximately 50% of the population growth is forecast to occur in the first four years until 2025.[4]

The predicted population growth will require ongoing creation of sufficient housing in a market situation that is already tense. Based on demand, 194,000 new residential units need to be built in Berlin in the period from 2019 to 2030, of which 20,000 per year for the period from 2019 to 2021 and around 15,000 per year from 2022 to 2030. This volume war nearly achieved in 2019 thanks to a continuous increase in construction activities. In 2020 and 2021, completion rates were significantly lower at around 16,000 residential units across Berlin per year.[5]

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[1] IW Economic Forecast Winter 2022, 14 December 2022
[2] IW information service, 28 September 2022
[3] IBB Berlin economic report, October 2022
[4] Press release by the Governing Mayor dated 4 October 2022
[5] Market and housing stock analysis by empirica, November 2022

Rising construction costs are proving to be a substantial problem. Other obstacles slowing down residential construction are too little suitable land for development, resistance to new construction projects, too much red tape, overly long building permit processes, material shortages and a lack of skilled labor.[6]

Another problem is the rising interest rates for housing construction loans in Germany, which have already increased by around two percentage points. Price adjustments could therefore occur in the near future, though no drastic slump in prices (<10%) is anticipated.[7]

Pressure on the Berlin residential market is likely to increase further. Asking prices for condominiums and quoted net rents (excluding heating and utilities) have risen almost without stop since 2006. In 2020, rents decreased slightly (down 2%) a result of the higher volume of new construction, the low population growth and the rent cap introduced in February 2020. However, in 2021, the average quoted rent increased noticeably once again, rising by more than 6%.

In 2021, one half of all privately financed new-build rental apartments in Berlin were quoted at a minimum net rent (excluding heating and utilities) of around EUR 17.00/sqm of living space, while the middle 80% went for between EUR 10.80 and EUR 23.90/sqm. Compared to the prior year, which saw a 10% rise, the median quoted rent increased by approximately 7%. In the same period, the median asking price for new-build condominiums was around EUR 7,000/sqm of living space in a range of EUR 5,200 to EUR 10,500/sqm.[8]

As part of their rental activities, municipal companies are expected to serve as a counterbalance to keep rents down. Besides being subject to the provisions governing rents and other matters under the cooperation agreement, the municipal companies have agreed not to raise rents in the period to 31 December 2023.[9]

The resulting relief for tenants of the municipal companies poses challenges for their performance in light of the massive increase in energy and construction costs as well as rising interest rates. The strong limitation on rent increases by municipal companies coupled with higher expenses is leading to reduced profitability and ability to invest.

[6] IBB housing barometer 2022, September 2022
[7] DIW Weekly Report 47/2022, November 2022.
[8] Market and housing stock analysis by empirica, November 2022
[9] Press release by the Senate Department for Urban Development, Building and Housing, December 2022

2.2 Business performance

2.2.1 Real estate portfolio

As of 31 December 2022, HOWOGE's real estate portfolio comprised 75,419 residential units, 1,141 commercial units and 17,115 other units (mainly garages and parking spaces). The properties are located in Berlin and to a lesser extent in the neighboring State of Brandenburg. There is a strong concentration in the Berlin-Lichtenberg district, where some 75% of the Company's residential units are currently located. Under the cooperation agreement "Affordable rents, new residential construction and supply of social housing" concluded with the State of Berlin, HOWOGE has committed itself to a number of measures to ensure that affordable housing is provided to the population. One such measure is that a minimum of 63% of all existing apartments are reserved for people holding housing entitlement certificates. These also include, in particular, special needs groups, such as recipients of transfer benefits, refugees and homeless persons. In 2022, the WBS reletting rate was 64.5%. Owing to the cooperation agreement and the social focus of its portfolio management, HOWOGE has limited potential for rent increases compared to its private competitors. In addition, the Berlin Senate adopted a rent freeze in the fourth quarter of 2022, prohibiting rent increases for apartments owned by HOWOGE and the other state-owned companies for the period to 31 December 2023.

As of 31 December 2022, the average net rent for residential units (excluding heating and utilities) was EUR 6.41/sqm (31 December 2021: EUR 6.27/sqm) and the vacancy rate by area was 1.6% (31 December 2021: 1.2%). The average net rent (excluding heating and utilities) for 2022 was EUR 6.36/sqm (prior-year average: EUR 6.25/sqm). The year-on-year increase in the average net rent (excluding heating and utilities) and vacancy rate as of the reporting date is mainly attributable to the acquisition of approximately 8,300 residential units from Deutsche Wohnen and Vonovia as the relevant figures for these units were higher than HOWOGE's portfolio average.

The following table shows the portfolio overview as of 31 December 2022:

Reporting date	Units[1)]	Area	Net cold rent	Avg. Net cold rent	Vacancy
31 Dec 2022	**Number**	**sqm**	**EUR m p.a.**	**EUR/m²**	**% in sqm**
Residential	75,419	4,656,110	357.9	6.41	1.6
Commercial	1,141	179,928	18.7	8.66	9.1
Subtotal	**76,560**	**4,836,038**	**376.6**	**6.49**	**1.9**
Other	17,115	303,463	10.7		
Total	**93,675**	**5,139,501**	**387.4**		

1) Excluding some 200 owner-occupied units as of the reporting date

Portfolio development

In fiscal year 2021, the acquisition of a large housing portfolio from Deutsche Wohnen and Vonovia was notarized and since the transfer of the benefits and burdens at the beginning of January 2022, the portfolio of approximately 8,300 apartments and more than 200 commercial units has belonged to HOWOGE. The apartments are scattered across several districts of Berlin and thus increase HOWOGE's visibility on the Berlin housing market. Some of the bigger estates of the new portfolio are located at Kottbusser Tor in Friedrichshain-Kreuzberg, in Steglitz-Zehlendorf (the Thermometer estate) and in Neukölln (the High Deck estate). By making acquisitions and completing new-build projects, HOWOGE has enlarged its real estate holdings by more than 15% within the space of one year. It now owns 75,419 apartments and secures affordable housing for a further 20,000 tenants in Berlin.

HOWOGE has set its sights on reducing carbon emissions from its building stock to 7 kg/sqm/year by 2045. As of 31 December 2021, this figure was 17.10 kg/sqm/year. The figure as of 31 December 2022 was not yet available at the time of reporting, since the calculation is based on the energy utility invoices. Currently, HOWOGE is developing its climate strategy to implement this target. The measures under consideration include the fitting of further photovoltaic systems and the installation of heat pumps.

New construction/project development

The creation of new housing through new construction, densification, vertical extension and the acquisition of project developments is fundamental to HOWOGE's portfolio strategy.

In fiscal year 2022, HOWOGE completed around 1,600 new apartments and added them to its portfolio. The largest new-build projects that were ready for letting in 2022 included the construction project in Hermann-Dorner Allee with 612 apartments and the LIESE high-rise residential building in Frankfurter Allee with 394 apartments. The completion of around 1,200 apartments is planned for fiscal year 2023.

Real estate appraisal

The real estate appraisal as of 31 December 2022 led to a slight decrease in the fair values compared to the prior year, especially due to the interest rate trend.

See the notes to the consolidated financial statements for more information on the real estate appraisal.

The following overview shows the key valuation indicators for our real estate portfolio (excluding undeveloped land, developments and assets under construction) as of 31 December 2022:

Reporting date 31 Dec 2022	Units[1] Number	Fair value EUR b	Fair value EUR/m²	Multiplier Actual rent	Multiplier Market rent
Residential, Commercial and Other	**93,675**	**12.9**	**2,667**	**34.3**	**28.3**

[1] Excluding some 200 owner-occupied units as of the reporting date

School construction

HOWOGE is building new schools and extensively refurbishing existing schools under a master agreement with the State of Berlin as part of the Berlin School Building campaign. The business field is analyzed separately from the core business as a wholly independent undertaking. There are currently plans for HOWOGE to build 25 new schools (seven wood module schools) and refurbish 13 school complexes.

Three schools are currently being built and construction on another school is soon to commence. Funds of more than EUR 3b have been earmarked for the investment program and will be raised through shareholder loans, state guarantees and a forfaiting program.

2.2.2 Employees

Group headcount developed as follows:

	31 Dec 2022	31 Dec 2021
Management board (HOWOGE Wohnungsbaugesellschaft mbH)	1	2
Salaried employees (including management of subsidiaries)	664	621
Wage earners	292	275
Trainees	32	29
Students	4	6
	993	**933**

By company, the development breaks down as follows:

	31 Dec 2022	31 Dec 2021
HOWOGE Wohnungsbaugesellschaft mbH	663	629
HOWOGE Service GmbH	261	235
HOWOGE Wärme GmbH	44	40
Kramer + Kramer Bauprojektmanagement GmbH	25	29
	993	**933**

The number of employees in the Group increased by 60 in 2022 (HOWOGE: up 34; Servicegesellschaft: up 26; Wärme: up 4; Kramer + Kramer: down 4).

As of 31 December 2022, HOWOGE Wohnungsbaugesellschaft had 621 salaried employees (prior year: 576), 41 wage earners (prior year: 51) and one general manager. The increase in headcount is primarily attributable to the growth strategy in various areas.

2.2.3 Statement on corporate governance[10]

HOWOGE is obligated to issue a statement on corporate governance pursuant to Sec. 289f (4) HGB. It is published in the 2022 management report 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 and the FüPoG II ["Gesetz zur Ergänzung und Änderung der Regelungen für die gleichberechtigte Teilhabe von Frauen an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst": German Act Supplementing and Amending the Rules on Equal Participation of Women and Men in Executive Positions in the Private and Public Sector].

In accordance with Sec. 36 GmbHG ["Gesetz betreffend die Gesellschaften mit beschränkter Haftung": German Limited Liability Companies Act], HOWOGE is required to establish a target for the percentage of women on the management board and a date for the achievement of this target.

[10] Unaudited disclosure

The objective of the FüPoG II is to increase the percentage of women in management positions and to establish binding rules for this purpose.

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

As of 31 December 2022, HOWOGE's supervisory board had two women and seven men. The percentage of women was thus 22.2%.

Failure to reach the target of 50% is due to three procedures for the appointment of new or substitute members at the level of the shareholder, the employee representatives and the tenants' council.

In the reporting year, the shareholder decided to appoint a male member to the supervisory board for technical supervision (Senate Department for Urban Development, Building and Housing) after the previous female member resigned from office. In addition, after a female supervisory board member representing the employees stepped down for health reasons, the previously elected substitute candidate was appointed to the supervisory board. Furthermore, the tenants' council was reconstituted in reporting year 2022 and decided to appoint a male representative to the supervisory board.

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 across all hierarchies for all three management levels (first to third management levels) was set for 2024; the abovementioned LGG provisions must be complied with in this context. In September 2022, the management board established a target for the percentage of women on the management board of at least 40% for each of the two management levels below the management board (second and third management levels) with due regard to the provisions of the FüPoG II and with immediate effect.

The percentage of women in the abovementioned management positions stood at 51.67% in 2022.

The management levels break down as follows:

Management level	Women		Men	
	Number	%	Number	%
First management level (management board)	1	33.33	2	66.67
Second management level (heads of functions and divisions)	7	43.75	9	56.25
Third management level (departmental heads)	23	56.10	18	43.90

Until 31 October 2022, the senior management comprised Thomas Felgenhauer and Ulrich Schiller. Since 1 November 2022, Mr. Schiller has been the sole general manager. As of 1 April 2023, Ms. Katharina Greis will assume the position of commercial general manager alongside Mr. Ulrich 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).

2.2.4 Information on the financial performance, assets, liabilities and financial position

Financial performance

Overall, financial performance breaks down as follows:

in EUR k	2022 Total	Thereof School Construction	Thereof Residential	2021 Total
Rental and lease revenue (IFRS 16)	372,446	-	372,446	309,508
Revenue from operating costs (IFRS 16)	30,055	-	30,055	22,857
Revenue from real estate management	**402,501**	**-**	**402,501**	**332,365**
Revenue from operating costs (IFRS 15)	43,552	-	43,552	21,959
Revenue from heating costs (IFRS 15)	62,554	-	62,554	35,596
Revenue from management services and other trade	5,290	-	5,290	7,002
Other revenue	1,399	-	1,399	638
Other revenue from real estate management	**112,795**	**-**	**112,795**	**65,195**
Total revenue	**515,296**	**-**	**515,296**	**397,560**
Profit or loss from the sale of property	0	-	-	107
Profit or loss from the remeasurement of investment property	-198,603	-	-198,603	671,274
Change in inventories for property and other inventories	89,692	101,967	-12,274	1,961
Own work capitalized	3,837	1,455	2,382	2,882
Cost of materials	-239,862	-75,404	-164,458	-102,003
Personnel expenses	-54,636	-	-54,636	-50,004
Amortization, depreciation and impairment	-3,295	-	-3,295	-1,119
Impairment of financial assets	-3,869	-	-3,869	-721
Other operating income	12,902	368	12,534	3,722
Other operating expenses	-30,910	-965	-29,946	-39,276
Profit or loss from investments accounted for using the equity method	2,375	-	2,375	2,033
Finance income	5,513	-	5,513	4,933
Finance costs	-41,459	-	-41,459	-33,738
Profit or loss before taxes	**56,981**	**27,421**	**29,559**	**857,611**
Income taxes	41,627	608	41,019	-175,844
Other taxes	-16,394	-0	-16,394	-13,393
Profit or loss for the period	**82,214**	**28,029**	**54,184**	**668,375**
Total comprehensive income	**82,214**	**28,029**	**54,184**	**668,375**

Consolidated revenue amounted to EUR 515.3m (prior year: EUR 397.6m).

The increase in revenue from real estate management was particularly the result of growth in the real estate portfolio. The Company achieved the rental income forecast for the fiscal year.

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). In fiscal year 2022, a valuation loss of approximately EUR 198.6m arose on the basis of a CBRE appraisal in accordance with IFRSs and was due to various factors, including the higher interest rates coupled with higher overall construction and maintenance costs. Rents did not keep pace with costs in 2022.

The loss from the remeasurement of investment property was mainly the result of the inclusion of the newly acquired property holding companies in remeasurement. 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. Given overall economic developments in 2022, this led to impairments on the properties, which also affected the 11 newly included companies.

The 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. The projects are measured using the residual value method as of the valuation date. The method involves recalculating the sales proceeds after completion using the direct capitalization method as of each valuation date and deducting the costs.

The increase in cost of materials is due in particular to the increase in heating and maintenance costs owing, among other things, to the additional properties acquired as of 3 January 2022 and a backpayment for the fourth quarter of 2021. Other factors leading to the increase in heating costs include general inflation, especially relating to fuels.

Personnel expenses were up by around EUR 4.6m, largely because of the headcount increase in 2022.

Other operating expenses decreased slightly by EUR 8.4m compared with the prior year. The consulting needs in connection with the portfolio acquisitions as of 3 January 2022 resulted in significantly higher consulting fees in the prior year. In contrast to the prior year, IT costs increased to EUR 3.4m as a result the new companies included as of 3 January 2022.

Finance costs were up by a total of EUR 7.7m year on year due to additional external funds to finance portfolio growth.

Tax income in fiscal year 2022 is largely due to deferred tax income from the fair value measurement of the real estate portfolio, offset by expenses from corporate income tax and the solidarity surcharge of EUR 5.5m as well as trade tax of EUR 3.6m. Prior-year income tax expenses were higher as a result of one-time effects from the findings of a tax field audit.

Overall, the Group generated total comprehensive income of EUR 82.2m (prior year: EUR 668.4m).

