HOWOGE

HOWOGE Wohnungsbaugesellschaft mbH
IFRS Consolidated Financial Statements 2023

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 for the fiscal year from 1 January to 31 December 2023

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

I. Consolidated management report

Contents

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 76,400 residential units (as of 31.12.2023) in Berlin include rental apartments as well as over 1,100 commercial units, some 17,500 other units and numerous development plots, and, including school construction, have a current fair value of approximately EUR 12.6b. HOWOGE's core business as a property holder comprises the long-term management and development of the Company's own portfolio.

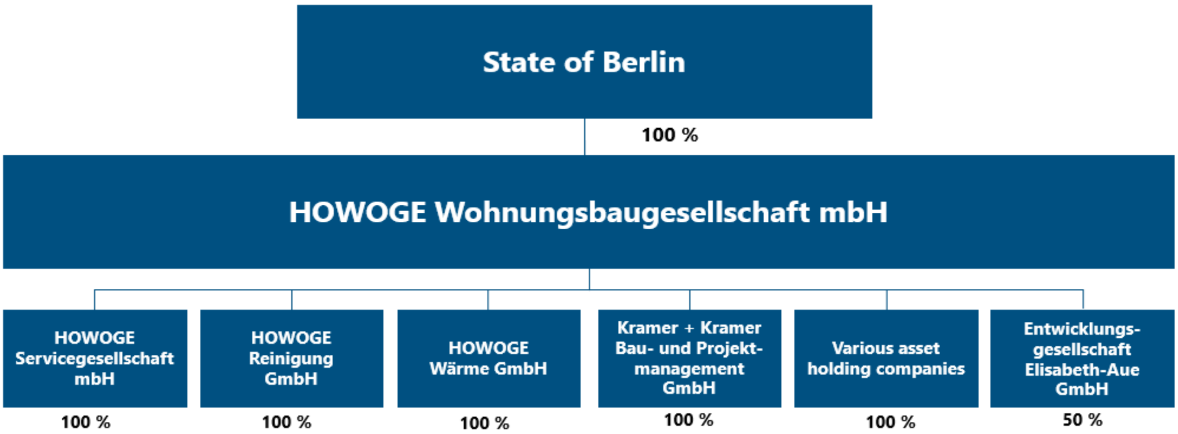
As one of six municipal housing companies belonging to the State of Berlin, HOWOGE pursues a social mandate to supply affordable housing to the people of Berlin.

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. To ensure a defensive risk profile, the Company has defined a loan-to-value (LTV) 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.

Four subsidiaries are responsible for service, cleaning, energy management and construction management:

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

Since July 2023, HOWOGE Reinigung GmbH has been gradually taking over the cleaning of communal areas for the HOWOGE properties with the aim of ensuring high-quality cleaning services and cost security for tenants.

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 property holding companies, Wohnungsbaugesellschaft Lichtenberg mbH (WBL) is the largest property 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 ten 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 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

According to the Winter 2023 Economic Forecast by the German Economic Institute (IW), 2023 was a year of economic stagnation in Germany. Considering the gas shortage that had been feared at the end of 2022, the year got off to a good start and the construction industry was even able to grow thanks to the mild winter. But the economy stagnated over the course of 2023. Following a decline in real GDP of almost 0.5% in 2023, the forecasts for economic output in 2024 are similar.

The import, producer and consumer price shock that had been building up over the course of 2021 and 2022 amid shortages of materials and the energy crisis had a direct negative impact on economic development in Germany. Inflation in Germany was at 8.2% in the first quarter of 2023, initially accompanied by unusually high falls in real incomes and loss of purchasing power, which reined in household spending. For 2024, the IW forecasts an average inflation rate of around 2.75%. In this case, real incomes are expected to rise slightly, as indicated by the recent wage agreements in a wide range of sectors.

The high inflation rates and the associated risks of second-round and stabilization effects have led to a tightening of monetary policy. From mid-2022 to fall 2023, central bank interest rates in the eurozone were raised in ten steps from 0% to 4.5%. This in turn made consumer borrowing more expensive, boosted the incentive to save and thus additionally slowed down household consumption. The interest rate hikes and more cautious lending for cyclical reasons slashed demand in the construction industry and led to an overall decline in construction investment over the course of 2023. In residential construction in particular, new orders and building permits were down by around a third; this had a welcome side-effect for construction companies and clients who were able to benefit from falling construction costs.

In 2023, the labor market in Germany closed with an appreciable increase in employment of 0.75% despite the decline in GDP. The labor market is expected to be increasingly affected by the recession in 2024. Employment and the volume of work will shrink and unemployment will rise to an annual average of 6%.[1]

In August 2023, Investitionsbank Berlin (IBB) forecast a recession for Berlin's economy in fiscal year 2023. Berlin as a business location is being spared the full brunt of the difficult economic conditions in Germany. However, the high interest rates in the first half of 2023 in particular curbed investment activity in Berlin's residential construction sector, with incoming orders down by as much as 24.8%.[2]

While a positive growth rate of 2% was recorded in the first quarter of 2023 compared to the prior year, gross domestic product fell by around 0.5% to around EUR 39b. The economy is forecast to recover in 2024, growing at a rate of up to 2% to EUR 40b. The most important pillar of growth is business services, which, in comparison to other sectors, recorded a positive revenue trend despite the economic challenges.

In September 2023, the number of people in insurable employment grew at a rate of 1.1% compared to the prior year (rate for Germany as a whole: 0.6%).[3]

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. While the completion figures from 2019 to 2021 fell short of the target level, the target of 15,000 new residential units was exceeded in 2022. In its 2023 market and housing stock analysis, empirica assumes a decline in the number of building completions in 2023 due to significantly higher construction costs and interest rates.

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[1] IW-Konjunkturprognose Winter 2023, 13.12.2023.
[2] IBB, Berlin Konjunktur, Konjunktur bremst ab, August 2023.
[3] IBB, Berlin Trend, November 2023.
[4] Press release by the Governing Mayor dated 04.10.2022.

Pressure on the Berlin residential market will increase further. Asking prices for condominiums and quoted net rents (excluding heating and utilities) have risen almost without stop since 2006. As a result of the higher volume of new construction, low population growth and the rent cap introduced in February 2020, rents decreased slightly in 2020 (down 2%), but this was not sufficient to ease the situation on the housing market because the supply of housing is far too low. This has been driving up the average quoted rent, which rose by around 11% in 2022.

In 2022, 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 17.80/sqm of living space. Compared to the prior year, which saw a 7% rise, the median quoted rent increased by approximately 4%. In the same period, the median asking price for new-build condominiums was around EUR 8,400/sqm of living space in a range of EUR 5,900 to around EUR 11,300/sqm of living space.[5]

The rise in interest rates prompted significant price corrections on the residential market. The fundamental supply shortage counteracts the interest rate effect and could mean that the current downturn in the housing market is shorter-lived than previous periods of falling prices.[6]

In September 2023, the new cooperation agreement between the Berlin Senate and the state-owned housing companies entitled "Affordable rents, new housing construction and social housing supply" was published. The agreement is effective for the period from 01.01.2024 to 31.12.2027 and permits higher average new-let rents for privately financed housing in addition to the possibility of raising rents in accordance with Sec. 558 BGB ["Bürgerliches Gesetzbuch": German Civil Code] and Sec. 559 BGB. Overall, the net rent (excluding heating and utilities) in new-build housing should not exceed EUR 15.00/sqm of living space. For existing rent agreements, rent increases of up to 2.9% on average are possible in accordance with Sec. 558 BGB. An affordability promise ensures that the net rent (excluding heating and utilities) does not surpass 27% of the tenant's household income, provided that the relevant income and living space thresholds are not exceeded. At the same time, the new cooperation agreement stipulates that homes should be re-let to households with different income levels (up to 140%, and 140% to 220%), which ensures differentiated letting to WBS holders and thus enables a better social mix within neighborhoods. The new cooperation agreement is intended to secure the economic strength of state-owned housing companies in times of challenging economic conditions.[7]

[5] empirica, market and housing stock analysis, December 2023.
[6] Savills, Opportunities and risks in the German residential market, December 2023.
[7] Cooperation agreement on affordable rents, new housing construction and social housing supply.