The profit for the period of EUR 28.0m according to IFRSs for the School Construction segment exceeds the prior-year loss of EUR 521k. HOWOGE is building new schools and extensively refurbishing existing schools under a master agreement with the State of Berlin as part of the Berlin School Building campaign. The business field is analyzed separately from the core business as a wholly independent undertaking. There are currently plans for HOWOGE to build 25 new schools (seven wood module schools) and refurbish 13 school complexes.

Three schools are currently being built and construction on another school is soon to commence. Funds of more than EUR 3b have been earmarked for the investment program and will be raised through shareholder loans, state guarantees and a forfaiting program.

The FFO (funds from operations) adjusted for special and valuation effects shows the normalized development of profit or loss and is comprised as follows in accordance with IFRSs:

	1 Jan to 31 Dec	
EUR m	**2022**	**2021**
Total revenue	**515.3**	**397.6**
Changes in finished goods and work in process for property and other inventories	89.7	2.0
Own work capitalized	3.8	2.9
Cost of materials	-239.9	-102.0
Personnel expenses	-54.6	-50.0
Other operating income	12.9	3.7
Impairment of financial assets	-3.9	-0.7
Other operating expenses	-30.9	-39.3
Finance income[1]	5.1	4.9
Other taxes	-16.4	-13.4
One-time effects[2]	-13.0	10.4
Adjusted EBITDA	**268.1**	**216.1**
Income tax expenses affecting cash[3]	-10.5	-8.7
Interest expenses affecting cash[4]	-41.5	-29.2
Loan repayment policies	-2.7	2.4
Expense from the sale of non-current assets affecting cash[5]	0.2	-0.1
FFO (funds from operations)	**213.6**	**180.5**

[1] Finance income from the cash surrender value of insurance policies held

[2] One-time effects mainly comprise expenses and income in connection with the acquisition of residential units and income from the reversal of provisions.

[3] The income tax expenses affecting cash comprise the total of current and out-of-period income taxes.

[“Bilanzrechtsmodernisierungsgesetz”: German Accounting Law Modernization Act].

[5] The expense from the sale of non-current assets affecting cash is equal to the loss from the sale of non-current assets

FFO of EUR 213.6m is above the prior-year level of EUR 180.5m. The rise is due in particular to the larger real estate portfolio as a result of the acquisitions.

The interest coverage ratio (ICR), i.e., current interest expenses to adjusted EBITDA, is as follows:

	1 Jan to 31 Dec	
EUR m	**2022**	**2021**
Adjusted EBITDA	268.1	216.1
Interest expenses affecting cash	-41.5	-29.2
ICR	**6.5x**	**7.4x**

The interest coverage ratio decreased slightly compared to the prior year due to the fact that the bond was issued in the second half of 2021, so the interest paid only related to part of that year. In fiscal year 2022, the interest expenses affecting cash and relating to the bond were incurred for the entire year.

The IFRS profit for the period of EUR 28.0m for the School Construction segment largely relates to the subsequent capitalization of the Allee der Kosmonauten project in the amount of EUR 26.7m. Adjusted for this effect, the result is on a par with the prior-year level and essentially comprises own work capitalized.

Assets, liabilities and financial position

Assets in EUR k	31 Dec 2022 Total	%	Thereof School Con- struction	Thereof Residential	31 Dec 2021 Total	%
Non-current assets						
Intangible assets	1,291	0.0%	-	1,291	948	0.0%
Investment property	13,281,094	95.4%	-	13,281,094	11,666,622	86.2%
Prepayments on investment property	62,648	0.4%	-	62,648	120,559	0.9%
Property, plant and equipment	58,645	0.4%	-	58,645	34,936	0.3%
Investments in associates and joint ventures	15,925	0.1%	-	15,925	13,550	0.1%
Financial assets	91,790	0.7%	-	91,790	86,722	0.6%
Rental and lease receivables	13	0.0%	-	13	7	0.0%
Receivables from other trade	39	0.0%	-	39	43	0.0%
Total non-current assets	**13,511,444**	**97.0%**	**-**	**13,511,444**	**11,923,388**	**88.1%**
Current assets						
Inventories for property and other inventories	111,131	0.8%	147,968	-36,838	21,438	0.2%
Rental and lease receivables	32,072	0.2%	-	32,072	23,197	0.2%
Receivables from other trade	486	0.0%	34	452	1,871	0.0%
Contract assets	42,560	0.3%	-	42,560	1,947	0.0%
Other financial assets	4,482	0.0%	1,760	2,722	2,703	0.0%
Other assets	55,252	0.4%	-	55,252	41,316	0.3%
Income tax receivables	2,069	0.0%	-	2,069	1,372	0.0%
Cash and cash equivalents	158,255	1.1%	30,062	128,193	1,511,207	11.2%
Assets held for sale	10,800	0.1%		10,800	-	0.0%
Total current assets	**417,105**	**3.0%**	**179,824**	**237,281**	**1,605,051**	**11.9%**
Total assets	**13,928,549**	**100.0%**	**179,824**	**13,748,725**	**13,528,439**	**100.0%**

Equity and liabilities in EUR k	31 Dec 2022 Total	%	Thereof School Construction	Thereof Residential	31 Dec 2021 Total	%
Equity						
Subscribed capital	25,000	0.2%	-	25,000	25,000	0.2%
(Other) capital reserves	317,901	2.3%	-	317,901	317,901	2.3%
Accumulated retained earnings	7,693,957	55.2%	-2,637	7,696,594	7,024,062	51.9%
Consolidated net retained profit	79,804	0.6%	28,029	51,775	666,218	4.9%
Total equity	**8,116,662**	**58.3%**	**25,392**	**8,091,270**	**8,033,181**	**59.4%**
Non-current liabilities						
Other provisions	1,182	0.0%	-	1,182	1,373	0.0%
Financial liabilities	3,913,790	28.1%	153,648	3,760,143	3,608,936	26.7%
Trade payables	-	0.0%	-	-	5,509	0.0%
Tax liabilities	-	0.0%	-	-	2,199	0.0%
Other liabilities	39,195	0.3%	-	39,195	22,644	0.2%
Deferred tax liabilities	1,611,888	11.6%	-	1,611,888	1,662,622	12.3%
Total non-current liabilities	**5,566,055**	**40.0%**	**153,648**	**5,412,408**	**5,303,282**	**39.2%**
Current liabilities						
Other provisions	15,947	0.1%	70	15,878	7,078	0.1%
Rental and lease liabilities	13,570	0.1%	-	13,570	9,888	0.1%
Trade payables	112,102	0.8%	508	111,593	77,582	0.6%
Contract liabilities	43,946	0.3%	-	43,946	11,592	0.1%
Financial liabilities	4,713	0.0%	-	4,713	75,311	0.6%
Tax liabilities	3,478	0.0%	-	3,478	559	0.0%
Other liabilities	52,076	0.4%	206	51,870	9,965	0.1%
Total current liabilities	**245,832**	**1.8%**	**784**	**245,048**	**191,975**	**1.4%**
Total liabilities	**5,811,887**	**41.7%**	**154,431**	**5,657,456**	**5,495,258**	**40.6%**
Total equity and liabilities	**13,928,549**	**100.0%**	**179,824**	**13,748,726**	**13,528,439**	**100.0%**

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

Investment property is still the largest asset item accounting for 95.4% of total assets. It increased substantially compared with 31 December 2021 largely on account of the acquisitions of the prior year, with the transfer of the benefits and burdens in the first quarter of 2022. The fair value loss in 2022 had an offsetting effect. By contrast, cash and cash equivalents decreased by a significant EUR 1.4b in this connection due to the purchase price payments at the beginning of 2022.

Inventories for property and other inventories in the School Construction segment comprise investments in construction preparation for new school construction and school refurbishment projects. In December 2022, construction commenced on one project (two schools on one site), while the construction and refurbishment of a further 27 schools is still in the planning stage. Funds of more than EUR 3b have been earmarked for the investment program and will be raised through shareholder loans, state guarantees and a forfaiting program.

Book equity declined slightly to 58.3% (prior year: 59.4%) of total equity and liabilities. Overall, equity increased by EUR 83.5m, taking the net retained profit into account.

The following overview shows the development of the net asset value:

EUR m	31 Dec 2022	31 Dec 2021
Equity	8,116.7	8,033.2
Deferred tax liabilities on investment property	1,626.1	1,672.4
NAV (net asset value)	**9,742.8**	**9,705.6**

In fiscal year 2022, the Group raised further loans to finance the new construction projects and for the acquisition of additional housing stock. A total of EUR 327.8m was raised for the acquisition of further housing stock, of which EUR 243.3m relates to new loans and EUR 84.5m to the consolidation of the 11 newly acquired companies. By contrast, loan repayments of EUR 165.5m were made. Furthermore, EUR 7.0m in debt was forgiven in fiscal year 2022.

Liabilities to lenders in the Residential segment increased by a nominal EUR 157.1m to EUR 2,085.9m.

In the School Construction segment, liabilities relate to the outstandings on a shareholder loan from the State of Berlin of EUR 60.0m (prior year: EUR 40.0m) and two loans secured by a state guarantee of EUR 93.3m (prior year: EUR 27.3m).

The financial position of all group companies was balanced as of 31 December 2022. The companies always met their payment obligations in due time and will be able to do so in the future as well.

Financing

To ensure its financial independence and defensive risk profile, HOWOGE has a long-term diversified financing structure. Risk is mitigated through measures such as full interest rate hedging, long-term interest rate fixing, lender diversification and a balanced loan renewal profile. The potential impact on HOWOGE of changes in the financial framework are constantly monitored and reported on a monthly basis. Active loan collateral management is used to ensure optimal handling of collateral structures and the provision of collateral reserves. In this way, the Group ensures that it consistently maintains an unencumbered asset ratio. To ensure an even spread and independence from financing partners, the total volume per lender should not, as a rule, not exceed 20%. Investments in the School Construction segment are funded separately from HOWOGE’s core business. School construction financing is not secured using any of HOWOGE’s portfolio properties.

As of the reporting date, the loan portfolio in the Residential segment comprised collateralized, long-term annuity loans and subsidized loans, unsecured corporate bonds and short-term credit facilities, thereby offering a broad range of financial instruments.

Since 2021, HOWOGE has had an issuer rating by the two international rating agencies Standard & Poor's and Fitch of A (S&P) and AA- (Fitch), respectively, with a stable outlook in each case. The ratings were last confirmed in the summer of 2022 and reflect the Company's good creditworthiness.

The financial liabilities had an average residual term of around nine years as of the reporting date and there are no significant refinancing arrangements planned for fiscal year 2023. The next important loan maturity date is in the fourth quarter of 2024, when the corporate bond with a nominal value of EUR 500m and currently 0% interest is due for refinancing.

Only minor refinancing arrangements and borrowings were made in fiscal year 2022. The weighted average interest rate as of the reporting date remained low at around 1%, well below current market interest rates.

The Group also has credit facilities that were unutilized as of the end of the year. No derivative financial instruments were used.

In 2021, HOWOGE set up a debt issuance program (DIP), which allows it to issue corporate bonds at short notice. Under the program covering a total of EUR 4b, corporate bonds with a volume of EUR 1.7b were issued in October 2021 to finance the purchase of 8,300 residential units.

In the context of the DIP and the issuance of corporate bonds, HOWOGE undertook to comply with the following covenants:

- Limitations on incurrence of financial indebtedness
- Relevant consolidated interest coverage ratio
- Total relevant unencumbered assets

The covenants are reviewed every time loans are raised and were complied with at all times.

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

EUR m	31 Dec 2022	Thereof Residential	31 Dec 2021	Thereof Residential
Financial liabilities[1]	3,918.5	3,764.9	3,684.2	3,617.0
Cash and cash equivalents	-158.3	-128.2	-1,511.2	-1,493.5
Net financial liabilities	**3,760.2**	**3,636.7**	**2,173.0**	**2,123.5**
Investment property	13,281.1	13,281.1	11,666.6	11,666.6
Net LTV ratio (in %)	**28.3%**	**27.4%**	**18.4%**	**18.2%**

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

The loan-to-value ratio increased to around 28.3% compared to 31 December 2021, well below the self-imposed maximum of 50%. The increase is largely attributable to portfolio acquisitions in the prior year, which were financed using borrowed capital. The loan-to-value ratio adjusted for the financial liabilities of EUR 153.6m of the School Construction segment was 27.4% as of the reporting date.

Statement of cash flows

Statement of cash flows (condensed):

in EUR k	2022 total	Thereof School Construction	Thereof Residential	2021 total
Cash flows from operating activities	221,178	-73,912	295,090	173,602
Cash flows from investing activities	-1,694,685	-	-1,694,685	-494,199
Cash flows from financing activities	120,564	86,299	34,265	1,788,326
Net change in cash and cash equivalents	**-1,352,943**	**12,387**	**-1,365,331**	**1,467,729**
Cash and cash equivalents as of 1 January	**1,510,601**	**17,674**	**1,492,927**	**42,872**
Cash and cash equivalents as of 31 December	**157,657**	**30,061**	**127,596**	**1,510,601**

In 2022, 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 decreased significantly from EUR 1,510.6m in 2021 to EUR 157.7m. This is attributable to the special effect from the issuance of the bond in the prior year.

In fiscal year 2022, cash flows from operating activities increased by EUR 47.6m, largely as a result of higher EBITDA (up EUR 75.4m).

Cash flows from investing activities were highly negative in fiscal year 2022 as a result of the investments made for the purchase of 11 companies, a total of five hereditary building rights already used to erect buildings and 30 developed properties.

Cash flows from investing activities relate to investments of EUR 1,141.9m in investment property and the purchase price of EUR 533m for the acquisition of the new companies.

Cash flows from financing activities comprise in particular cash received from new borrowings and loans of EUR 327.8m, offset by EUR 165.5m in repayments of borrowings and EUR 41.5m in interest payments.

2.2.5 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 more than 200 commercial units in the fiscal year (transfer of benefits and burdens as of 3 January 2022) in addition to the growth it had already planned. This led to significant special effects for the fiscal year.

2.3 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 2022, 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. The increase in interest rates leads us to expect that the real estate market will be characterized by declining prices and pressure to sell in the next few years. This could give rise to opportunities for the acquisition of housing stock. With its two ratings, A from Standard & Poor's and AA- from Fitch, each currently with a stable outlook, HOWOGE is one of the best rated real estate companies in Germany. The DIP and our access to the capital market afford us additional opportunities to finance future growth. 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. Positive developments in the regulatory environment and in subsidy programs can improve the conditions for residential construction and the climate protection measures.

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 an effective ERP system, long-term personnel development and the compliance and value management system, which has now undergone recertification several times, 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. Procurement at HOWOGE will be centralized going forward in order to optimize the processes. Coupled with digitalization, the centralized procurement project offers potential for boosting efficiency.

There is revenue and cost-saving potential in the expansion of the value chain and the services offered by the Group. Increasing the level of facility management work performed in-house and digitalizing real estate management are aimed at increasing efficiency and customer satisfaction. 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

3.2.1 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).

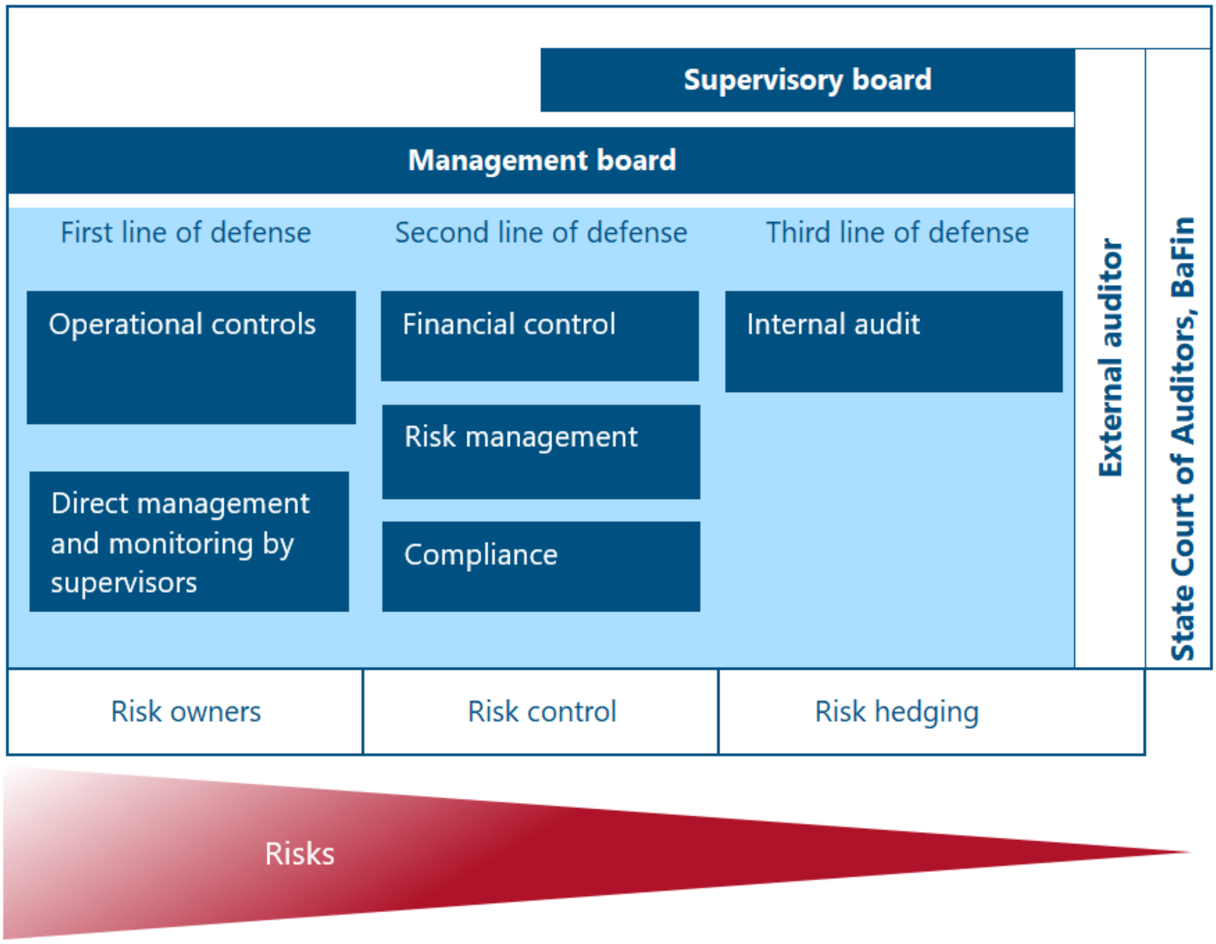
HOWOGE's general definition of risk is a potential negative deviation from defined corporate objectives, particularly one that poses a threat to economic success or the implementation of business plans, its good reputation or compliance with all relevant laws and agreements. This relates to all internal 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

An effective internal control system (ICS) is necessary to ensure the proper functioning of all significant business processes. As an integral component of the group-wide risk management process, the ICS's overarching objective is to reduce all significant operational and financial corporate risks to an acceptable level.
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. In this context, the management board adopted an ICS group policy in 2022.

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 value creation processes and financial reporting 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 and tasks:

- 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, in the group policy KR-12 Internal Control System and in other group policies. 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.

In 2022, the group-wide risk policy was revised and the group-wide internal capital adequacy plan refined.

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 the rating matrix that was expanded in the second half of 2022 with five (prior year: 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 2022 as part of the risk policy update.

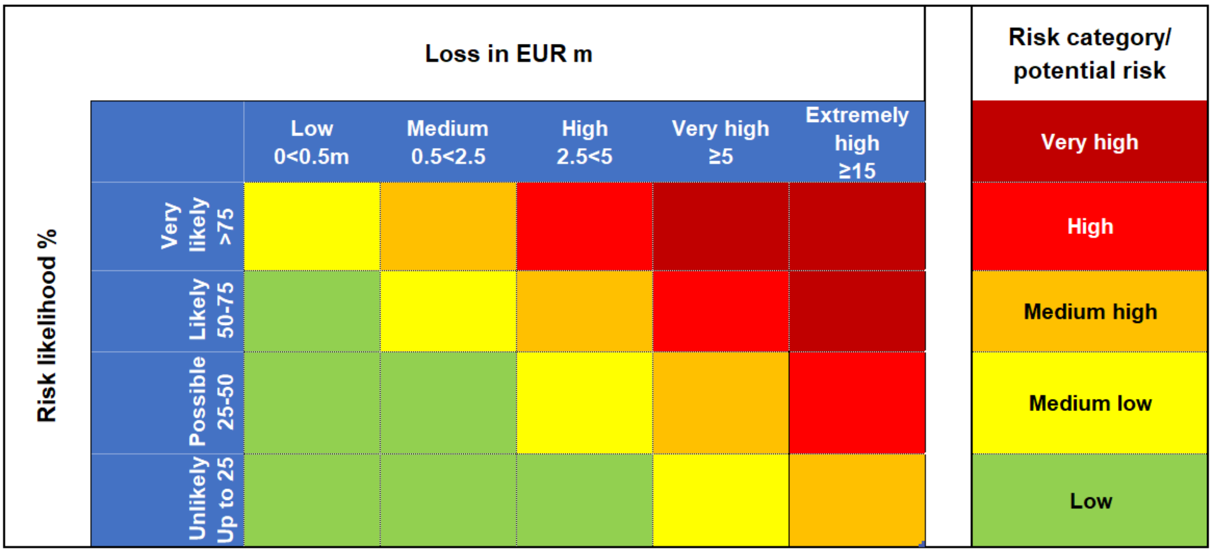
The categories, which express the impact on economic viability and liquidity, are defined as follows:

- 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 between EUR 5m and EUR 15m
- New: extremely high: net impact of EUR 15m 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 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 exhibit a high to very high threat potential in the five-year period under analysis are regarded as especially relevant.

3.2.2 Risk reporting

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 describe the significant risk events (singular risks).

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.

Since there is currently no end in sight to Russia's invasion of Ukraine, there are risks to comprehensive energy supply in Germany as well as high energy costs for the entire economy, even though the threat of gas shortages has been mitigated for the winter of 2022/2023. What is more, the entire global supply network is still suffering from the effects of the coronavirus pandemic. However, the severe material shortages affecting German industry – due to the interruption in global production and logistics processes occasioned by the pandemic – have eased noticeably in the last few months (ifo Institute 2022). High inflation rates are sapping the buying power of private households, and companies are also reluctant to invest in light of the uncertain economic outlook. The measures taken by the federal government under its third relief package will go some way towards counteracting this downward trend, but will not stop it by any means.

As part of their rental activities, municipal companies are expected to serve as a counterbalance to keep rents down. Besides being subject to the provisions governing rents and other matters under the cooperation agreement, the municipal companies of the State of Berlin have agreed not to raise rents in the period to 31 December 2023.

The resulting relief for tenants of the municipal companies poses challenges for their performance in light of the massive increase in energy and construction costs as well as rising interest rates. The strong limitation on rent increases by municipal companies coupled with higher expenses is leading to reduced profitability and ability to invest. The significant increase in energy costs also gives rise to the risk of further defaulting tenants of municipal companies if such tenants are not able to cover these costs themselves.

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.

Organization and processes

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.

Cyber risks

(Risk likelihood: possible, loss: very high)

An outage in the IT systems used by the HOWOGE Group would result in significant disruptions to our regular business operations due to the advanced level of digitalization. The risk of cyber attacks has increased in the wake of the Ukraine conflict. Unauthorized access to confidential or personal data or the encryption of business data by ransomware could cause serious damage. HOWOGE has taken a large number of technical and organizational measures to reduce cyber risk.

The risk is significantly minimized by full-service outsourcing of IT operations to an ISO 27001-certified service provider and outsourcing of the data center operation. Through the internal appointment of an information security officer in the fiscal year, the Group has also ensured that vulnerabilities are identified early and countermeasures taken. In addition, penetration tests are performed on an annual basis to identify vulnerabilities.

Project risks

(Risk likelihood: possible, loss: high)

HOWOGE has an extensive project portfolio. Risks can threaten projects from various angles. Deadlines, costs, resources and poor communication in particular can jeopardize the success of a project, leading to unscheduled delays or cost overruns. The processes and digitalization unit, which was established in 2020, was expanded further to reduce risks and coordinate business projects. Multi-project managers support project owners from project kick-off to project completion. A central project office documents and prioritizes the projects from a group perspective. The office also provides support from external resources if needed to ensure the success of the project.

Personnel and management

Demographic change and the related change in age distribution, that is, a shift in the age structure leading to a larger number of older and fewer younger people, will result in a shortage of skilled labor in the future.

Staff shortage/exit risk

(Risk likelihood: possible, loss: low)

Hiring and filling specialist roles in the Company will continue to be one of the key challenges in the years ahead. 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. We constantly refine our detailed personnel and succession plan 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 Company has enhanced its existing onboarding process aimed at promoting good integration into the organization and preventing new hires from quitting during their probation period. “Demographics” has been added as another priority of personnel strategy in addition to the abovementioned aspects. An age structure report is prepared and constantly updated for monitoring purposes and used to identify HR policy measures.

Positioning HOWOGE as an attractive employer is a key factor in securing our ability to recruit suitable personnel in a highly competitive labor market. To this end, a comprehensive employer branding campaign has been launched and is being continuously enhanced. 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.

To improve employee retention, regular employee surveys are held to assess employee satisfaction and to identify and exploit potential for improvement. The Company also scans the market to compare its benefit package and gauge its attractiveness from an outside perspective.

Finance

Balanced, sustainable and secure financing as well as constant access to low-interest funding are key drivers of HOWOGE's business performance and the achievement of its objectives. As a provider of affordable housing, it depends heavily on access to subsidies to ensure it reaches its new construction targets.

Interest rate risks

(Risk likelihood: unlikely, loss: extremely high)

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 increased significantly in the fiscal year due to the hike in interest rates. The Company uses scenario analyses to determine the effects of a change in the interest rate climate on its performance and viability and has developed courses of action. The risk has been addressed by using the adjusted interest rates in the long-term corporate budget. To minimize the risk, loan agreements generally have long terms of 10 to 20 years. In the current market situation, banks have become more reluctant to commit to long-term fixed interest rates (>15 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 horizon of the long-term business plan so as to identify potential interest rate fluctuations and deviations promptly. It also includes appropriate risk buffers in the corporate planning.

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.

Covenant breaches

(Risk likelihood: unlikely, loss: extremely 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.

Tax risks

(Risk likelihood: possible, loss: extremely 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. An external tax firm is consulted for advice on tax issues.

Legal and compliance

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. Subject-specific changes/developments in legislation must be monitored by the relevant department and reported if necessary.

Changes in legislation, industry-specific provisions or regulatory frameworks

(Risk likelihood: very likely, loss: extremely high)

In the fiscal year, the singular risk relating to potential implications from the intended amendment to the GefStoffV ["Gefahrstoffverordnung": German Hazardous Substances Ordinance] was identified which, if implemented, would result in increased financial expenditure for additionally required advance testing and for further ad hoc asbestos inspections when carrying out construction work.

Any change in the allocability of property tax harbors an extremely high financial risk, given a volume of around EUR 14m p.a. in allocable property tax at present. Currently, since property tax is an allocable operating cost, it does not represent a high risk. If property tax increases significantly as a result of the upcoming reform, this would raise the pressure to abolish the allocable status of property tax, since an increase in incidental rental costs is not desirable in terms of social policy.

The rent moratorium adopted in the reporting year, which exclusively requires state-owned housing companies to refrain from raising rents in the period to 31 December 2023, also poses a considerable challenge, since it means that rent increases cannot be used to compensate for the steadily increasing costs of new housing construction, refurbishment and maintenance. The economic implications of the moratorium have already been factored into the long-term corporate budget without taking into account potential compensation payments.

Furthermore, a political framework characterized by more ambitious climate-related targets as well as changes in subsidy regulations is emerging, offering little of the requisite planning certainty. In line with the State of Berlin's climate objective, HOWOGE has undertaken to make its housing portfolio climate-neutral by 2045.

This could give rise to a financial risk, since the actions required to achieve climate neutrality call for a significant volume of investment, which is likely to exceed the current assumptions in the corporate budget. In order to explore the options for achieving the climate objective, HOWOGE started to devise a climate strategy in October 2022. Courses of action will be developed by March 2023 in workshops involving HOWOGE's functional departments.

Conventional areas of law and general changes in legislation are monitored by the legal department. If the changes are extensive, training activities are launched and the departments in question are invited to attend workshops. Specialist journals (legal) and press releases are considered on an ongoing basis.

Corruption, bribery, conflicts of interest

(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. 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

Valuation risk

(Risk likelihood: possible, loss: extremely high)

Valuation risk captures potential impairment of the real estate portfolio or individual properties due to market developments. This includes land held in inventories until completion of the planning phase of new-build projects. The risk has increased slightly compared to the prior year due to the macroeconomic development, but remains non-critical due to the conservative basis of valuation applied. The regular fair value measurement of the real estate portfolio is performed by a reputable independent property service provider.

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 torrential rain, drought, 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. In the fiscal year, HOWOGE carried out a location-specific climate risk analysis (climate vulnerability assessment). Potential climate risks were analyzed for our buildings with the aid of scientific data. We have already introduced various measures to counteract these risks and equip our buildings to withstand the already tangible effects of climate change. To mitigate the effects of torrential rain, we are installing water retention roofs, planning retention areas and turning to alternatives to large basement areas, which act as a barrier to ground water. We promote rain water drainage through measures including the integration of seepage basins in the design of outdoor grounds and facilities. We counter the effects of heat by using light-colored facades, sealing as little space as possible and greening open spaces where possible.

Market and location

Construction cost risks

(Risk likelihood: possible, loss: very high)

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 the fiscal year, the risk worsened due to the ongoing Ukraine conflict and the resulting energy crisis. This has had a direct impact on HOWOGE’s future construction projects. The massive rise in construction prices increases the risk that building projects will become unviable and consequently be postponed or stopped altogether.

Maintenance work also harbors cost risks due to the increase in material and energy prices. In order to limit 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.

Risk of contractor insolvency or non-performance/poor performance

(Risk likelihood: possible, loss: very high)

The Company faces the general risk of inadequate performance or non-performance, especially of contractually owed construction services. This may give rise to cost increases due to new tenders, delays in completion and late rental income.

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 continue to be 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: likely, loss: very high)

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. The probability of default has increased particularly in the wake of the energy crisis and the related rise in operating costs. It can be assumed that ongoing high inflation and soaring energy costs will severely impair tenants' ability to pay in the short term, especially considering that wage and salary increases will not be able to keep pace with inflation.

The federal government has introduced financial relief packages, including extensive tax relief and other support measures, such as a one-time energy subsidy, a heating subsidy for housing allowance recipients as well as a gas and electricity price brake.

To reduce the amount of backpayments due from tenants and avoid loss of liquidity, HOWOGE adjusted the advance payments of operating costs payable by its tenants.

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.

Reputational risk (School Building campaign)

(Risk likelihood: possible, loss: medium)

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.

Additional risks relating to the School Construction segment have not been identified. 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.

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. An external auditor prepares the IFRS financial statements.

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.

Risk events (singular risks)

Overall, one new singular risk was reported in the reporting period and four risks were eliminated. In addition, an internal ad hoc report was prepared on the potential negative effects of the Ukraine war in June 2022. The effects were included in the assessment of the standard risks.