2.2 Business performance

2.2.1 Real estate portfolio

As of 31.12.2023, HOWOGE's real estate portfolio comprised 76,392 residential units, 1,150 commercial units and 17,446 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 housing construction and social housing supply" 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 2023, 64.1% of apartments were re-let to WBS holders. 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 in fiscal year 2023. From 01.01.2024, the provisions of the new cooperation agreement will come into force for the state-owned housing companies, which, among other things, will allow rent increases of up to 2.9% on average for existing properties. At the same time, it ensures that WBS-eligible households do not have to spend more than 27% of their household income on net rent (excluding heating and utilities).

As of 31.12.2023, the average net rent for residential units (excluding heating and utilities) was EUR 6.46/sqm (31.12.2022: EUR 6.41/sqm) and the vacancy rate by area was 1.5% (31.12.2022: 1.6%). The average net rent (excluding heating and utilities) for 2023 was EUR 6.42/sqm (prior-year average: EUR 6.36/sqm). The tenant turnover rate stood at 4.3% in fiscal year 2023 (2022: 4.6%).

The following table shows the portfolio overview as of 31.12.2023:

Reporting date	Units[1]	Area	Net rent (excl. heating and utilities)	Avg. net rent (excl. heating and utilities)	Vacancy rate
31 Dec 2023	Number	sqm	EUR m p.a.	EUR/sqm	%
Residential	76,392	4,704,892	364.6	6.46	1.5
Commercial	1,150	182,961	19.4	8.85	9.7
Subtotal	**77,542**	**4,887,854**	**384.0**	**6.55**	**1.8**
Other	17,446	#	13.4		
Total	**94,988**	**5,191,796**	**397.4**		

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

Portfolio development

In fiscal year 2023, the housing portfolio grew by a total of 973 residential units, which is exclusively attributable to new construction.

A total of around EUR 86.3m was invested in the portfolio in maintenance and refurbishment in the reporting year (2022: EUR 75.1m). Of this, around EUR 44.9m (2022: EUR 44.0m) was attributable to maintenance expenses.

HOWOGE has set its sights on making its building stock climate-neutral by 2045. When it developed its climate strategy, the target for climate neutrality was set at no more than 3 kg CO_2/sqm. As of 31.12.2022, this figure was 17.45 kg/sqm/year. The figure as of 31.12.2023 was not yet available at the time of reporting, since the calculation is based on the energy utility invoices.

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 2023, HOWOGE completed 973 new apartments and added them to its portfolio. The construction projects An der Mole with 169 apartments, Ohlauer Strasse with 120 apartments and Welsestrasse with 110 apartments are among the largest new-build projects that were ready for letting in 2023. The construction projects in Eichbuschallee with 280 apartments and in Bahrfeldstrasse with 63 apartments were completed at the end of 2023 and will be let for the first time in 2024. The completion of around 1,000 apartments is planned for fiscal year 2024.

Real estate appraisal

The real estate appraisal as of 31.12.2023 led to a decrease in the fair values of around 10% on 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 31.12.2023:

Reporting date	**Units**[1)]	**Fair value**	**Fair value**	**Multiplier**	**Multiplier**
31 Dec 2023	Number	EUR b	EUR/sqm	Actual rent	Market rent
Residential, Commercial and Other	94,988	11,916.79	2,429	30.8 x	24.1 x

[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 26 new schools (seven wood module schools) and refurbish twelve school complexes.

Five schools are currently being built and construction work on four more new schools is due to commence in 2024. In addition, the completion of two schools at the Allee der Kosmonauten site is scheduled for spring 2024. Funds of more than EUR 5b 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 2023	31 Dec 2022
Management board (HOWOGE Wohnungsbaugesellschaft mbH)	2	1
Salaried employees (including management of subsidiaries)	722	664
Wage earners	362	292
Trainees	34	32
Students	1	4
	1,121	**993**

By company, the development breaks down as follows:

	31 Dec 2023	31 Dec 2022
HOWOGE Wohnungsbaugesellschaft mbH	704	663
HOWOGE Service GmbH	273	261
HOWOGE Reinigung GmbH	70	-
HOWOGE Wärme GmbH	47	44
Kramer + Kramer Bauprojektmanagement GmbH	27	25
	1,121	**993**

The number of employees in the Group increased by 128 in 2023 (HOWOGE: up 41; Service: up 12; Reinigung: up 70; Wärme: up 3; Kramer + Kramer: up 2). The increase in headcount is primarily attributable to the growth strategy in various areas. The foundation of HOWOGE Reinigung GmbH also led to a significant increase in headcount.

As of 31.12.2023, HOWOGE Wohnungsbaugesellschaft mbH had 631 salaried employees (prior year: 585), 36 wage earners (prior year: 41), 34 trainees (prior year: 32), one student (prior year: four) and two general managers (prior year: one).

2.2.3 Statement on corporate governance[8]

HOWOGE is obligated to issue a statement on corporate governance pursuant to Sec. 289f (4) HGB. It will be published in the 2023 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.

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. 8 of HOWOGE's articles of association, the supervisory board of HOWOGE comprises six members to be elected by the shareholder meeting, including one member in accordance with the WUAusrStärkG ["Gesetz zur sozialen Ausrichtung und Stärkung der landeseigenen Wohnungsunternehmen für eine langfristige Wohnraumversorgung": Berlin Act on the Social Orientation and Strengthening of State-Owned Housing Companies to Safeguard a Long-Term Housing Supply] and three members to be elected by the employees pursuant to the DrittelbG ["Drittelbeteiligungsgesetz": German One-Third Employee Participation Act].

As of 31.12.2023, HOWOGE's supervisory board had three women and six men. The percentage of women was thus 33.3%.

[8] Unaudited disclosure.

Failure to reach the target of 50% is due to the 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 fill the three vacant positions on the supervisory board with two female members and one male member. In addition, in the prior year, 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

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 52.7% as of the reporting date 31.12.2023.

The management levels break down as follows:

	Women		Men	
Management level	**Number**	**%**	**Number**	**%**
First management level (management board)	1	50.00	1	50.00
Second management level (management of subsidiaries, heads of functions and divisions)	13	56.52	10	43.48
Third management level (departmental heads)	15	50.00	15	50.00

Ms. Katharina Greis and Mr. Ulrich Schiller currently represent the highest management level. 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	2023 Total	Thereof School Construction	Thereof Residential	2022 Total
Rental and lease revenue (IFRS 16)	385,211	-	385,211	372,446
Revenue from operating costs (IFRS 16)	38,592	-	38,592	30,055
Revenue from real estate management	**423,804**	**-**	**423,804**	**402,501**
Revenue from operating costs (IFRS 15)	28,926	-	28,926	43,552
Revenue from heating costs (IFRS 15)	78,674	-	78,674	62,554
Revenue from management services and other trade	7,784	-	7,784	5,290
Other revenue	1,889	-	1,889	1,399
Other revenue from real estate management	**117,274**	**-**	**117,274**	**112,795**
Total revenue	**541,078**	**-**	**541,078**	**515,296**
Profit or loss from the remeasurement of investment property	-1,179,694	-	-1,179,694	-198,203
Change in inventories for property and other	172,783	172,783	-	89,692
Own work capitalized	3,765	1,523	2,242	3,837
Cost of materials	-363,767	-172,810	-190,957	-239,862
Personnel expenses	-64,624	-3,160	-61,464	-54,636
Amortization, depreciation and impairment	-7,266	-	-7,266	-3,295
Impairment and reversals of impairment of financial assets	-3,623	-	-3,623	-3,869
Other operating income	57,028	37	56,992	12,902
Other operating expenses	-36,257	-1,174	-35,084	-30,910
Profit or loss from investments accounted for using the equity method	2,400	-	2,400	2,375
Net valuation effect from assets held for sale	-300	-	-300	-400
Finance income	12,190	1,385	10,806	5,513
Finance costs	-43,363	-408	-42,955	-41,459
Other taxes	-16,551	-0	-16,551	-16,394
Profit or loss before taxes	**-926,202**	**-1,825**	**-924,377**	**40,587**
Income taxes	204,976	545	204,431	41,627
Profit or loss for the period	**-721,226**	**-1,280**	**-719,946**	**82,214**
Total comprehensive income	**-721,226**	**-1,280**	**-719,946**	**82,214**

Consolidated revenue amounted to EUR 541.1m (prior year: EUR 515.3m).

The increase in revenue is driven by higher revenue from operating costs in accordance with IFRS 16 (insurance and taxes) as well as by heating costs and the growth in the real estate portfolio. These essentially relate to the operating costs that have not yet been billed. 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 2023, a valuation loss of approximately EUR 1.2b 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 2023.

There was a loss from the remeasurement of investment property. The fair value adjustment to residential properties mainly resulted from the assumptions on property market trends used for property valuation. Overall economic developments during the year, most notably the rise in interest rates, led to impairments on the properties.

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 mainly attributable to the progress of construction work on school buildings and, more generally, to higher heating and maintenance costs.

Personnel expenses were up by around EUR 10m, largely due to the growth in headcount, including the establishment of HOWOGE Reinigung GmbH in 2023.

Other operating expenses increased slightly by EUR 5.3m compared with the prior year. This is partly due to expenses of EUR 1.3m in connection with litigation cost risks, and partly due to higher costs for insurance and investments in training and further education.

Finance costs rose only slightly by a total of EUR 1.9m year on year due to additional external funds for financing purposes.

Tax income in fiscal year 2023 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 15.2m as well as trade tax of EUR 7.0m.

Overall, the Group generated a total comprehensive loss of EUR -721.2m (prior year: income of EUR 82.2m).

The loss for the period of EUR 1.3m according to IFRSs for the School Construction segment is just short of the prior-year level of EUR 1.4m. 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 26 new schools (seven wood module schools) and refurbish twelve school complexes.

Five schools are currently being built and construction work on four more new schools is due to commence in 2024. Funds of more than EUR 5b 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	**2023**	**2022**
Total revenue	**541.1**	**515.3**
Changes in finished goods and work in process for property and other inventories	172.8	89.7
Own work capitalized	3.8	3.8
Cost of materials	-363.8	-239.9
Personnel expenses	-64.6	-54.6
Other operating income	57.0	12.9
Impairment of financial assets	-3.6	-3.9
Other operating expenses	-36.3	-30.9
Finance income[1]	5.3	5.1
Other taxes	-16.6	-16.4
One-time effects[2]	-37.9	-13.1
Adjusted EBITDA	**257.2**	**268.1**
Income tax expenses affecting cash[3]	-21.4	-10.5
Net interest expenses affecting cash[4]	-35.3	-41.5
Loan repayment policies	-2.9	-2.7
Expense from the sale of non-current assets affecting cash	0.2	0.2
FFO (funds from operations)	**197.9**	**213.5**

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

[2]One-time effects predominantly comprise expenses from changes in provisions and income from the recognition of plant and machinery as assets.

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

[4]The net interest expenses affecting cash include finance income adjusted for one-time effects, finance costs and expenses under the BilMoG ["Bilanzrechtsmodernisierungsgesetz": German Accounting Law Modernization Act].

FFO of EUR 197.9m is below the prior-year level of EUR 213.5m. The reduced amount is mainly explained by higher cost of materials, personnel and other expenses.

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

	1 Jan to 31 Dec	
EUR m	**2023**	**2022**
Adjusted EBITDA	257.2	268.1
Interest expenses affecting cash	-43.4	-41.5
ICR	**5.9x**	**6.5x**

The interest coverage ratio decreased slightly compared to the prior year. The effect is explained by the higher personnel expenses and cost of materials as well as the rise in interest expenses from the loans raised to finance new construction projects.

Assets, liabilities and financial position

Assets **in EUR k**	**31 Dec 2023** **Total**	**%**	**Thereof School Construction**	**Thereof Residential**	**31 Dec 2022** **Total**	**%**
Non-current assets						
Intangible assets	1,235	0.0%	-	1,235	1,291	0.0%
Investment property	12,325,089	92.5%	-	12,325,089	13,281,094	95.4%
Prepayments on investment property	96,497	0.7%	-	96,497	62,648	0.4%
Property, plant and equipment	76,751	0.6%	-	76,751	58,645	0.4%
Investments in associates and joint ventures	19,270	0.1%	-	19,270	15,925	0.1%
Financial assets	97,053	0.7%	-	97,053	91,790	0.7%
Rental and lease receivables	35	0.0%	-	35	13	0.0%
Receivables from other trade	-	0.0%	-	-	39	0.0%
Total non-current assets	**12,615,929**	**94.7%**	**-**	**12,615,929**	**13,511,444**	**97.0%**
Current assets						
Inventories for property and other inventories	283,913	2.1%	283,913	-	111,131	0.8%
Rental and lease receivables	40,022	0.3%	-	40,022	32,072	0.2%
Receivables from other trade	474	0.0%	-	474	486	0.0%
Contract assets	9,054	0.1%	-	9,054	42,560	0.3%
Other financial assets	4,985	0.0%	-	4,985	4,482	0.0%
Other assets	57,102	0.4%	14	57,088	55,252	0.4%
Income tax receivables	2,961	0.0%	1,392	1,568	2,069	0.0%
Cash and cash equivalents	273,650	2.1%	85,447	188,203	158,255	1.1%
Assets held for sale	33,936	0.3%	23,436	10,500	10,800	0.1%
Total current assets	**706,097**	**5.3%**	**394,202**	**311,895**	**417,105**	**3.0%**
Total assets	**13,322,027**	**100.0%**	**394,202**	**12,927,824**	**13,928,549**	**100.0%**