Singular risks

Cost and litigation risks from the planned amendment of the GefStoffV

(Risk likelihood: possible, loss: (approximately EUR 7m))

On 13 March 2022, the federal government issued a preliminary draft for the amendment of the GefStoffV and other occupational health and safety ordinances. The planned amendment of Sec. 5 GefStoffV harbors considerable cost risks for HOWOGE. The amendments involve duties imposed on landlords to report and cooperate in the event that "work is commissioned on buildings or technical facilities potentially containing hazardous substances that may be released upon performance of this work and cause particular injury to health."

The duties to cooperate include investigating whether the history of the construction or use of the property indicates that hazardous substances, especially asbestos, are present or suspected to be present and may be released by the work and pose a risk. The necessary investigations and resulting measures harbor considerable cost risks.

Allocability of property tax

(Risk likelihood: unlikely, loss: very high (approximately EUR 70m))

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.

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.

Project-specific risks

(Risk likelihood: very unlikely (3%), loss: very high (approximately EUR 23m))

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, a motion for leave to appeal before the Higher Administrative Court was filed and is currently being reviewed.

Eliminated singular risks

Limitation of the allocation of carbon pricing

The CO2KostAufG ["Gesetz zur Aufteilung der Kohlendioxidkosten (Kohlendioxidkostenaufteilungsgesetz": German Carbon Dioxide Cost Allocation Act] has now been adopted by the Bundestag, the lower house of parliament, and will enter into force on 1 January 2023. The law governs heat supplies drawn from heat generation facilities subject to EU emissions trading (district heating). The allocation of carbon dioxide costs among tenants and landlords is based on the specific carbon dioxide emissions and the relevant living space. In the fiscal year, HOWOGE calculated the portion allocable to it and factored it into its long-term corporate budget.

Potential impact of the COVID-19 pandemic

Overall, the effects on liquidity and performance in fiscal year 2022 are low. Since the stringent nationwide protective measures were lifted, HOWOGE has maintained basic protective measures which it has set out and published in a basic hygiene plan. Given the stable infection situation and the fact that the coronavirus no longer poses a heightened threat to HOWOGE's business activities, the singular risk "coronavirus pandemic" was eliminated as of 31 December 2022. The risk of an "epidemic/pandemic" was included in the standard risk catalog.

Allocability of rental costs for smoke detectors

The German Federal Court of Justice has ruled that the costs of renting smoke detectors cannot be allocated to tenants as operating costs. The Company subsequently initiated the required adjustments to the operating cost statements. Payments already made will be credited to the tenants when the next operating cost statements are drawn up. A provision was recognized in the fiscal year for the acquisition of the smoke detectors.

Project-specific risks

Project-specific risks were reported in connection with two other construction projects. They were eliminated in the fiscal year. A termination-related dispute was set aside by reaching a settlement. The supervisory board approved the budget adjustment required to cover the additional costs of a construction project caused by a contaminated site.

3.2.3 Overall assessment

In fiscal year 2022, there were no relevant risks that, either individually or in the aggregate, posed a threat to the continued existence of the HOWOGE Group. The Company's internal capital was adequate at all times. 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 2023 and 2024. The opportunity and risk situation worsened somewhat compared to the prior year, especially due to macroeconomic factors. Overall, opportunities and risks are still considered to be balanced.

4. Outlook

4.1 Comparison of the forecast with the 2022 business figures

Overall, HOWOGE had a very successful fiscal year 2022 despite the difficult market environment and (largely) achieved its targets.

As of 31 December 2022, the housing portfolio was slightly higher – at 75,419 residential units – than the forecast figure of 75,150. The vacancy rate and tenant turnover rate were in line with expectations at 1.6% and 4.6%, respectively. The average rent for the housing portfolio was EUR 6.36/sqm (forecast for 2022: EUR 6.35/sqm) and the WBS reletting rate was 64.5%, slightly higher than the target of 63%. In 2022, the start of construction work covered more residential units (around 1,600) than the forecast 1,500 residential units. In the reporting year, a total of 1,612 new residential units were completed, falling short of the forecast 1,900 residential units. This was due to delays brought on by supply chain disruptions and postponements.

In the Residential segment, HOWOGE’s actual rent came to EUR 369m in fiscal year 2022, which is on a par with the forecast amount of EUR 367.1m.

For the School Construction segment, the Company expected to raise additional external financing of EUR 200m, leading to indebtedness of EUR 269m for this segment as of 31 December 2022. Due to delays, only EUR 86m in external financing was raised for school construction and indebtedness was at EUR 154m as of the end of the year. Three new project agreements were concluded, slightly exceeding the forecast of two project agreements. Another three project call-offs were made in the reporting year. The FFO contribution for the School Construction segment was more or less on a par with the forecast level at -EUR 1m.

In the reporting year, the Group generated EBITDA of EUR 281.1m (forecast for 2022: EUR 230m) and FFO of EUR 213.6m (forecast: for 2022: EUR 186m). At EUR 221.2m, the operating cash flow exceeded the EUR 188m forecast for 2022, largely because of lower expenses, especially for personnel and other expenses, than originally planned. At EUR 82.2m, profit for the period fell significantly short of the forecast of EUR 280m, primarily as a result of the loss from remeasurement of investment property.

As of 31 December 2022, HOWOGE’s LTV ratio was at 28.3%, slightly less than the forecast of 29% and well below the maximum of 50%.

4.2 Forecast for fiscal year 2023

Our forecast for fiscal year 2023 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.

For 2023, we expect an impact from the deterioration in the overall economic environment due to the increased interest rates and high inflation, especially relating to energy prices. 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. Due to the change in market parameters, we anticipate a slight impairment in the value of our real estate portfolio and an increase in rent arrears and rent defaults. The vacancy rate is expected to remain constant at a low level.

A loss of EUR 300m is forecast for the Group for 2023 as a result of the expected impairment of the portfolio in light of the change in the market environment. We expect FFO to decrease slightly from EUR 214m in 2022 to between EUR 180m and EUR 200m in 2023, mainly due to the postponement of maintenance work from 2022 to 2023.

The forecast FFO of EUR 180m to EUR 200m at group level includes a planned EUR 13m increase in actual rent in 2023 to around EUR 382m compared to 2022. On the basis of the planned additions from new-builds, we expect to own a housing stock of around 76,650 apartments as of 31 December 2023. We forecast the net rent (excluding heating and utilities) for residential units to increase on average for the year from EUR 6.36/sqm to EUR 6.42/sqm, as a result of planned additions of new-builds and moderate increases in rents for current tenants, which have been significantly reined in by the decision of the Berlin Senate to stop rent increases. We expect letting-related vacancy rates to be at the level of 2022. With regard to new lets and reletting, we are planning to achieve a WBS reletting rate of at least 63% coupled with turnover of around 6%. We therefore expect both figures to be at the prior-year level. By the end of 2023, we expect to see a vacancy rate of 1.7%, which will partly be attributable to the first-time letting of completed new-build apartments. In 2023, we plan to start construction of more than 600 apartments and complete around 1,200 apartments from new-build projects.

HOWOGE anticipates a net LTV ratio of 31%, taking into account a slight impairment of the real estate portfolio, as well as adjusted EBITDA of between EUR 240m and EUR 260m for fiscal year 2023.

In the School Construction segment, for 2023 we expect FFO of -EUR 1.0m due to upfront costs and additional borrowings of under EUR 300m compared to the actual figure for 2022. Construction work on new projects is expected to begin in 2023.

The Company also plans to achieve a reduction in overall emissions from its real estate portfolio to 7 kg CO_2/sqm/year by 2045 at the latest. In addition, HOWOGE aims to limit output to no more than 7 kg CO_2/sqm/year for all of its new-builds.

To this end, it is currently developing its climate strategy including an implementation plan. The specific measures include the fitting of further photovoltaic systems and the installation of heat pumps.

Actual developments may also differ materially from expectations about the anticipated development if the assumptions underlying the statements prove to be incorrect.

Berlin, 21 March 2023

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

The Management Board

Ulrich Schiller

Declaration of conformity with the Berlin Corporate Governance Code

HOWOGE Wohnungsbaugesellschaft mbH (HOWOGE) is subject to the German Corporate Governance Code (DCGC) in the version issued from time to time 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 28 April 2022 with due consideration to the guidelines for holdings issued by the Berlin Senate Department for Finance on 15 December 2015.

Cooperation between 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. Persons not belonging to either the supervisory board or the management board (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 and the rules of procedure for the management board, the supervisory board has adopted its own rules of procedure.

The management board met its obligation to regularly report and provide the required documents. The documents for meetings and other decision-making appointments were submitted sufficiently in advance pursuant to Art. 13 (3) of the articles of association.

Plan and actual results were compared for ongoing transactions, 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.

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 did not engage in any disadvantageous 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.

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 supervisory board discussed and adopted the remuneration; it shall be reviewed regularly.

Supervisory board

The supervisory board fully performed its duties in accordance with 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 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.

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

Appendix to the consolidated management report for fiscal year 2022

The supervisory board held four regular meetings.

The supervisory board has the following committees:

- Audit committee (AC)
  (formerly the committee for economics, finance and investment controlling)
- Personnel committee (PC)
- Building committee (BC)

The committee for economics, finance and investment controlling held two meetings. The personnel committee held two regular and one extraordinary meeting. The building committee met four times.

The committee for economics, finance and investment controlling also performs the tasks of the audit committee. On 20 September 2022, the committee for economics, finance and investments controlling was renamed the audit committee. 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 audit committee.

The chairpersons of the committees reported to the supervisory board on the subject and outcome of committee discussions.

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

- Wiener Stadtwerke GmbH, Vienna
- ÖBB Holding AG, Vienna
- Rail Cargo Austria AG, Vienna
- Chair of the TU Wien Foundation

State Secretary Jana Borkamp (since 1 February 2022) is a member of the following supervisory boards and management boards:

- Berliner Bäder-Betriebe AöR
- Member of the administrative board of IT Dienstleistungszentrum Berlin (AöR)

Ms. Babett Buschmann (until 25 July 2022) did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

State Secretary Wenke Christoph (until 25 January 2022) did not submit a declaration on the

Berlin Corporate Governance Code for fiscal year 2022 and, consequently, no information is available on her activities.

State Secretary Christian Gaebler (since 26 January 2022) is a member of the following supervisory boards:

- degewo AG
- berlinovo Immobiliengesellschaft mbH
- Tegel Projekt GmbH
- Berlin Energie Netzholding GmbH
- Stromnetz Berlin GmbH
- Liegenschaftsfonds Berlin GmbH & Co. KG (Lifo)
- Sondervermögen für Daseinsvorsorge- und nicht betriebsnotwendige Bestandsgrundstücke des Landes Berlin (SODA)

Mr. Hendrik Jellema did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

Former State Secretary Vera Junker (until 31 January 2022) was a member of the following supervisory boards:

- BIM Berliner Immobilienmanagement GmbH (chair of the supervisory board)
- Liegenschaftsfonds Berlin GmbH & Co. KG (Lifo) (chair of the supervisory board)
- Sondervermögen für Daseinsvorsorge- und nicht betriebsnotwendige Bestandsgrundstücke des Landes Berlin (SODA)
- degewo AG
- Flughafengesellschaft Berlin-Brandenburg GmbH
- Berliner Institut für Gesundheitsforschung
- Member of the administrative board of IT Dienstleistungszentrum Berlin (AöR)
- Member of the administrative board of Bundesanstalt für Immobilienaufgaben (BImA)

Dr. Jochen Lang (since 14 March 2022) is a member of the following supervisory boards:

- VBB Verkehrsverbund Berlin-Brandenburg GmbH
- Stadt und Land Wohnbauten GmbH

Mr. Sebastian Lange (since 7 September 2022) did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

Mr. Jörn Lorenz did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

Former State Secretary Dr. Frank Nägele (until 28 February 2022) did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

Mr. Frank Sparmann did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

Mr. Michael Schiller (since 1 July 2022) did not perform any other supervisory board, managing director or management board functions in fiscal year 2022.

Due to her absence, Ms. Kerstin Wittke was unable to submit a declaration on the Berlin Corporate Governance Code for fiscal year 2022 and, consequently, no information is available on her activities. She also retired from her position on the supervisory board as of 30 June 2022.

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.

Conflicts of interest

The management board complied with the non-compete provisions. The general managers 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.

The general managers 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 held the following other functions in the fiscal year from 1 January to 31 October 2022:

- 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)
- Member of the GdW Federal Working Committee for Municipal Housing Companies
- Member of the board of trustees of Stiftung Stadtkultur

Mr. Ulrich Schiller held the following other functions in fiscal year 2022:

- GdW conference delegate
- Member of the advisory board of Smart living & Health Center e. V.
- Member of Marzahn-Hellersdorfer Wirtschaftskreis e. V.
- Member of the advisory board of Techem GmbH
- Member of Verband Berlin-Brandenburgischer Wohnungsunternehmen e. V. (BBU), Arbeitskreis Digitalisierung und Technische Fachkommission
- Member of Zentraler Immobilien Ausschuss Wohnen und Digitalisierung e. V.
- Member of the board of trustees of Stiftung Stadtkultur (since 1 November 2022)

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.

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.

Financial reporting

The annual financial statements for fiscal year 2022 and the interim reports have been prepared in accordance with the recognized accounting policies in accordance with the HGB ["Handelsgesetzbuch": German Commercial Code] 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). HOWOGE Wohnungsbaugesellschaft mbH prepares its separate financial statements in accordance with the HGB and its consolidated financial statements in accordance with IFRSs and also prepares HGB consolidated financial statements on a voluntary basis.

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.

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 fiscal year 2022.

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 supervisory board and of the audit committee and report on significant results of the audit.

Berlin, 12 January 2023

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

Hendrik Jellema Chairman of the Supervisory Board	Ulrich Schiller General Manager

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

II. Consolidated financial statements

31 December 2022

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

II. Consolidated financial statements

Contents

Consolidated balance sheet

as of 31 December 2022

Assets

in EUR k	Note	31 Dec 2022	31 Dec 2021
Non-current assets			
Intangible assets	8.5	1,291	948
Investment property	8.1	13,281,094	11,666,622
Prepayments on investment property		62,648	120,559
Property, plant and equipment	8.2	58,645	34,936
Investments in associates and joint ventures	8.10	15,925	13,550
Financial assets	8.6	91,790	86,722
Rental and lease receivables		13	7
Receivables from other trade		39	43
Total non-current assets		**13,511,444**	**11,923,388**
Current assets			
Inventories for property and other inventories	8.12	111,131	21,438
Rental and lease receivables	8.13	32,072	23,197
Receivables from other trade	8.13	486	1,871
Contract assets	7.1	42,560	1,947
Other financial assets	8.13	4,482	2,703
Other assets	8.11	55,252	41,316
Income tax receivables		2,069	1,372
Cash and cash equivalents	8.15	158,255	1,511,207
Assets held for sale		10,800	0
Total current assets		**417,105**	**1,605,051**
Total assets		**13,928,549**	**13,528,439**

Equity and liabilities

in EUR k	Note	31.12.2022	31.12.2021
Equity			
Equity			
Subscribed capital		25,000	25,000
(Other) capital reserves		317,901	317,901
Accumulated retained earnings		7,693,957	7,024,062
Consolidated net retained profit		79,804	666,218
Total equity	**8.16**	**8,116,662**	**8,033,181**
Non-current liabilities			
Other provisions	8.17	1,182	1,373
Financial liabilities	8.14	3,913,790	3,608,936
Trade payables		0	5,509
Tax liabilities		0	2,199
Other liabilities	8.18	39,195	22,644
Deferred tax liabilities	8.19	1,611,888	1,662,622
Total non-current liabilities		**5,566,055**	**5,303,282**
Current liabilities			
Other provisions	8.17	15,947	7,078
Rental and lease liabilities		13,570	9,888
Trade payables		112,102	77,582
Contract liabilities	7.1	43,946	11,592
Financial liabilities	8.14	4,713	75,311
Tax liabilities		3,478	559
Other liabilities	8.18	52,076	9,965
Total current liabilities		**245,832**	**191,975**
Total liabilities		**5,811,887**	**5,495,258**
Total equity and liabilities		**13,928,549**	**13,528,439**

Consolidated profit and loss statement and consolidated statement of comprehensive income

for the period from 1 January to 31 December 2022

in EUR k	Note	2022	2021
Rental and lease revenue (IFRS 16)		372,446	309,508
Revenue from operating costs (IFRS 16)		30,055	22,857
Revenue from real estate management	**7.1**	**402,501**	**332,365**
Revenue from operating costs (IFRS 15)		43,552	21,959
Revenue from heating costs (IFRS 15)		62,554	35,596
Revenue from management services and other trade		5,290	7,002
Other revenue		1,399	638
Other revenue from real estate management	**7.1**	**112,795**	**65,195**
Total revenue		**515,296**	**397,560**
Profit or loss from the sale of property		-	107
Profit or loss from the remeasurement of investment property	7.2	-198,603	671,274
Change in inventories for property and other inventories		89,692	1,961
Own work capitalized		3,837	2,882
Cost of materials	7.3	-239,862	-102,003
Personnel expenses	7.5	-54,636	-50,004
Amortization, depreciation and impairment	7.4	-3,295	-1,119
Impairment of financial assets	8.9	-3,869	-721
Other operating income	7.6	12,902	3,722
Other operating expenses	7.7	-30,910	-39,276
Profit or loss from investments accounted for using the equity method	8.10	2,375	2,033
Finance income	7.8	5,513	4,933
Finance costs	7.8	-41,459	-33,738
Profit or loss before taxes		**56,981**	**857,611**
Income taxes	7.9	41,627	-175,844
Other taxes	7.10	-16,394	-13,393
Profit or loss for the period		**82,214**	**668,375**
Other comprehensive income		-	-
Total comprehensive income		**82,214**	**668,375**

In the reporting periods ended 31 December 2022 and 31 December 2021, 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.

Consolidated statement of changes in equity

for the period from 1 January to 31 December 2022

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 2022	25,000	317,901	7,001,563	22,500	7,024,062	666,218	8,033,181
Allocation to retained earnings from consolidated profits earned	-	-	666,218	-	666,218	-668,857	-2,639
Appropriation of retained earnings	-	-		-	-	229	229
Other changes	-	-	3,678	-	3,678	-	3,678
Total comprehensive income	-	-	-	-	-	82,214	82,214
31 Dec 2022	**25,000**	**317,901**	**7,671,458**	**22,500**	**7,693,957**	**79,804**	**8,116,662**

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**

Consolidated statement of cash flows

for the period from 1 January to 31 December 2022

in EUR k	2022	2021
Profit or loss before taxes	**56,981**	**857,611**
Non-cash expenses and income	**214,298**	**-673,417**
Losses/(gains) on the remeasurement of investment property and assets held for sale	198,603	-671,274
Amortization, depreciation and impairment/(reversals of impairment) of intangible assets and property, plant and equipment	3,295	1,119
(Decrease)/increase in provisions	8,679	2,565
Other non-cash expenses/(income)	6,096	-3,793
(Gain)/loss on joint ventures accounted for using the equity method, and other investments	-2,375	-2,033
Working capital adjustments	**-59,260**	**2,908**
Decrease/(increase) in rental and lease receivables, receivables from other trade and contract assets	-65,112	43,404
Decrease/(increase) in inventories	-100,492	-1,961
(Decrease)/increase in trade payables and other liabilities, and contract liabilities	106,345	-38,536
Reclassifications to other areas of activity	**36,096**	**28,625**
(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	150	-73
Net finance costs/(income)	35,946	28,805
Other taxes paid	-16,394	-13,393
Income taxes paid	-10,542	-28,733
Cash flows from operating activities	**221,178**	**173,602**

Cash paid for investments in investment property	-1,141,873	-487,025
Cash paid for investments in other non-current assets	-553,073	-7,247
- thereof in property, plant and equipment	2,272	4,023
- thereof in intangible assets	-	-838
- thereof in financial assets	-555,345	-2,386
Cash received from disposals of other assets	-150	73
- thereof in property, plant and equipment	-150	73
Interest received	410	-
Cash flows from investing activities	**-1,694,685**	**-494,199**
Cash received from borrowings	307,619	2,024,127
Cash repayments of borrowings	-165,492	-216,892
Proceeds from shareholder loans	20,225	15,000
Cash repayments of lease liabilities	-316	-604
Interest paid	-41,473	-33,305
Cash flows from financing activities	**120,564**	**1,788,326**
Net change in cash and cash equivalents	**-1,352,943**	**1,467,729**
Cash and cash equivalents as of 1 January	**1,510,601**	**42,872**
Cash and cash equivalents as of 31 December	**157,657**	**1,510,601**

Notes to the consolidated financial statements

Contents

1. 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 75,400 residential units of its own relevant for valuation as of the reporting date 31 December 2022 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 21 March 2023.

1.2. Basis of preparation of the consolidated financial statements

The consolidated financial statements as of 31 December 2022 were prepared in accordance with all effective International Financial Reporting Standards (IFRSs) adopted by the European Union (EU) and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC).

The income statement for the period from 1 January to 31 December 2022 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.

2. 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 2022. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IFRS 3: Reference to the Conceptual Framework (Business Combinations)

The references to the Conceptual Framework contained in IFRS 3 were updated in the Amendments to IFRS 3: Reference to the Conceptual Framework published on 14 May 2020. To prevent acquired assets and assumed liabilities from being derecognized through profit or loss immediately post-acquisition (day 2 gain or loss) as a result of the change in the definition of assets and liabilities, the IASB amended IFRS 3 to require application of IAS 37.15 to 22 for provisions or contingent liabilities within the scope of IAS 37 when assessing whether, at the acquisition date, a present obligation exists as a result of past events. For in-scope levies, IFRIC 21 must be applied when assessing whether the obligating event giving rise to a liability to pay the levy occurred by the acquisition date.

The amendments to IFRS 3 apply prospectively to business combinations occurring in fiscal years beginning on or after 1 January 2022, but had no impact on the consolidated financial statements in the fiscal year.

Amendments to IAS 16: Proceeds before Intended Use

The Amendments to IAS 16: Proceeds before Intended Use published by the IASB on 14 May 2020 change the accounting for proceeds from selling items produced before that asset is available for use.

Costs of testing whether the asset is functioning properly are still treated as directly attributable costs to be included in cost, whereas proceeds from selling any items produced and the costs of their production incurred while bringing the respective asset to the location and condition necessary for it to be capable of operating in the manner intended by management will need to be recognized in profit or loss. Deducting the net proceeds from the cost of an item of property, plant and equipment is no longer permitted.

The amendments also specify what is meant by "costs of testing," defining them as the costs of assessing whether the technical and physical performance of the asset is such that the asset is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

The amendments to IAS 16 are effective for fiscal years beginning on or after 1 January 2022, with retrospective application to assets brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements.

The amendments to IAS 16 had no impact on the consolidated financial statements in the fiscal year.

Amendments to IAS 37: Onerous Contracts

On 14 May 2020, the IASB issued Amendments to IAS 37: Onerous Contracts to clarify the costs to be included in the cost of fulfilling a contract. According to IAS 37, a contract is onerous if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, with the unavoidable costs being defined as the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill it.

The amendments clarify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, consisting of both the incremental costs of fulfilling that contract, such as direct labor and materials, and all other costs that relate directly to the contract, such as an allocation of the depreciation charge for an item of property, plant and equipment.

The amendments to IAS 37 are effective for fiscal years beginning on or after 1 January 2022. The transitional provisions require the amendments to be applied to all contracts which have not been fulfilled in their entirety as of the date of initial application. Comparative information should not be restated. Instead, the effect of initially applying the amendments must be recognized in retained earnings on the date of initial application.

The amendments to IAS 37 had no impact on the consolidated financial statements in the fiscal year.

Annual Improvements to IFRSs (annual improvements project)

The following standards were modified by the IASB as part of its amendments under the Annual Improvements to IFRSs – 2018-2020 Cycle: IAS 16 *Property, Plant and Equipment*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 41 *Agriculture*, IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations* and IFRS 9 *Financial Instruments.* These amendments were narrow in scope and did not have a significant impact on the consolidated financial statements in the fiscal year.

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 is 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 IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

In December, the IASB issued Amendments to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information. With these amendments, the IASB introduced a new transition option (the "classification overlay") for financial assets presented in the comparative period on initial application of IFRS 17 and IFRS 9. This transition option is a response to the concerns of some stakeholders that accounting mismatches between financial assets and insurance contract liabilities could arise on initial application of the two standards.

The differing transition requirements of IFRS 9 and IFRS 17 could lead to such accounting mismatches. IFRS 17 requires restatement of comparative information, whereas under IFRS 9 restatement of comparative information is permitted only if this is possible without the use of hindsight. However, restatement is prohibited for financial assets that are derecognized before the initial application date of IFRS 9.

Policyholders that apply the classification overlay to financial assets must present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to these financial assets. For this purpose, they must use reasonable and supportable information available at the transition date to determine how they expect to classify and measure their financial assets on initial application of IFRS 17 and IFRS 9. Entities are not required to apply the impairment requirements of IFRS 9 to the comparative period when applying the transition option. If they elect not to do so, they must apply the impairment requirements of IAS 39 instead.

The classification overlay may be applied by entities that adopt IFRS 17 and IFRS 9 at the same time and choose to restate comparative information applying IFRS 9. In these cases, entities can apply the transition option to financial assets that were derecognized in the comparative period. If the comparative information is not restated applying IFRS 9 the overlay approach can be applied to any financial asset in the comparative period. Entities that applied IFRS 9 before they apply IFRS 17 for the first time can apply the classification overlay to financial assets that would have been redesignated in accordance with IFRS 17.C29 if they had not been derecognized in the comparative period.

The amendments require entities that elect to make use of this transition option to disclose that fact in the notes to their financial statements. They should also disclose qualitative information that enables users of financial statements to understand the impact that the classification overlay has on the presentation of the comparative period.

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.

Under certain circumstances, entities are exempt from recognizing deferred taxes on initial recognition of assets or liabilities (initial recognition exemption). The amendments provide that 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 amendment is effective for fiscal years beginning on or after 1 January 2023. It must be applied to transactions occurring on or after the beginning of the earliest comparative period. The cumulative effect of initially applying the amendment must be recognized in retained earnings as of the date of initial application.

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 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.

3. Business acquisition

In fiscal year 2021, HOWOGE notarized the acquisition of all of the shares in 10 companies previously belonging to Vonovia SE, Bochum, and of one company previously held by Deutsche Wohnen SE, Berlin. The total purchase price as of 3 January 2022 amounted to EUR 533m. The companies hold a large housing portfolio which was transferred to the stock of HOWOGE following the acquisition of the companies as of 3 January 2022.

The transaction also included asset deals for the acquisition of a total of five hereditary building rights already used to erect buildings and 30 developed properties for a consideration of EUR 726m.

The expected synergies from the business acquisition primarily consist of cost advantages and the expansion of the business portfolio. The incidental acquisition costs of the transaction amount to EUR 38.8m and are mainly composed of the real estate transfer tax to be capitalized. The principles of

IFRS 3 do not apply to this business acquisition since the companies do not meet the definition of a business pursuant to IFRS 3. See note *8.1 Investment property* for further information.

4. Consolidation principles

4.1. Subsidiaries

The consolidated financial statements as of 31 December 2022 include the separate financial statements of HOWOGE and its material subsidiaries (see the table below). The basis of consolidation as of 31 December 2022 comprised 17 companies including 12 material additions in fiscal year 2022.

Company	Registered office	Shareholding 2022	Shareholding 2021
Wohnungsbaugesellschaft Lichtenberg mbH	Berlin, Germany	100%	100%
HOWOGE Servicegesellschaft mbH	Berlin, Germany	100%	100%
HOWOGE Wärme GmbH	Berlin, Germany	100%	100%
Kramer + Kramer Bau- und Projektmanagement GmbH	Berlin, Germany	100%	100%
Elisabeth-Aue GmbH	Berlin, Germany	50%	50%
HOWOGE Klingsorstrasse GmbH	Berlin, Germany	100%	-
HOWOGE Herbststrasse GmbH	Berlin, Germany	100%	-
HOWOGE Roedernallee GmbH	Berlin, Germany	100%	-
HOWOGE Soldinerstrasse GmbH	Berlin, Germany	100%	-
HOWOGE Schöneberger Strasse GmbH	Berlin, Germany	100%	-
HOWOGE Goldschmidtweg GmbH	Berlin, Germany	100%	-
HOWOGE Damerowstrasse GmbH	Berlin, Germany	100%	-
HOWOGE Baumschulenstrasse GmbH	Berlin, Germany	100%	-
HOWOGE Mühsamstrasse GmbH	Berlin, Germany	100%	-
HOWOGE High Deck Siedlung B.V.	Amsterdam, Netherlands	100%	-
HOWOGE Landsberger Allee GmbH	Berlin, Germany	100%	-
HOWOGE Goeckestrasse GmbH	Berlin, Germany	100%	-*

* Included for the first time in fiscal year 2022

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 (since 2022: HOWOGE Goeckestrasse GmbH, Berlin). The purpose of the entity is to construct a residential rental building on the land at Goeckestrasse 32-24 in Berlin-Lichtenberg. 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. In fiscal year 2022, Goecke S.A.R.L. was included in the consolidated financial statements for the first time. See also the explanations given in note *3. Business acquisition* of these notes to the financial statements.

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

4.2. 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.

5. Accounting policies

a) 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 2022 and the comparative period 31 December 2021, 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 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:

1. Geographic location (same micro-location and geographic proximity)
2. Similar use types, building category, year of construction category, property condition and number of levels
3. 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 committed itself to various measures to ensure that affordable housing is provided to the population in the cooperation agreement "Affordable rents, new residential construction and supply of social housing" concluded with the State of Berlin. One such measure is that a minimum of 63% of all existing apartments are reserved for people holding housing entitlement certificates.

Owing to the cooperation agreement and the social focus of its portfolio management, HOWOGE has limited potential for rent increases compared to its private competitors. In addition, the Berlin Senate adopted a rent freeze in the fourth quarter of 2022, prohibiting rent increases for apartments owned by HOWOGE and the other state-owned companies for the period to 31 December 2023.

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 1.05% (2.42%) 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 *8.1 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 *8.14 Financial liabilities* for information on investment property encumbered with real property liens in favor of various creditors.

As part of the acquisition of 11 new companies in a share deal, the fair value of the assets of the new companies was measured as of the date on which the benefits and burdens were transferred, 3 January 2022. The fair values of investment property are all assigned to Level 3 of the fair value hierarchy (IFRS 13). The fair values are determined by the service provider CBRE GmbH, Frankfurt am Main. See note *7.2 Profit or loss from the remeasurement of investment property* for information on the effects from measurement in subsequent periods. The difference between the paid purchase price and the assets measured at fair value was allocated to the investment property since the latter has been identified as a value driver.

b) Inventories for property and other inventories

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

A key component of inventories are school buildings, which are carried at cost until they are completed. The main focus is on building new schools and carrying out extensive refurbishment of existing schools.