Equity and liabilities in EUR k	31 Dec 2023 Total	%	Thereof School Construction	Thereof Residential	31 Dec 2022 Total	%
Equity						
Subscribed capital	25,000	0.2%	-	25,000	25,000	0.2%
Capital reserves	320,937	2.4%	-	320,937	317,901	2.3%
Accumulated retained earnings	7,776,551	58.4%	-1,280	7,777,831	7,693,957	51.9%
Consolidated accumulated loss/net retained profit	-721,226	-5.4%	-1,280	-719,946	79,804	4.9%
Total equity	**7,401,263**	**55.6%**	**-2,560**	**7,403,823**	**8,116,662**	**59.4%**
Non-current liabilities						
Other provisions	1,330	0.0%	-	1,330	1,182	0.0%
Financial liabilities	3,556,683	26.7%	387,999	3,168,684	3,913,790	26.7%
Other liabilities	79,028	0.6%	3,920	75,108	39,195	0.2%
Deferred tax liabilities	1,385,534	10.4%	-	1,385,534	1,611,888	12.3%
Total non-current liabilities	**5,022,575**	**37.7%**	**391,918**	**4,630,657**	**5,566,055**	**39.2%**
Current liabilities						
Other provisions	7,107	0.1%	-	7,107	15,947	0.1%
Rental and lease liabilities	17,137	0.1%	-	17,137	13,570	0.1%
Trade payables	121,768	0.9%	1,599	120,169	112,102	0.6%
Contract liabilities	23,289	0.2%		23,289	43,946	0.1%
Financial liabilities	700,961	5.3%	1,000	699,960	4,713	0.6%
Tax liabilities	13,901	0.1%	-	13,901	3,478	0.0%
Other liabilities	14,027	0.1%	2,244	11,782	52,076	0.1%
Total current liabilities	**898,189**	**6.7%**	**4,844**	**893,345**	**245,832**	**1.4%**
Total liabilities	**5,920,764**	**44.4%**	**396,762**	**5,524,002**	**5,811,887**	**40.6%**
Total equity and liabilities	**13,322,027**	**100.0%**	**394,202**	**12,927,824**	**13,928,549**	**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 92.5% of total assets. The year-on-year decrease reflects the property appraisal in 2023.

The marked increase in inventories in the School Construction segment is due to investments in construction preparation and the ongoing new school construction and school refurbishment projects.

Cash on hand and bank balances were up significantly on the prior year, mainly due to new loans raised to finance the School Building campaign. This effect was not canceled out by the repayments made in the fiscal year. See also the explanations on nominal liabilities to lenders.

The change in assets held for sale is mainly attributable to the Gartenfeld property, which was classified as an asset held for sale as of the reporting date in accordance with IFRS 5.

Book equity declined slightly to 55.4% (prior year: 59.4%) of total equity and liabilities. Overall, equity decreased by EUR 732.2m, taking the accumulated loss into account.

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

EUR m	**31 Dec 2023**	**31 Dec 2022**
Equity	7,401.3	8,116.7
Deferred tax liabilities on investment property	1,399.3	1,626.1
NAV (net asset value)	**8,800.5**	**9,742.8**

Liabilities to lenders in the Residential segment increased by a nominal EUR 116.1m to EUR 2,202.9m. Borrowings of EUR 254.6m were offset by repayments of EUR 138.5m. Furthermore, EUR 23.1m in debt was forgiven in fiscal year 2023.

In the School Construction segment, liabilities relate to the outstandings on a shareholder loan from the State of Berlin of EUR 134.8m (prior year: EUR 60.0m) and five loans secured by a state guarantee of EUR 257.1m (prior year: EUR 93.3m). The loans are granted with bullet repayment structures.

The financial position of all group companies was balanced as of 31.12.2023. 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.

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 2023 and reflect the Company's good creditworthiness.

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. The Company also had access to credit facilities (totaling EUR 202.5m) as of the reporting date, which, apart from EUR 1.4m in guarantees, had not been utilized.

The average fixed-interest period for financial liabilities in the Residential segment was around eight years as of the reporting date. Only minor refinancing arrangements and borrowings were made in fiscal year 2023. In addition to subsidized loans amounting to EUR 124.6m, a further EUR 140.0m was raised to supplement the financing of new-build investments. The weighted average interest rate as of the reporting date remained low at around 1.1%, well below current market interest rates.

Follow-up conditions have already been arranged for a volume of EUR 300m for the corporate bond with a nominal amount of EUR 500m, which is due to be refinanced in the fourth quarter of 2024 and currently bears interest at 0%. It will be refinanced by loans secured by land charges with terms of between five and twelve years.

In addition, a loan of EUR 100.0m was granted by Council of Europe Development Bank (CEB) in the second quarter of 2023 to provide supplementary financing for energy-efficient new-build investments in 2024 and beyond. Another loan of EUR 35.0m will be granted by Investitionsbank des Landes Brandenburg in 2024.

Two further bridge loans of EUR 305.0m were concluded for the School Construction segment in fiscal year 2023, of which EUR 71.0m was drawn down in 2023 in line with the progress of construction. HOWOGE's first school construction project is scheduled for completion in the second quarter of 2024. In connection with the handover and commissioning, a loan agreement with a volume of EUR 162.5m was concluded to refinance the bridge loan.

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 2023	Thereof Residential	31 Dec 2022	Thereof Residential
Financial liabilities[1]	4,257.6	3,868.6	3,918.5	3,764.9
Cash and cash equivalents	-273.7	-188.2	-158.3	-128.2
Net financial liabilities	**3,984.0**	**3,680.4**	**3,760.2**	**3,636.7**
Investment property	12,325.1	12,325.1	13,281.1	13,281.1
Prepayments on investment property	96.5	96.5	62.6	62.6
Net LTV ratio (in %)	**32.1%**	**29.6%**	**28.2%**	**27.3%**

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

The LTV ratio increased to around 32.1% compared to 31.12.2022, well below the self-imposed maximum of 50%. The increase is largely attributable to the market-related impairment of the real estate portfolio. The loan-to-value ratio adjusted for the financial liabilities of EUR 389.0m of the School Construction segment was 29.6% as of the reporting date.

Statement of cash flows

Statement of cash flows (condensed):

in EUR k	2023 Total	Thereof School Construction	Thereof Residential	2022 Total
Cash flows from operating activities	83,554	-186,421	269,975	242,192
Cash flows from investing activities	-295,247	1,385	-296,631	-1,694,686
Cash flows from financing activities	327,106	240,421	86,684	99,552
Net change in cash and cash equivalents	**115,413**	**55,385**	**60,028**	**-1,352,943**
Cash and cash equivalents as of 1 January	**157,657**	**30,062**	**127,595**	**1,510,601**
Cash and cash equivalents as of 31 December	**273,069**	**85,447**	**187,623**	**157,657**

In 2023, cash and cash equivalents solely comprise freely available cash.

The statement of cash flows shows that the available cash and cash equivalents in the Group increased from EUR 157.7m in 2022 to EUR 273.1m. The effect stems from loans raised as part of the School Building campaign.

Cash flows from operating activities decreased by EUR 158.6m in fiscal year 2023, mainly due to the increase in inventories for school construction projects combined with the decrease in trade payables, other liabilities and contract liabilities.

Cash flows from investing activities were negative in fiscal year 2023 due to investments made in residential investment properties.

Cash flows from financing activities comprise in particular cash received from new borrowings and loans of EUR 428.4m, offset by EUR 132.5m in repayments of borrowings and EUR 42.4m in interest payments.

2.2.5 General assessment of the economic situation

The assets, liabilities, financial position and financial performance of the HOWOGE Group are positive overall. Positive operating results were once again achieved in fiscal year 2023 with FFO of EUR 197.9m. However, the loss from the remeasurement of investment property led to a consolidated loss for the period of EUR -721.2m and reduced the LTV ratio to 32.1%. Nevertheless, HOWOGE has a sound financing structure and is securely financed despite the currently difficult market conditions.

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 2023, which will be made available for ten 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 rise in interest rates and falling property values are driving down prices and building pressure to sell on the real estate market. 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 value-based compliance 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 is being centralized in order to optimize the processes. Coupled with digitalization, the centralized procurement project offers potential for boosting efficiency.

There is 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

The key elements of the internal control and risk management system in relation to the financial reporting process are described below. 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).

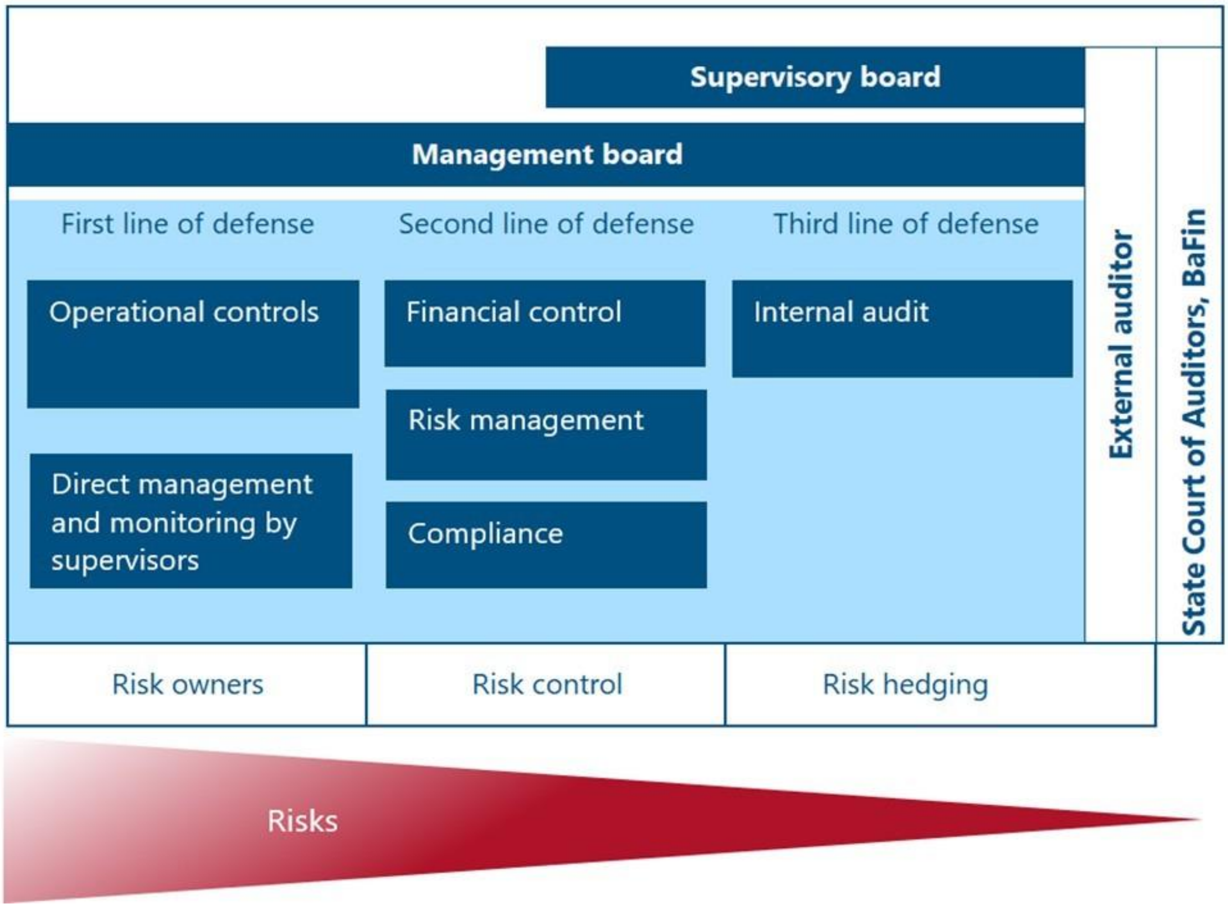
HOWOGE’s general definition of risk is a potential negative deviation from defined corporate objectives, particularly one that poses a threat to economic success or the implementation of business plans, its good reputation or compliance with all relevant laws and agreements. This relates to all internal 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 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 Governance, Risk and Compliance (GRC) function is responsible for coordinating and monitoring the RMS, organizing its processes and for the methodologies. The organizational structure in place as well as regular consultation with the functional departments, 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 fiscal year 2023, the "Risk" (risk management, data protection, IT/information security) and "Compliance and Values" functions were merged to form the Governance, Risk and Compliance (GRC) function to ensure coordinated management and a holistic view of the associated requirements. This will support the rapid identification and holistic assessment of (potential) risks. The synergy effects enable more efficient and comprehensive identification and assessment of risks.

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. In addition, regular meetings are held between the head of Governance, Risk and Compliance and the chairman of the supervisory board and the chair of the audit committee to discuss risk-relevant matters.

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 seven 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) – the existing risks are jointly analyzed, reviewed and assessed by risk owners, risk management and compliance during annual risk workshops. The category of "capital market risks," which was introduced in 2021, was transferred to the risk categories of "legal and compliance risks" and "financial risks" in the fiscal year. In order to specify

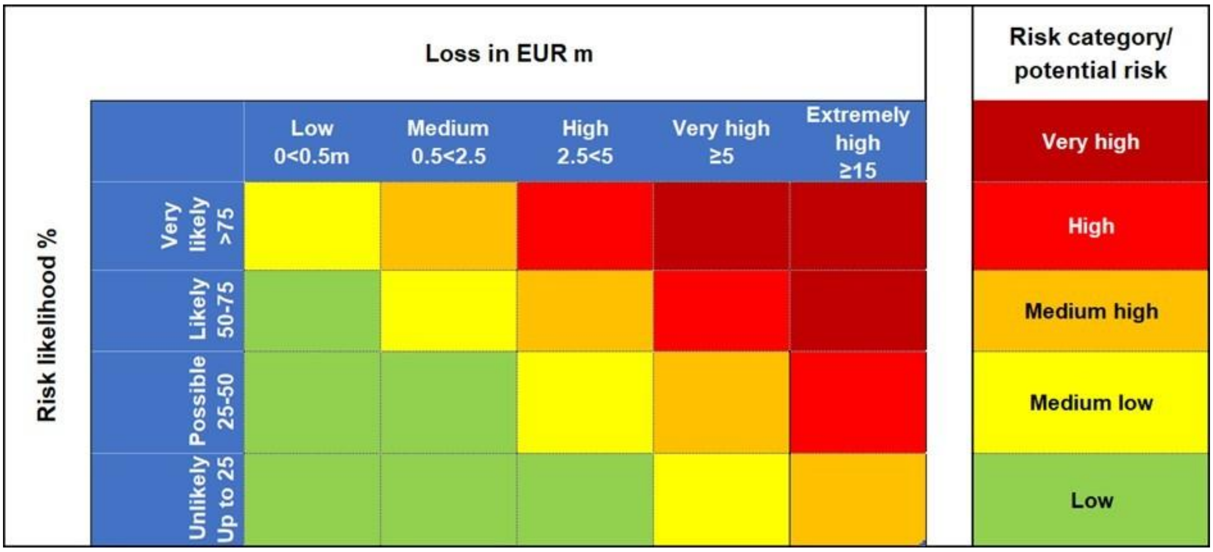
and prioritize risks, HOWOGE assesses and rates risks in terms of their gross impact as well as their net impact and likelihood, considering the description of existing risk mitigation measures. The effect on liquidity and economic viability for an analysis period of five years is a key benchmark for 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 with five rating categories for the loss that could be caused by potential risks. Risk likelihood has a four-category rating scale.
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
- 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 was substantially abated for the winter of 2023/2024. The sharp price increases of the last 24 months have eroded the purchasing power of private households, even though inflation rates are now falling again.