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.

c) 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

d) 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.

e) 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.

f) 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.

g) 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

Issued bonds are 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.

h) 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.

i) 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.

j) 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.

k) 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 *8.1 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 *8.7 Fair value of financial instruments* for information on the calculation of the fair value of financial instruments.

l) 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 within 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.

m) 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.

n) 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 *7.1 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.

o) 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.

6. Significant accounting judgments, estimates and assumptions

6.1. 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.

6.2. 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 *8.1 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.

7. Notes to the income statement

7.1. Revenue from real estate management and other revenue from real estate management

Rental and lease revenue

in EUR k	2022	2021
Rental and lease revenue (IFRS 16)	372,446	309,508
Revenue from operating costs (IFRS 16)	30,055	22,857
Revenue from real estate management	**402,501**	**332,365**
Revenue from operating costs (IFRS 15)	43,552	21,959
Revenue from heating costs (IFRS 15)	62,554	35,596
Revenue from management services and other trade	5,290	7,002
Other revenue	1,399	638
Other revenue from real estate management	**112,795**	**65,195**
Total revenue	**515,296**	**397,560**

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 372,446k (2021: EUR 309,508k). Revenue from real estate management also includes revenue from allocable operating costs (property tax, building and liability insurance) of EUR 30,055k (2021: EUR 22,857k).

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

Maturity analysis of future lease payments (undiscounted)

in EUR k	31 Dec 2022	31 Dec 2021
Due within 1 year	381,383	322,686
Between 1 and 2 years	390,909	335,247
Between 2 and 3 years	405,809	345,702
Between 3 and 4 years	423,879	366,727
Between 4 and 5 years	449,444	394,302
More than 5 years	2,471,636	2,254,008

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 *5. 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)		
in EUR k	**31 Dec 2022**	**31 Dec 2021**
Current contract assets from operating costs	30,488	1,437
Current contract assets from heating costs	13,429	577
Impairment loss (IFRS 9)	-1,358	-66
Total contract assets	**42,560**	**1,947**
Current contract liabilities from operating costs	15,562	1,034
Current contract liabilities from heating costs	28,384	10,559
Total contract liabilities	**43,946**	**11,592**

Revenue from operating costs relates to contract liabilities of EUR 15,562k (netted) as of 31 December 2022 (31 December 2021: EUR 1,034k). As of the reporting date, they contrasted with contract assets of EUR 30,488k (31 December 2021: EUR 1,437k).

Revenue from heating costs relates to contract liabilities of EUR 28,384k (netted) as of the reporting date (31 December 2021: EUR 10,559k). As of the reporting date, they contrasted with assets of EUR 13,429k (31 December 2021: EUR 577k).

The increase in contract liabilities and assets as of the reporting date 31 December 2022 is essentially due to a sharp rise in macroeconomic costs during 2022, driven primarily by a hike in fuel prices. This led to an increase in unbilled operating and heating costs and a rise in prepayments for these items.

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 891k (2021: EUR 638k) was recognized. Other revenue also includes other revenue from facility management of EUR 508k.

See note *8.20 Government grants* for further details.

7.2. Profit or loss from the remeasurement of investment property

Profit or loss from the remeasurement of investment property amounts to -EUR 198,603k (2021: EUR 671,274k). Of this amount, EUR 12,879k relates to the hereditary building rights and developed land acquired in an asset deal as of 3 January 2022 and -EUR 26,269k to the properties transferred in connection with the acquisition of 11 new companies as of 3 January 2022.

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 198,603k (2021: EUR 671,274k) were recognized in the consolidated statement of comprehensive income.

Rental income and income from residential services related to investment property came to EUR 372,446k in the fiscal year (2021: EUR 309,508k). Operating expenses directly connected with this property came to EUR 50,598k in the fiscal year (2021: EUR 39,813k). 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. Given developments in the economy as a whole in 2022, this led to impairments on the properties which also affect the 11 newly included companies.

The 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. The projects are measured using the residual value method as of the valuation date. The method involves recalculating the sales proceeds after completion using the direct capitalization method as of each valuation date and deducting the costs.

In addition, the overall negative development of the fair value adjustment was generally influenced by the interest rate trend, especially in the second half of 2022.

7.3. Cost of materials

Including the change in inventories for property and other inventories, the cost of materials is as follows:

Cost of materials **in EUR k**	**2022**	**2021**
Facility management expenses	173,884	99,932
thereof operating costs	123,289	57,395
thereof maintenance and modernization	44,016	32,886
thereof other cost of purchased services	6,579	9,650
Expenses for land held for sale	2	0
Expenses for other trade	2,956	110
Total cost of materials	**176,842**	**100,042**
Change in inventories for property and other inventories	89,692	1,961
Adjustments construction costs for school construction	-26,672	-
Cost of materials according to the income statement	**239,862**	**102,003**

The increase in facility management expenses in 2022 is connected to the acquisition of the 11 new companies and the increase in energy costs as a result of the Russia-Ukraine conflict.

7.4. Amortization, depreciation and impairment

Amortization, depreciation and impairment of non-financial assets

in EUR k	2022	2021
Impairment of property, plant and equipment	2,949	688
Amortization and impairment of intangible assets	346	431
	3,295	**1,119**

The increase in amortization, depreciation and impairment compared to the prior year is attributable to the higher impairment of furniture, fixtures and office equipment stemming from the business acquisition.

Depreciation of right-of-use assets presented under property, plant and equipment is shown separately in note *8.2 Property, plant and equipment* and note *8.3 Leases as the lessee*; it amounted to EUR 40k in the fiscal year (2021: EUR 31k).

7.5. Personnel expenses

Employee benefits expenses

in EUR k	2022	2021
Wages and salaries	44,897	41,242
Social security costs	9,183	8,238
Pension costs	556	524
	54,636	**50,004**

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 2022	31 Dec 2021
Management board (HOWOGE Wohnungsbaugesellschaft mbH)	1	2
Salaried employees (including management of subsidiaries)	664	621
Wage earners	292	275
Trainees	32	29
Students	4	6
	993	**933**

By company, the development breaks down as follows:

	31 Dec 2022	31 Dec 2021
HOWOGE	663	629
Servicegesellschaft	261	235
Kramer + Kramer	25	29
Wärme GmbH	44	40
	993	**933**

There was an increase in this item in connection with the acquisition of 11 new companies and the associated acquisition of new properties, which require more personnel to manage.

7.6. Other operating income

in EUR k	2022	2021
Reversal of provisions	3,705	2,783
Out-of-period income	1,155	346
Income from cost allocations	464	124
Miscellaneous other income	7,578	469
	12,902	**3,722**

The higher other operating income compared to 2021 includes around EUR 4,986k from the government's emergency aid for gas and heating.

7.7. Other operating expenses

in EUR k	2022	2021
IT costs	9,686	9,293
Audit and consulting fees	8,481	15,801
Non-staff expenses	3,325	3,894
Insurance premiums	2,649	2,620
Advertising and sponsorship costs	2,400	2,120
Training costs	2,059	1,697
Development studies	1,317	1,090
Contributions to associations	379	376
Donations	321	317
Out-of-period expenses	294	101
Miscellaneous other operating expenses	0	1,969
	30,910	**39,276**

The significant decrease in audit and consulting fees year on year is due to the fact that there was no longer a need for the extraordinary auditing and consulting services contracted in connection with the capital action in 2021. The increase in ordinary audit and consulting fees is attributable to the purchase of the 11 new companies with effect as of 1 January 2022.

The auditor's total fees pursuant to Sec. 314 (1) No. 9a HGB ["Handelsgesetzbuch": German Commercial Code] for 2022 include EUR 867k for audit services and EUR 180k for audit-related services.

The fees for audit services comprise the fees for the audits of the consolidated financial statements and the semi-annual financial statements, for the subsidiaries included in the consolidated financial statements and for audit services relating to the companies acquired in the reporting year. The fees for audit-related services were charged for the audit of the non-financial report for the reporting year and the prior year and for the assurance engagement relating to disclosures on the implementation of the "guaranteed basic income" pilot project.

7.8. Finance income and costs

in EUR k	2022	2021
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	5,057	4,881
Other finance income	414	11
Finance income	**5,513**	**4,933**
Finance costs from loan liabilities	-38,918	-31,055
Finance costs from lease liabilities	-541	-470
Finance costs from provisions	-62	-58
Amortization of government grants received	-1,426	690
Other finance costs	-512	-2,845
Finance costs	**-41,459**	**-33,738**
Net finance costs	**-35,946**	**-28,805**

Finance costs largely stem from the interest on property financing loans. See note *8.14 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:

in EUR k	Net gains and losses from interest		Net gains and losses from		Net gains and losses from	
	2022	2021	2022	2021	2022	2021
Financial assets (at fair value)	-	-	5,057	4,881	-	-
Financial assets (at amortized cost)	-784	-535	-	-	-1,341	-44
Financial liabilities (at amortized cost)	-41,811	-33,275	-	-	43	43
	-42,595	**-33,810**	**5,057**	**4,881**	**-1,298**	**-1**

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.

7.9. Income taxes

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

in EUR k	2022	2021
Current income taxes	10,652	24,056
Out-of-period current income taxes	-1,650	4,677
Deferred taxes	-50,629	147,111
	-41,627	**175,844**

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

in EUR k	2022	2021
IFRS profit or loss before taxes	56,981	857,611
Group tax rate in %	30.18%	30.18%
Anticipated tax expense	**17,194**	**258,784**
Trade tax effects	-27,036	-79,265
Non-deductible business expenses and off-balance sheet add-backs	-1,121	197
Tax-free income and off-balance sheet deductions	-27,694	-1,618
Deductibility of other taxes	-4,948	4,344
Effects from tax loss carryforwards	1,297	-6,604
Other tax effects	682	5
Income taxes according to the statement of comprehensive income	**-41,627**	**175,844**
Effective tax rate in %	**-73.1%**	**20.5%**

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

The increase in tax-free income and off-balance sheet deductions compared to the prior year is attributable to consolidation entries consisting chiefly of the impairment of goodwill, amortization and depreciation of fair value step-ups and capitalization of real estate transfer tax. Due to its negative effect on profit or loss, the real estate transfer tax led to an increase in loss carryforwards at single-entity level.

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%).

The reversal of deferred tax liabilities amounting to EUR 50,629k through profit or loss led to a negative effective tax rate for fiscal year 2022. This reversal was triggered by a decrease in temporary differences relating to investment property.

7.10. Other taxes

Other taxes of EUR 16,394k (2021: EUR 13,393k) mainly contain property tax.

8. Notes to the consolidated statement of financial position

8.1. Investment property

The fair values of investment property developed as follows in fiscal years 2022 and 2021:

in EUR k	Residential properties	Undeveloped land	Project development	Hereditary building rights granted to third parties	Total
1 Jan 2022	**11,210,595**	**239,398**	**214,800**	**1,829**	**11,666,622**
Purchases	1,639,162	12,120	11,015	-	1,662,296
Other additions	70,960	5,246	85,372	-	161,578
Reclassification to assets held for sale	-10,800	-	-	-	-10,800
Reclassification between categories	175,656	-42,146	-133,510	-	-
Fair value adjustment	-174,681	16,639	-40,617	56	-198,603
31 Dec 2022	**12,910,893**	**231,256**	**137,060**	**1,885**	**13,281,094**

in 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 between categories	368,921	-50,888	-318,033	-	-
Reclassification to property, plant and equipment	-511	-	-	-	-511
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). The property was remeasured by the appraiser CBRE GmbH, Frankfurt am Main, as of 31 December 2022. Assets held for sale of EUR 10,800k were reclassified in accordance with IFRS 5 as of 31 December 2022, consisting of HOWOGE's former group head office which is no longer used due to relocation. As the Group is now focusing its business on residential buildings, it decided to sell this purely commercial building. The related assets were measured at a fair value assigned to Level 2 of the fair value hierarchy.

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). Hereditary building rights for a further five plots of land were acquired in an asset deal in the fiscal year.

The net valuation effect from adjustments to fair value related to portfolio property (net) in 2022 and 2021 and is included in the profit or loss from the remeasurement of investment property.

Additions in the reporting period comprise both purchases and investments in portfolio properties. In fiscal year 2021, the acquisition of a large housing portfolio from Deutsche Wohnen and Vonovia was notarized and since the transfer of the benefits and burdens at the beginning of January 2022, the portfolio of 8,267 apartments and 233 commercial units has belonged to HOWOGE. The acquisition was part of a share and asset deal and was included in the interim financial statements at a purchase price of EUR 726m. The difference between the purchase price and the fair value of the assets was allocated to investment property directly under equity since this property was identified as a key value driver. The amount to be allocated as part of a step-down comes to EUR 9.1m.

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:

in EUR k	31 Dec 2022	31 Dec 2021
Fair value according to external valuation	13,246,432	11,642,796
Adjustments for lease liabilities	34,662	23,826
Fair value in the statement of financial position	**13,281,094**	**11,666,622**

Depending on the project status, project developments are measured at the residual value or using the DCF method. For undeveloped land, measurement is based on the land values.

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

The sensitivity and valuation inputs analysis includes both investment property and assets held for sale as these are measured at fair value.

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 2022 and as of 31 December 2021:

Valuation inputs as of 31 December 2022

		Fair value (in EUR k)	Adjustment (owner occupation, leasing and assets held for sale)	Measurement in accordance with IAS 40	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		12,941,984	-31,091	12,910,893	DCF	-	-	-	0.00%/0.51%/100.00%
	Residential	-			-	6.25/7.64/20.00	2.40/10.54/15.00	215.00/226.90/450.00	-
	Commercial (office/retail/ other commercial use)	-			-	0.25/9.25/30.00	2.00/10.08/15.00	3.00%	-
	Garages	-			-	10.00/55.67/142.50	14.70/66.04/73.50	39.00	-
	Outdoor parking spaces	-			-	10.00/30.55/80.00	6.30/31.15/31.50	39.00	-
Undeveloped land/ hereditary building rights granted to third parties		233,141		233,141	Capitalization of earnings method/ sales comparison approach	-	-	-	-
Project developments		137,060		137,060	Residual value	-	-	3.00%/4.38%/5.00%	-
	Residential	-			-	6.50/9.01/13.50	9.00	-	-
	Commercial (office/retail/ other commercial use)	-			-	15.00/15.78/17.50	8	-	-
	Garages	-			-	40.00/76.79/120.00	30.00/40.00/50.00	-	-
	Outdoor parking spaces	-			-	50.00/54.19/100.00	30.00	-	-
Total portfolio (IAS 40)		**13,312,185**	**-31,091**	**13,281,094**		-	-	-	-

	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	2.85%/4.41%/7.18%	1.05%/2.42%/5.38%	1.20%/2.98%/3.30%	1.00%/1.99%/2.20%
Undeveloped land/ hereditary building rights granted to third parties	-	-	-	-
Project developments	-	1.05%/1.67%/3.35%	-	-
	-	-	-	-

Valuation inputs as of 31 December 2021

		Fair value (in EUR k)	Adjustment (owner occupation and leasing)	Measurement in accordance with IAS 40	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		11,246,277	-35,682	11,210,595	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	-	241,227	Capitalization of earnings method/ sales comparison approach	-	-	-	-
Project developments		214,800	-	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)		**11,702,304**		**11,666,622**		-	-	-	-

	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	-	-	-	-
Project developments	-	1.20%/1.44%/3.10%	-	-
	-	-	-	-

The following sensitivities arose as of 31 December 2022 and as of 31 December 2021:

Sensitivity analysis as of 31 December 2022

	Fair value (in EUR k)	Adjustment (owner occupation, leasing, assets held for sale)	Measurement in accordance with IAS 40	Valuation method	Capitalization rate sensitivity					
					+0.25%			-0.25%		
					Fair value (in EUR k)	Absolute variance	Percentage variance	Fair value (in EUR k)	Absolute variance	Percentage variance
Residential properties	12,941,984	-31,091	12,910,893	DCF	11,957,712	-984,272	-7.6%	14,160,715	1,218,732	9.4%
Undeveloped land/ hereditary building rights granted to third parties	233,141		233,141	Capitalization of earnings method/ sales comparison approach	233,141	-	-	233,141	-	-
Project developments	137,060		137,060	Residual value	137,060	-	-	137,060	-	-
Total portfolio (IAS 40)	**13,312,185**	**-31,091**	**13,281,094**		**12,327,913**	**(984,272)**	**-7.6%**	**14,530,916**	**1,218,732**	**9.4%**

	Fair value (in EUR k)			Valuation method	Discount rate sensitivity					
					+0.25%			-0.25%		
					Fair value (in EUR k)	Absolute variance	Percentage variance	Fair value (in EUR k)	Absolute variance	Percentage variance
Residential properties	12,941,984	-31,091	12,910,893	DCF	12,668,788	-273,195	-2.11%	13,223,069	281,085	2.17%
Undeveloped land/ hereditary building rights granted to third parties	233,141		233,141	Capitalization of earnings method/ sales comparison approach	233,141	-	-	233,141	-	-
Project developments	137,060		137,060	Residual value	137,060	-	-	137,060	-	-
Total portfolio (IAS 40)	**13,312,185**	**-20,291**	**13,291,894**		**13,038,989**	**(273,195)**	**-2.11%**	**13,593,270**	**281,085**	**2.17%**

	Fair value (in EUR k)			Valuation method	Market rent sensitivity					
					+2.00%			-2.00%		
					Fair value (in EUR k)	Absolute variance	Percentage variance	Fair value (in EUR k)	Absolute variance	Percentage variance
Residential properties	12,941,984	-31,091	12,910,893	DCF	12,794,718	-147,265	-1.14%	12,794,718	-147,265	-1.14%
Undeveloped land/ hereditary building rights granted to third parties	233,141		233,141	Capitalization of earnings method/ sales comparison approach	233,141	-	-	233,141	-	-
Project developments	137,060		137,060	Residual value	137,060	-	-	137,060	-	-
Total portfolio (IAS 40)	**13,312,185**	**-20,291**	**13,291,894**		**13,164,919**	**(147,265)**	**-1.14%**	**13,164,919**	**-147,265**	**-1.14%**

Sensitivity analysis as of 31 December 2021

	Fair value (in EUR k)	Adjustment (owner occupation and leasing)	Measurement in accordance with IAS 40	Valuation method	Capitalization rate sensitivity			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	11,246,277	-35,682	11,210,595	DCF	10,363,854	-882,423	-7.9%	12,342,809	1,096,532	9.8%
Undeveloped land/ hereditary building rights granted to third parties	241,199	28	241,227	Capitalization of earnings method/ sales comparison approach	241,227	-	-	241,227	-	-
Project developments	214,800	-	214,800	Residual value	214,800	-	-	214,800	-	-
Total portfolio (IAS 40)	**11,702,276**	**-35,654**	**11,666,622**		**10,819,881**	**-882,423**	**-7.9%**	**12,798,836**	**1,096,532**	**9.8%**

	Fair value (in EUR k)	Adjustment (owner occupation and leasing)	Measurement in accordance with IAS 40	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	11,246,277	-35,682	11,210,595	DCF	11,006,601	-239,676	-2.1%	11,492,700	246,423	2.2%
Undeveloped land/ hereditary building rights granted to third parties	241,199	28	241,227	Capitalization of earnings method/ sales comparison approach	241,227	-	-	241,227	-	-
Project developments	214,800	-	214,800	Residual value	214,800	-	-	214,800	-	-
Total portfolio (IAS 40)	**11,702,276**	**-35,654**	**11,666,622**		**11,462,628**	**-239,676**	**-2.1%**	**11,948,727**	**246,423**	**2.2%**

	Fair value (in EUR k)	Adjustment (owner occupation and leasing)	Measurement in accordance with IAS 40	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	11,246,277	-35,682	11,210,595	DCF	11,365,921	119,644	1.1%	11,120,741	-125,536	-1.1%
Undeveloped land/ hereditary building rights granted to third parties	241,199	28	241,227	Capitalization of earnings method/ sales comparison approach	241,227	-	-	241,227	-	-
Project developments	214,800	-	214,800	Residual value	214,800	-	-	214,800	-	-
Total portfolio (IAS 40)	**11,702,276**	**-35,654**	**11,666,622**		**11,821,948**	**119,644**	**1.1%**	**11,576,768**	**-125,536**	**-1.1%**

8.2. Property, plant and equipment

in 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 construction	Construction preparation costs	Furniture, fixtures and office equipment	Right-of-use assets	Total
Cost								
1 Jan 2021	**6,586**	**8,846**	**3,365**	**17,978**	**1,986**	**10,973**	**38**	**49,771**
Additions	509	-	-	-	-	4,023	64	4,596
Disposals	-	-	-	-	-	-228		-228
Reclassification						1,567	-	1,567
31 Dec 2021	**7,095**	**8,846**	**3,365**	**17,978**	**1,986**	**16,335**	**102**	**55,707**
Additions		13,793	-	2,856	13,543	1,284	70	31,546
Disposals	-1,606	-	-3,275		-	-782		-5,663
Reclassification		16,077		-16,077		-	-	-
31 Dec 2022	**5,488**	**38,716**	**90**	**4,757**	**15,529**	**16,837**	**172**	**81,590**
Depreciation and impairment							-	
1 Jan 2021	**711**	**7,509**	**-**	**-**	**-**	**8,620**	**22**	**16,861**
Depreciation for the fiscal year	237	420		494		2,922	31	4,104
Disposals						-195	-	-195
31 Dec 2021	**948**	**7,930**	**-**	**494**	**-**	**11,347**	**53**	**20,770**
Depreciation for the fiscal year	214	680	-			2,016	40	2,949
Disposals						-776	-	-776
Reclassification		494		-494		-		-
31 Dec 2022	**1,162**	**9,103**	**-**	**-**	**-**	**12,586**	**93**	**22,943**
Net carrying amount								
31 Dec 2022	**4,326**	**29,613**	**90**	**4,757**	**15,529**	**4,251**	**79**	**58,645**
31 Dec 2021	**6,148**	**917**	**3,365**	**17,484**	**1,986**	**4,988**	**49**	**34,936**

The addition of EUR 13,793k to land and land rights with commercial and other buildings is largely attributable to the construction of the new head office and the resulting change in the share of land occupied by the owner.

8.3. 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 for leases of low-value assets 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

in EUR k	2022	2021
Depreciation of right-of-use assets	40	31
Interest expenses on lease liabilities	541	470
Expense relating to leases of low-value assets	72	58
Total amount recognized in profit or loss	**652**	**559**

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 1,015k (2021: EUR 662k) for leases. No variable lease payments were made.

The development of right-of-use assets is presented under note *8.2 Property, plant and equipment*.

Maturity of lease liabilities (undiscounted)

in EUR k	31 Dec 2022	31 Dec 2021
Within 12 months	946	603
1 to 3 years	1,848	1,194
3 to 5 years	1,823	1,163
More than 5 years	56,591	46,385
	61,209	**49,345**

The following table shows the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings; note *8.14 Financial liabilities*) and the movements during the period:

Development of lease liabilities

in EUR k	2022	2021
As of 1 January	**23,879**	**23,948**
Additions	11,264	64
Accretion of interest	541	470
Payments	-954	-604
As of 31 December	**34,730**	**23,879**

	31 Dec 2022	31 Dec 2021
thereof current	375	116
thereof non-current	34,355	23,763

8.4. 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 *7.1 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)

in EUR k	31 Dec 2022	31 Dec 2021
Within 12 months	68	59
1 to 2 years	65	54
2 to 3 years	61	54
3 to 4 years	61	54
4 to 5 years	58	54
More than 5 years	3,529	3,584
	3,843	**3,860**

Finance income from the recognized net investment is discussed in note *7.8 Finance income and costs* in connection with interest income.

8.5. Intangible assets

Intangible assets exclusively relate to purchased software licenses.

in EUR k	Software	Goodwill	Total
Cost			
1 Jan 2021	**15,208**	**357**	**15,564**
Additions	838	-	838
31 Dec 2021	**16,046**	**357**	**16,402**
Additions	689	-	689
Disposals	-1	-	-1
31 Dec 2022	**16,734**	**357**	**17,091**
Amortization and impairment			
1 Jan 2021	**14,667**	**357**	**15,024**
Amortization for the fiscal year	431	-	431
31 Dec 2021	**15,098**	**357**	**15,455**
Amortization for the fiscal year	346	-	346
Disposals	-1	-	-1
31 Dec 2022	**15,443**	**357**	**15,800**
Net carrying amount			
31 Dec 2022	**1,291**	**-**	**1,291**
31 Dec 2021	**948**	**-**	**948**

8.6. 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 2022

in EUR k	IFRS 9 measurement category	**Carrying amount 31 Dec 2022**	**Fair value 31 Dec 2022**	thereof Level 1	thereof Level 2	thereof Level 3
Financial assets		91,790				
thereof in scope:						
Investments	At fair value through profit or loss	89,726	89,726	-	-	89,726
Rental and lease receivables	Amortized cost	32,085	32,085	-	-	-
Receivables from other trade	Amortized cost	524	524	-	-	-
Other financial assets	Amortized cost	6,550	6,550	-	-	-
Cash and cash equivalents	Amortized cost	158,255	158,255	-	-	-
		287,141	**287,141**	**-**	**-**	**89,726**
Financial liabilities		3,918,503				
thereof in scope:						
Bonds	Amortized cost	1,691,432	1,373,738	1,373,738	-	-
Liabilities to banks	Amortized cost	2,132,029	1,749,408	-	1,749,408	-
Liabilities to shareholders	Amortized cost	60,313	49,482	-	49,482	-
Rental and lease liabilities	Amortized cost	13,570	13,570	-	-	-
Trade payables	Amortized cost	112,102	112,102	-	-	-
Other liabilities		91,271				
thereof in scope:						
Other financial liabilities	Amortized cost	165	165	-	-	-
		4,100,882	**3,298,465**	**1,373,738**	**1,798,890**	**-**
Thereof aggregated by IFRS 9 measurement category:						
Financial assets at fair value through profit or loss		89,726				
Financial assets at amortized cost		197,415				
Financial liabilities at amortized cost		4,100,882				

Measurement categories as of 31 December 2021

in 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				

For assets related to contracts with customers (IFRS 15) and leases (IFRS 16) see the relevant notes (*8.3 Leases as the lessee, 8.4 Leases as the lessor* and *7.1 Revenue from real estate management and other revenue from real estate management*).

8.7. 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.

8.8. Collateral

Overall, financial assets of EUR 89,726k were pledged as collateral as of 31 December 2022 (31 December 2021: EUR 84,669k). 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 77m).

8.9. 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, the risk of an increase in rent losses and vacancies is still considered to be 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 65,153k (2021: EUR 20,571k).

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

Changes in loss allowances

in EUR k	**2022**	**2021**
As of 1 January	**2,448**	**2,216**
Allocation	14,754	7,920
Reversal	-14,879	-7,920
Change in calculation parameters	2,790	408
Utilization	-466	-175
As of 31 December	**4,646**	**2,448**

Loss allowances for contract assets are presented below:

Changes in loss allowances

in EUR k	2022	2021
As of 1 January	**66**	**1,356**
Allocation	1,358	66
Reversal	-66	-1,356
Change in calculation parameters	-	-
Utilization	-	-
As of 31 December	**1,358**	**66**

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 2022, expected credit losses determined using the simplified approach amounted to 60% for rental and lease receivables (31 December 2021: 60%) and around 3.1% for contract assets (31 December 2021: 3.3%). Financial assets that are individually assessed and subject to loss allowances have a probability of default of around 77.8% (31 December 2021: 75.7%). 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 158,255k as of 31 December 2022 (31 December 2021: EUR 1,511,207k).

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

31 December 2022

in EUR k	Up to 1 year	1 to 5 years	More than 5 years	**Total**
Bonds	11,153	544,642	1,251,127	**1,806,922**
Liabilities to banks	152,663	691,451	1,568,870	**2,412,983**
Liabilities to shareholders	386	1,542	60,610	**62,538**
Rental and lease liabilities	13,249	-	-	**13,249**
Trade payables	9,025	8,453	196	**17,674**
Other financial liabilities	49,762	-	-	**49,762**
				4,363,127

[1] Liabilities to banks and shareholders comprise interest liabilities

31 December 2021

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

A reconciliation of the statement of financial position items to financial liabilities is presented under note *8.6 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.

8.10. 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) **in EUR k**	**31 Dec 2022**	**31 Dec 2021**
Current assets, including cash and cash equivalents of EUR 1,528k (2021: EUR 1,651k)	17,424	17,539
Non-current assets	-	-
Current liabilities, including tax liabilities of EUR 0.6k (2021: EUR 0.6k)	123	88
Non-current liabilities	0	0
Equity	**17,301**	**17,451**
HOWOGE's share in equity: 50% (2021: 50%)	8,651	8,726
Carrying amount of the Group's investment before adjustment	**7,287**	**7,361**
Adjustment for IAS 40 measurement of the land	8,638	6,189
Carrying amount of the Group's investment after adjustment	**15,925**	**13,550**

Income statement of Elisabeth-Aue (condensed)	**2022**	**2021**
Revenue from contracts with customers	29	26
Other operating income	0	0
Cost of purchased goods and services	-73	-29
Depreciation and impairment of property, plant and equipment	-	-
Other operating expenses	-106	-30
Total comprehensive income for the fiscal year	-149	-33
Group's share in equity (50%) before adjustment	**-75**	**-17**
Adjustment for IAS 40 measurement of the land	2,450	2,050
Recognized Group's share in equity after adjustment	**2,375**	**2,033**

The joint venture had no contingent liabilities or obligations as of 31 December 2022 and 2021. 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.

8.11. Other assets

Other non-current assets of EUR 1 (2021: EUR 1) comprise the carrying amount of the investment of HOWOGE in GbR Dolgenseestrasse (2022: 0.4%; 2021: 0.4%).

Other current assets of EUR 55,252k (31 December 2021: EUR 41,316k) mainly 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 53,787k (31 December 2021: EUR 40,054k). The unbilled operating costs are valued at acquisition cost. Other current assets comprise assets relating to prepaid services not yet rendered.

8.12. 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.

In fiscal year 2022, EUR 111.3m of own work capitalized (school construction) related to expenses incurred in the fiscal year attributable to the planning and preparation costs for the School Building campaign (prior year: EUR 21.4m).

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

8.13. 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

in EUR k	Current gross receivables	Non-current gross receivables	Total gross receivables	thereof past due	thereof credit impaired
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	**32,295**	2,849	2,514
Rental and lease receivables	36,718	-	**36,718**	2,481	-4,646
Receivables from other trade	486	32	**518**	32	-19
Other financial assets	4,482	-	**4,482**	-	-
Contract assets	43,918	-	**43,918**	-	-1,358
As of 31 December 2022	85,603	32	**85,635**	2,513	-6,023

8.14. Financial liabilities

31 December 2022

in EUR k	Current	Non-current
Liabilities from bonds	4,025	1,687,407
Liabilities to banks	-	2,132,029
Liabilities to shareholders	313	60,000
Lease liabilities	375	34,355
Financial liabilities	**4,713**	**3,913,790**
Rental and lease liabilities	**13,570**	**-**
Trade payables	**112,102**	**-**
Contract liabilities	**43,946**	**-**
Other financial liabilities	**48,483**	**-**
Total	**218,101**	**-**

31 December 2021

in 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**

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 1,989,634k (2021: EUR 1,900,072k) of liabilities to banks are secured by real property liens and EUR 104,632k (2021: EUR 55,960k) are secured by state guarantees.