The interest rate hikes in particular are a burden for capital-intensive companies. Interest rates for property loans have more than tripled since December 2021 and are therefore weighing on the profitability of investments in residential construction.

The municipal housing associations have frozen rents, waiving rent increases until 31.12.2023. The provisions of the new cooperation agreement for state-owned housing companies came into force on 01.01.2024 and once again allow moderate rent increases in the housing portfolio.

Standard risks

The standard risk catalog contains group-wide potential risks in the seven risk categories of organizational and process risks, HR and management risks, financial risks, legal and compliance risks, real estate risks, market and location risks and operational services 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: likely, 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 Russian war in Ukraine and other geopolitical tensions are amplifying the risk of cyber attacks by state-sponsored actors. 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 addressed by full-service outsourcing of IT operations to an ISO 27001-certified service provider and outsourcing of the data center operation. Through regular consultations with the internal information security officer, the Group ensures 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 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 requirements management and 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

The rising demand for skilled personnel driven by digitalization and new technologies and aggravated by 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 an increasing 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 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, in the past loan agreements generally had long terms of ten to 20 years. Due to the current market situation and the significant rise in the yield curve, loan agreements with shorter terms (< ten years) are now being concluded again. Furthermore, banks have become more reluctant to commit to long-term fixed interest rates (> ten 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. Follow-up conditions have already been arranged for a volume of EUR 300m for the corporate bond with a nominal amount of EUR 500m, which is due to be refinanced in the fourth quarter of 2024 and currently bears interest at 0%. It will be refinanced by loans secured by land charges with terms of between five and twelve years.

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: 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. External tax advisors are 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: likely, loss: extremely high)

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 target, 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 target, HOWOGE started to devise a climate strategy in October 2022. A new climate target was developed in workshops with HOWOGE departments held during the fiscal year and the most important levers for achieving this target were identified.

With the non-financial report issued in 2025 for fiscal year 2024, HOWOGE will be subject to the new Corporate Sustainability Reporting Directive (CSRD). Under the CSRD, reporting standards will become much more comprehensive and at the same time more granular, and the methodological requirements for fulfilling the reporting obligation will also become more detailed. Breaches of the CSRD are likely to result in administrative action (fines will be likely), but no sanctions regime is currently in place. In 2023, HOWOGE launched a project to identify and respond to requirements.

The NIS2 Directive was adopted in November 2022 to strengthen the resilience of network and information systems in the European Union against cyber threats. Implementation into national law is expected in October 2024. The directive focuses on critical sectors such as energy, health, transport and digital infrastructure. The aim is to support EU countries in developing and implementing effective measures to detect, prevent and manage cyber attacks. The implementation period for the prescribed measures after the law comes into force is expected to be 24 months. The extent to which HOWOGE will be affected by the legislation will be reviewed after the directive has been transposed into national law. Notwithstanding this, the possible fields of action will be evaluated at the beginning of 2024 in a gap analysis.

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: possible, loss: medium)

Fraud is a risk particularly where HOWOGE employees have business, contractual or personal relationships with external individuals. Unlawful behavior by potential tenants can occur when letting apartments. Likewise, markets in which there is a housing shortage are particularly prone to improper practices when letting apartments. 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. Those responsible for compliance help 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.

Breach of regular and certain ad hoc disclosure obligations

(Risk likelihood: unlikely, 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.

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 is higher than in the prior year against the backdrop of macroeconomic developments and rising interest rates, but is not yet critical due to a conservative valuation approach which understands that market fluctuations are not unusual in a real estate cycle. For HOWOGE as a property holder, the long-term development of values is relevant; this offers potential due to the excess demand. 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 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. HOWOGE has 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 once again this fiscal year in the form of constantly rising construction costs and the often limited availability of construction services. Although the risk has stabilized in the fiscal year, the ongoing conflict in Ukraine and the resulting energy crisis continue to dominate the market situation. 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 represent a cluster 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: possible, loss: 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 persistently high inflation and still high energy costs will impair tenants' ability to pay, especially considering that wage and salary increases will not be able to keep pace with inflation.

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. In addition, the development of rent arrears is closely monitored in a monthly reporting process.

Neighborhood stability

(Risk likelihood: possible, loss: medium)

The growing imbalance in the social make-up of HOWOGE residents towards socially disadvantaged groups, often with diverse cultural backgrounds, 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 the three customer centers with their local contact points, 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 strategy has been developed in consultation with the supervisory board and Senate and is regularly updated.

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.

Risk events (singular risks)

The risks described below are substantially unchanged on the prior year. Upcoming regulatory challenges such as NIS2 or CRSD implementation risks are included in the standard risks.

Cost and litigation risks from the planned amendment of the GefStoffV

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

On 15.03.2022, the federal government issued a preliminary draft for the amendment of the GefStoffV ["Gefahrstoffverordnung": German Hazardous Substances Ordinance] 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 80m))

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, 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.

3.2.3 Overall assessment

In fiscal year 2023, 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 2024 and 2025. 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 2023 business figures

Overall, HOWOGE had a very successful fiscal year 2023 despite the difficult market environment and largely achieved its targets.

As of 31.12.2023, the housing portfolio was slightly lower – at 76,392 residential units – than the forecast figure of 76,650. The vacancy rate and tenant turnover rate were in line with expectations at 1.5% and 4.3%, respectively, as of 31.12.2023. The average rent for the housing portfolio was EUR 6.42/sqm (forecast for 2023: EUR 6.42/sqm) and the WBS reletting rate was 64%, which met the target of at least 63%. In 2023, the start of construction work covered more residential units (around 980) than the forecast of more than 600 residential units. In the reporting year, a total of 973 new residential units were completed, falling short of the forecast 1,200 residential units. This was due to delays brought on by supply chain disruptions and postponements to the following year.

In the Residential segment, HOWOGE's actual rent came to EUR 381m in fiscal year 2023, which is on a par with the forecast amount of EUR 382m.

For the School Construction segment, the Company expected to raise additional external financing of around EUR 300m, leading to indebtedness of EUR 464m for this segment as of 31.12.2023. Due to delays, only EUR 241m in external financing was raised for school construction and indebtedness was at EUR 394m as of the end of the year. At EUR -1m, the FFO contribution for the School Construction segment met the forecast of EUR -1m.

In the reporting year, the Group generated adjusted EBITDA of EUR 257m (forecast for 2023: EUR 240m to EUR 260m) and FFO of EUR 198m (forecast for 2023: EUR 180m to EUR 200m). Both metrics were therefore within the forecast range. The forecast was achieved at the upper end of the range, as lower costs were incurred than planned, particularly for personnel and material costs, as well as lower maintenance costs due to postponements of work and more favorable contract awards. The loss for the period of EUR -721m was well below the original forecast of EUR -300m, which was revised to EUR -700m after the first six months of the year. The deviation is mainly attributable to the loss from the remeasurement of investment property, which cannot be reliably forecast.

As of 31.12.2023, HOWOGE's LTV ratio was at 32.1%, slightly higher than the forecast of 31% and well below the maximum of 50%.

4.2 Forecast for fiscal year 2024

Our forecast for fiscal year 2024 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 2024, we expect a persisting impact from the deterioration in the overall economic environment due to the increased interest rates and inflation. 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 changed market parameters, we expect a negligible impairment of our real estate holdings. The vacancy rate is expected to remain constant at a low level.

A loss of around EUR 160m is forecast for the Group for 2024 as a result of the expected impairment of the portfolio in light of the change in the market environment. In the volatile market environment, the real estate valuation forecast is associated with a high degree of uncertainty, which can lead to major fluctuations in profit or loss for the period. We forecast adjusted EBITDA of EUR 240m to EUR 260m for fiscal year 2023. Based on FFO of EUR 198m in 2023, we again expect a figure in the region of EUR 180m to EUR 200m in 2024. The main reasons for the unchanged FFO range are maintenance work deferred from 2023 to 2024 and higher interest expenses. Due to rising interest expenses, the interest coverage ratio for the Residential segment is forecast to fall to 5x.

The forecast FFO of EUR 180m to EUR 200m at group level includes a planned EUR 19m increase in actual rent in the Residential segment in 2024 to around EUR 400m compared to 2023. On the basis of the planned additions from new-builds, we expect to own a housing stock of around 77,300 apartments as of 31.12.2024. We forecast the net rent (excluding heating and utilities) for residential units to increase on average for the year from EUR 6.42/sqm to EUR 6.65/sqm, as a result of planned additions of new-builds and moderate increases in rents for existing tenants. These will be based on the provisions of the cooperation agreement. We expect letting-related vacancy rates to be at the level of 2023. With regard to new lets and reletting, we are planning to achieve a WBS reletting rate of at least 63% and a tenant turnover rate of around 5%. We therefore expect both figures to be at the prior-year level. By the end of 2024, we expect to see a vacancy rate of 1.6%, which will partly be attributable to the first-time letting of completed new-build apartments. In 2024, we plan to start construction of around 300 apartments and complete around 1,000 apartments from new-build projects.

HOWOGE anticipates a net LTV ratio of 32% for fiscal year 2024, taking into account a slight impairment of the real estate portfolio.

In the School Construction segment, for 2024 we expect FFO in the range of EUR -5m to EUR -10m due to upfront costs and additional borrowings of around EUR 400m compared to the actual figure for 2023. Total investments of around EUR 320m are expected for 2024.

Furthermore, the Company plans to make its building stock climate-neutral by 2045 at the latest. When it developed its climate strategy, the target for climate neutrality was set at no more than 3 kg CO_2/sqm.

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

Berlin, 25.03.2024

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

The Management Board

Greis Schiller

Katharina Greis Ulrich Schiller

Statement on Berlin Corporate Governance Codex

HOWOGE Wohnungsbaugesellschaft mbH (HOWOGE) is subject to the German Corporate Governance Codex (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 Codex as amended on 28.04.2022 with due consideration to the guidelines for holdings issued by the Berlin Senate Department for Finance on 15.12.2015.

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. The supervisory board has adopted its own rules of procedure.

New articles of association came into force on 16.11.2023.

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. 10 (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

Ms. Katharina Greis has been the commercial general manager since 01.04.2023.

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.

Management board remuneration features fixed and variable components. The variable component is paid out according to the achievement of target agreements defined each year. 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.

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

No resolutions were passed by circulation outside of supervisory board meetings.

The chairman of the supervisory board adopted a resolution on a matter of particular urgency in accordance with Art. 7 (6) of the articles of association in conjunction with Art. 1 (5) of the rules of procedure. The supervisory board was immediately notified of the resolution.

The supervisory board held four regular and one extraordinary meeting.

The supervisory board has the following committees:

- Audit committee (AC)
- Personnel committee (PC)
- Building committee (BC)

The audit committee held two regular meetings.

The personnel committee held two regular and one extraordinary meeting.

The building committee held four regular meetings.

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.

In fiscal year 2023 Ms. Elfriede Baumann was a member of the following other supervisory boards and management boards:

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

- Chair of the TU Wien Foundation

In fiscal year 2023 State Secretary Tanja Mildenberger (since 16.06.2023) was a member of the following other supervisory boards:

- Berliner Bäder-Betriebe AöR
- BBB Infrastruktur Verwaltung GmbH
- degewo AG

In fiscal year 2023 State Secretary Jana Borkamp (until 16.06.2023) was a member of the following other supervisory and administrative boards:

- Berliner Bäder-Betriebe AöR
- IT-Dienstleistungszentrum Berlin AöR

In fiscal year 2023 State Secretary Alexander Slotty (since 16.06.2023) was a member of the following other supervisory boards:

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

In fiscal year 2023 Senator Christian Gaebler (until 16.06.2023) was a member of the following other supervisory boards:

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

In fiscal year 2023 Dr. Jochen Lang (until 31.01.2023) was a member of the following other supervisory boards:

- Stadt und Land Wohnbauten GmbH

In fiscal year 2023 Mr. Sebastian Lange was the managing director of the following company:

- Deutsche Bahn Stiftung gGmbH

Mr. Hendrik Jellema did not perform any other supervisory board, managing director or management board functions in fiscal year 2023.

Mr. Jörn Lorenz did not perform any other supervisory board, managing director or management board functions in fiscal year 2023.

Mr. Frank Sparmann did not perform any other supervisory board, managing director or management board functions in fiscal year 2023.

Mr. Michael Schiller did not perform any other supervisory board, managing director or management board functions in fiscal year 2023.

The remuneration of the supervisory board members comprises a fixed amount as determined by the shareholder resolution of 25.10.2019, 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 only and did not pursue any personal interests.

The general managers participated in various committees in the course of their duties and in consultation with the chairman of the supervisory board:

Ms. Katharina Greis held the following other functions in fiscal year 2023:

- Member of the association committee of BBW Verband Berlin-Brandenburgischer Wohnungswirtschaft e. V. (since 19.10.2023)

Mr. Ulrich Schiller held the following other functions in fiscal year 2023:

- GdW conference delegate
- Member of the advisory board of Smart living & Health Center e. V.
- Member of the advisory board of Techem GmbH
- Member of the board of trustees of Stiftung Zukunft für Berlin
- Member of Marzahn-Hellersdorfer Wirtschaftskreis e. V.
- Member of 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
- Member of the association committee of BBU Verband Berlin-Brandenburgischer Wohnungsunternehmen e. V.

No transactions with the Company concluded by members of the management board or related parties were submitted to the supervisory board for approval. Consequently, the supervisory board did not make use of the exemption for transactions with the Company.

No supervisory board members submitted any consulting or service contracts or contracts for work and services or other contracts with the Company to the supervisory board for approval.

The supervisory board did not issue any rules of procedure for specific transactions with the Company in the fiscal year. No loans were granted to members of the management board or of the supervisory board or to any relatives of board members.