For other financial liabilities see note *8.18 Other liabilities*.

8.15. Cash and cash equivalents

in EUR k	31 Dec 2022	31 Dec 2021
Cash and cash equivalents	158,255	1,511,207
- thereof freely available	157,657	1,510,601
Cash and cash equivalents	**158,255**	**1,511,207**

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 598k (2021: EUR 607k).

Cash and cash equivalents are recognized at amortized cost.

8.16. Equity

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

a) Subscribed capital

Subscribed capital amounted to EUR 25k in the fiscal year (2021: EUR 25k).

b) 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.

c) 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.

8.17. 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.

The other provisions presented under miscellaneous other provisions are mainly composed of provisions for the reimbursement of non-allocable costs for smoke detectors, which were leased up to and including the year 2021. For their acquisition, provisions of EUR 5.1m were recognized in fiscal year 2022. Other provisions also include EUR 4,987k relating to a payment made by the federal government under the Natural Gas and Heating Emergency Aid Act.

Cash outflows from provisions within one year are estimated at around EUR 15,947k (2021: EUR 7,078k). Other cash outflows from provisions are longer term.

Development of other provisions

in EUR k	1 Jan 2022	Utilization	Reversal	Allocation	31 Dec 2022
Provision for litigation costs	325	46	224	12	67
Other provisions	3,398	3,215	662	13,134	12,655
Provision for financial statement costs	426	602	1	1,383	1,206
Provision for retention of business documents	128	14	17	36	133
Provision for advertising fund	65	2		6	69
Warranty provision	151		74		77
Provision for consulting fees	32	22	1	78	87
Miscellaneous other provisions	**4,526**	**3,901**	**979**	**14,649**	**14,295**
Provision for long-service awards	1,067	33	-	140	1,174
Provisions for employee bonuses	2,859	2,700	76	1,578	1,661
Provisions for employees	**3,926**	**2,733**	**76**	**1,718**	**2,835**
Total other provisions	**8,452**	**6,634**	**1,055**	**16,367**	**17,129**
thereof current	7,078				15,947
thereof non-current	1,373				1,182

in 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

8.18. Other liabilities

Other liabilities

in EUR k	31 Dec 2022	31 Dec 2021
Other liabilities	**91,271**	**32,610**
thereof financial (notes 8.6, 8.14)	165	175
thereof non-financial	91,106	32,435
Liabilities to employees	544	648
Government grants	42,244	24,057
Other	48,318	7,730
Other non-financial liabilities	**91,106**	**32,435**
thereof current	52,076	9,790
thereof non-current	39,195	22,644

Additionally, as of the end of the fiscal year, liabilities to employees of EUR 544k (2021: EUR 648k) comprised accrued vacation.

Other non-financial liabilities mainly consist of outstanding real estate transfer tax liabilities from the share deal.

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 *8.20 Government grants*.

8.19. 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:

in EUR k	31 Dec 2022		31 Dec 2021	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property and property, plant and equipment	-	1,626,077	-	1,672,416
Investments in associates and joint ventures	-	4,805	-	4,089
Non-current financial assets	-	623	-	620
Rental and lease receivables and receivables from other trade	1,402		739	
Contract assets	410		20	
Other financial assets, current	-	8	-	6
Other assets, current	-	-	-	-
Assets held for sale	-	-	-	-
Other provisions	353	-	679	-
Non-current financial liabilities	7,781		3,374	
Current financial liabilities	113		35	
Trade payables	29	-	29	-
Other liabilities	-	631	-	292
	10,088	**1,632,144**	**4,875**	**1,677,422**
Other tax effects	105			
Tax loss carryforwards	10,064		9,925	
Total deferred taxes	**20,257**	**1,632,144**	**14,800**	**1,677,422**
Offsetting	-20,257	-20,257	-14,800	-14,800
Amount recognized in the statement of financial position	**-**	**1,611,888**	**-**	**1,662,622**

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 above are recognized.

The change in deferred tax liabilities is mainly due to the effects from the fair value measurement of 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

in EUR k	31 Dec 2022	31 Dec 2021
Tax loss carryforwards	10,064	9,942
thereof trade tax	-	18
thereof corporate income tax	10,064	9,925
Unusable loss carryforwards	-	-18
	10,064	**9,925**

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.

Development of deferred taxes

in EUR k	31 Dec 2022		31 Dec 2021	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Deferred taxes as of 1 January	**-**	**1,662,622**	**-**	**1,515,511**
Deferred tax income in the income statement	-	50,629	-	147,111
Other	-	105	-	-
Deferred taxes as of 31 December	**-**	**1,611,888**	**-**	**1,662,622**

8.20. 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 income)

in EUR k	2022	2021
As of 1 January	**24,057**	**23,846**
Received during the year	21,012	1,539
Amortized to profit or loss	2,825	1,328
As of 31 December	**42,244**	**24,057**
thereof current	3,049	1,412
thereof non-current	39,195	22,644

In the fiscal year, income from repayment subsidies of EUR 891k (2021: EUR 638k) was recognized and presented under other revenue from real estate management; income from interest subsidies of EUR 1,426k (2021: EUR 690k) was recognized and presented under interest expenses.

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

9. 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:

in EUR k	31 Dec 2022	31 Dec 2021
Cash and cash equivalents	158,255	1,511,207
- thereof freely available	157,657	1,510,601
Cash and cash equivalents	**158,255**	**1,511,207**

The major impacts on cash flows from operating activities stem from the share and asset deal in connection with the acquisition of the new companies and the school construction project. The asset deal in connection with the acquisition of the new companies was also a key factor affecting cash flows from investing activities, which included investments of EUR 1,141,873k in investment property and of EUR 533k for the purchase price for the acquisition of the new companies. The decrease in cash flows from financing activities was due to higher repayments of borrowings, which were related to the bond issued 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 10,542k were paid (2021: EUR 28,733k). Moreover, interest of EUR 41,473k was paid, thereof EUR 541k for leasing (2021: EUR 33,305k, thereof EUR 470k for leasing) and interest of EUR 410k (2021: EUR 4,933k) was received.

Liabilities from financing activities

in EUR k	31 Dec 2021	Cash flows	New leases	Other	31 Dec 2022
Current interest-bearing loans and borrowings (excluding lease liabilities)	71,095	-71,095	-	-	-
Current lease liabilities	116	-116	375	-	375
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	1,899,934	-165,492	-	457,587	2,192,029
Non-current lease liabilities	23,763	-200	10,792	-	34,355
Total	**1,994,907**	**-236,903**	**11,167**	**457,587**	**2,226,759**

in EUR k	31 Dec 2020	Cash flows	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**	**-250,801**	**48**	**371,403**	**1,994,907**

10. Notes to the segment reporting

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.

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.

As well as the financial ratios, 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 School 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

The reconciliation from the HGB to IFRSs as of 31 December 2022 is as follows:

in EUR k	Residential (HGB)	School Construction (HGB)	HGB Total operating segments	Group (HGB)	Reconciliation IFRSs	Group (IFRSs)
External customers	511,638	-	511,638	511,638	3,658	515,296
Intersegment	-	-	-	-	-	-
Total revenue	**511,638**	**0**	**511,638**	**511,638**	**3,658**	**515,296**
Increase or decrease in property held for sale*	32,884		32,884	32,884	-32,884	-
Own work capitalized	2,381.94	1,455	3,837.10	3,837.10	0	3,837.10
Profit or loss from the remeasurement of investment property	-	-	-	-	-198,603	-198,603
Cost of materials	-216,482	-109	-216,591	-216,591	-23,270	-239,862
Employee benefits expenses	-54,636	-2,554	-57,190	-57,190	2,554	-54,636
Amortization, depreciation and impairment	-107,380	-	-107,380	-107,380	100,215	-7,164
Share of profit or loss from investments	-		-	-	2,375	2,375
Net finance costs	-35,893	-219	-36,113	-36,113	167	-35,946
Other operating expenses	-40,444	-965	-41,409	-41,409	10,498	-30,910
Taxes	-26,004	608	-25,396	-25,396	50,629	25,233
Other operating income	18,402	368	18,770	18,770	-5,869	12,902
Change in inventories for property and other inventories	-	-	-	-	89,692	89,692
Segment result	**84,467**	**-1,416**	**83,051**	**83,051**	**-837**	**82,214**

* According to IFRSs, changes in such property inventories are reflected in revenue and cost of materials

The differences between the HGB and IFRS figures are generally due to the different accounting policies and total -EUR 0.8m. The main effect stems from the investment property measured at a fair value of -EUR 198.6m, HOWOGE having opted to apply the fair value method. In this context, regular building depreciation and impairment losses of EUR 100.2m 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 50.7m under IFRSs.

In addition, there is a difference of EUR 3.7m 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 upwards by EUR 23.3m in total compared to the HGB figure.

Differences in net finance costs between the HGB and IFRSs are largely attributable to the different accounting treatment of the bond issued under IFRS 9 (EIR method). The difference is EUR 0.167m. 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.

in EUR k	Residential (HGB)	School Construction (HGB)	HGB Total operating segments	Reconciliation IFRSs	Group (IFRSs)
Segment result	84,467	-1,416	83,051	-837	82,214
Finance income	-354	-60	-414	-41	-455
Finance costs	41,304	280	41,584	-126	41,459
Profit or loss from investments accounted for using the equity method	-	-	-	-2,375	-2,375
Taxes	9,610	-608	9,002	-50,629	-41,627
Intersegment sales (elimination)	-	-	-	-	-
Amortization, depreciation and impairment	107,380	-	107,380	-104,085	3,295
Changes in fair value from real estate appraisal	-	-	-	198,603	198,603
EBITDA	**242,407**	**-1,805**	**240,602**	**40,510**	**281,112**
EBIT	**135,027**	**-1,805**	**133,223**	**144,594**	**277,817**
Cash flows from operating activities	**224,373**	**-1,246**	**223,127**	**-1,949**	**221,178**
Indebtedness	**3,787,735**	**153,648**	**3,941,383**	**1,870,505**	**5,811,887**
Equity ratio	**31%**	**-4%**	**30%**	**28%**	**58%**

All revenue is generated in Germany.

11. Information on group companies and related party disclosures

a) Subsidiaries

Note *4.1 Subsidiaries* provides information about the Group's structure and the subsidiaries.

b) 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 planning for the development of the area has been put 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.

c) Information on management board compensation

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

In the fiscal year, the management board comprised:

- 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

Until his exit on 31 October 2022, Thomas Felgenhauer was 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

Thomas Felgenhauer resigned as general manager effective 31 October 2022.

The supervisory board comprises:

Mr. Hendrik Jellema	Chairman
Dr. Frank Nägele	Deputy Chairman (until 28 February 2022)
Mr. Jochen Lang	Member (from 14 March 2022 to 31 January 2023)
Ms. Elfriede Baumann	Member Chair of the audit committee
Ms. Kerstin Wittke	Member (until 30 June 2022)
Mr. Jörn Lorenz	Member
Mr. Frank Sparmann	Member
Ms. Babett Buschmann	Member (until 25 July 2022)
Ms. Vera Junker	Member (until 31 January 2022)
Ms. Wenke Christoph	Member (until 25 January 2022) Chair of the construction 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 (until 25 July 2022)
Mr. Sebastian Lange	Member (from 7 September 2022)
Mr. Michael Schiller	Member (from 1 July 2022)

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:

in EUR k	**2022**	**2021**
Short-term benefits	649	534
Payments into defined contribution pension plans	26	54
Total compensation	**675**	**588**

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.

12. Events after the reporting date

Ms. Katharina Greis will succeed Mr. Thomas Felgenhauer as general manager from 1 April 2023.

Berlin, 21 March 2023

HOWOGE Wohnungsbaugesellschaft

mit beschränkter Haftung

The Management Board

Ulrich Schiller

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

III. Independent Auditor’s Report

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, 2022, 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, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung for the financial year from January 1 to December 31, 2022. 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, 2022, and of its financial performance for the financial year from January 1 to December 31, 2022, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. 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, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Measurement of investment properties

❷ Recognition of various purchases as part of a major acquisition

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 13,281.1 million (95.4% of total assets) are reported in the Company's consolidated financial statements as of December 31, 2022. The Company exercises the option set out in IAS 40.30 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 -198.6 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 valued 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 small 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 used 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. Site inspections were conducted for properties under construction.

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 5. a), 7.2 and 8.1 of the notes to the consolidated financial statements.

❷ **Recognition of various purchases as part of a major acquisition**

① By notarized deed in 2021, HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung acquired approximately 8,300 residential units and more than 200 commercial units as part of the acquisition of all shares of eleven portfolio management companies and in the context of further asset deals. The sellers were Vonovia SE, Bochum, and Deutsche Wohnen SE, Berlin. Control of the acquired group of identifiable assets and liabilities was obtained in January 2022.

The acquisition of the group of assets and liabilities is not subject to the requirements of IFRS 3 with respect to the companies acquired, since the definition of a business in accordance with IFRS 3 is not met.

The individual identifiable assets acquired and liabilities assumed were identified and recognized. In doing so, the acquisition costs of the group was allocated to the individual identifiable assets and liabilities as of the acquisition date based on their fair values. The EUR 9.1 million total excess of acquisition costs over the determined fair value of the group of assets and liabilities as of the date of obtaining control was recognized in equity and allocated to investment property, since these were identified as key value drivers. Fair values were measured based on a valuation by an external appraiser. Real estate valuation is generally subject to considerable judgments and estimates.

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.

Due to the judgments involved in valuing real estate and the complex nature of the transaction, this matter was of particular significance in the context of our audit.

② As part of our audit, among other things we inspected and evaluated the contractual agreements underlying the acquisition. For ten of the eleven companies acquired, we also inspected and assessed the long-form audit reports prepared by an audit firm as of the December 31, 2021 reporting date, as provided. In addition, we interviewed the executive directors of the Company and the employees that they nominated to us. On this basis, we assessed the means and scope of recognizing the acquired companies in the IFRS consolidated financial statements as of December 31, 2022 on the basis of the relevant statutory provisions and accounting commentaries. We also assessed whether it was appropriate not to apply the definition of a business in accordance with IFRS 3.

On the basis of our industry knowledge and the information obtained, we gained an understanding of the process to identify the assets acquired and liabilities assumed, and assessed it.

We performed supplementary audit procedures in respect of the determined acquisition-date fair values. In cooperation with our experts from Valuation, Modeling and Analytics, we assessed the methodology used for the purposes of the valuation, among other things. 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).

In connection with the group of identifiable assets and liabilities acquired, we conducted audit procedures relating to the acquisition costs, which included among other things evaluating the allocation of the purchase price to the identifiable assets and liabilities acquired, and inspecting payment records.

We then assessed whether the disclosures concerning the acquisition in the notes to the consolidated financial statements were complete and correct. In our view, the acquisition is appropriately presented in the consolidated financial statements. The assumptions and measurement parameters underlying the valuation of the acquisition are appropriate overall.

③ For information about the recognition of various purchases as part of a major acquisition, please see sections 3. and 8.1 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 "2.2 3. Corporate Governance Statement" of the group management report
- the declaration of compliance with Berlin's Corporate Governance Code attached to the group management report as an appendix

The other information comprises further the separate non-financial report to comply with §§ 289b to 289e HGB and §§ 315b to 315c HGB.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats to independence or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the shareholders' meeting on September 14, 2022. We were engaged by the supervisory board on March 3, 2023. 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 21, 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Dr. Frederik Mielke)	(sgd. ppa. Marius Möller)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)