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 2023 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 were discussed by the supervisory board and in the audit committee with the management board. 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 in relation to the Company, its board members or to the audit firm's boards. 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 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, 21.03.2024

Hendrik Jellema	Ulrich Schiller	Katharina Greis
Chairman of the Supervisory Board	General Manager	General Manager

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung

HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

II. Consolidated financial statements for the fiscal year from 1 January to 31 December 2023

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 2023

Assets in EUR k	Note	31 Dec 2023	31 Dec 2022
Non-current assets			
Intangible assets	7.6	1,235	1,291
Investment property	7.1	12,325,089	13,281,094
Prepayments on investment property	7.2	96,497	62,648
Property, plant and equipment	7.3	76,751	58,645
Investments in associates and joint ventures	7.11	19,270	15,925
Financial assets	7.7	97,053	91,790
Rental and lease receivables	7.7	35	13
Receivables from other trade	7.7	-	39
Total non-current assets		**12,615,929**	**13,511,444**
Current assets			
Inventories for school construction projects	7.13	283,913	111,131
Rental and lease receivables	7.15	40,022	32,072
Receivables from other trade	7.7	474	486
Contract assets	6.1	9,054	42,560
Other financial assets	7.7	4,985	4,482
Other assets	7.12	57,102	55,252
Income tax receivables		2,961	2,069
Cash and cash equivalents	7.17	273,650	158,255
Assets held for sale	7.14	33,936	10,800
Total current assets		**706,097**	**417,105**
Total assets		**13,322,027**	**13,928,549**

Consolidated balance sheet

as of 31 December 2023

Equity and liabilities

in EUR k	Note	31 Dec 2023	31 Dec 2022
Equity			
Subscribed capital		25,000	25,000
Capital reserves		320,937	317,901
Accumulated retained earnings		7,776,551	7,693,957
Consolidated accumulated loss/net retained profit		-721,226	79,804
Total equity	**7.18**	**7,401,263**	**8,116,662**
Non-current liabilities			
Other provisions	7.19	1,330	1,182
Financial liabilities	7.16	3,556,683	3,913,790
Other liabilities	7.20	79,028	39,195
Deferred tax liabilities	7.21	1,385,534	1,611,888
Total non-current liabilities		**5,022,575**	**5,566,055**
Current liabilities			
Other provisions	7.19	7,107	15,947
Rental and lease liabilities		17,137	13,570
Trade payables		121,768	112,102
Contract liabilities	6.1	23,289	43,946
Financial liabilities	7.16	700,961	4,713
Tax liabilities		13,901	3,478
Other liabilities	7.20	14,027	52,076
Total current liabilities		**898,189**	**245,832**
Total liabilities		**5,920,764**	**5,811,887**
Total equity and liabilities		**13,322,027**	**13,928,549**

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2023

in EUR k	Note	2023	2022
Rental and lease revenue (IFRS 16)		385,211	372,446
Revenue from operating costs (IFRS 16)		38,592	30,055
Revenue from real estate management	**6.1**	**423,804**	**402,501**
Revenue from operating costs (IFRS 15)		28,926	43,552
Revenue from heating costs (IFRS 15)		78,674	62,554
Revenue from management services and other trade		7,784	5,290
Other revenue		1,889	1,399
Other revenue from real estate management	**6.1**	**117,274**	**112,795**
Total revenue		**541,078**	**515,296**
Profit or loss from the remeasurement of investment property	6.2	-1,179,694	-198,203
Change in inventories for school construction projects		172,783	89,692
Own work capitalized		3,765	3,837
Cost of materials	6.3	-363,767	-239,862
Personnel expenses	6.5	-64,624	-54,636
Amortization, depreciation and impairment	6.4	-7,266	-3,295
Impairment of financial assets	7.9	-3,623	-3,869
Other operating income	6.6	57,028	12,902
Other operating expenses	6.7	-36,257	-30,910
Profit or loss from investments accounted for using the equity method	7.11	2,400	2,375
Net valuation effect from assets held for sale	7.14	-300	-400
Finance income	6.8	12,190	5,513
Finance costs	6.8	-43,363	-41,459
Other taxes[1]	6.10	-16,551	-16,394
Profit or loss before taxes		**-926,202**	**40,587**
Income taxes	6.9	204,976	41,627
Profit or loss for the period		**-721,226**	**82,214**
Total comprehensive income		**-721,226**	**82,214**

[1]Other taxes are included in the profit or loss before taxes in fiscal year 2023 and the prior-year column has been adjusted accordingly.

In the reporting periods ended 31.12.2023 and 31.12.2022, 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 2023

in EUR k	Subscribed capital	Capital reserves	Retained earnings	Reserve required by the articles of association	Accumulated retained earnings	Consolidated accumulated loss/net retained profit	Total equity
1 Jan 2023	25,000	317,901	7,671,458	22,500	7,693,956	79,804	8,116,662
Allocation to retained earnings from consolidated profits earned	-	-	82,824	-	82,824	-80,033	2,791
Appropriation of retained earnings	-	-	- 229	-	- 229	229	-
Disclosure of reserve required by the articles of association of the parent company[1]	-	-	10,000	- 10,000	-	-	-
Contribution from land transfer	-	3,036	-	-	-	-	3,036
Total comprehensive income	-	-	-	-	-	-721,226	-721,226
31 Dec 2023	**25,000**	**320,937**	**7,764,053**	**12,500**	**7,776,551**	**-721,226**	**7,401,263**

[1]As of 31 December 2023, only the reserves of HOWOGE Wohnungsbaugesellschaft mbH of EUR 12,500k are reported as reserves required by the articles of association.

in EUR k	Subscribed capital	Capital reserves	Retained earnings	Reserve required by the articles of association	Accumulated retained earnings	Consolidated accumulated loss/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**	**7,693,956**	**79,804**	**8,116,662**

Consolidated statement of cash flows

for the period from 1 January to 31 December 2023

in EUR k	2023	2022
Profit or loss before taxes	**-926,202**	**56,981**
Non-cash expenses and income	**1,131,624**	**225,098**
Losses/(gains) on the remeasurement of investment property and assets held for sale	1,179,694	209,403
Amortization, depreciation and impairment/(reversals of impairment) of intangible assets and property, plant and equipment	7,266	3,295
Impairment/reversals of impairment of financial assets	-2,901	-
(Decrease)/increase in provisions	-8,818	8,679
Other non-cash expenses/(income)	-41,141	6,096
(Gain)/loss on joint ventures accounted for using the equity method, and other investments	-2,475	-2,375
Working capital adjustments	**-131,602**	**-49,047**
Decrease/(increase) in rental and lease receivables, receivables from other trade and contract assets	11,533	-65,112
Decrease/(increase) in inventories	-161,355	-100,492
Decrease/(increase) in non-current assets held for sale and discontinued operations	-23,136	-10,800
(Decrease)/increase in trade payables and other liabilities, and contract liabilities	-8,892	106,345
Non-cash government grants	50,247	21,012
Reclassifications to other areas of activity	**9,735**	**9,160**
(Gains)/losses on the disposal of intangible assets and property, plant and equipment	-	150
Net finance costs/(income)	37,344	35,946
Other taxes paid	-16,551	-16,394
Income taxes paid	-11,058	-10,542
Cash flows from operating activities	**83,554**	**242,192**

Cash paid for investments in investment property	-299,349	-1,141,873
Cash paid for investments in other non-current assets	-2,764	-553,073
thereof in property, plant and equipment	-378	2,272
thereof in financial assets	-2,386	-555,345
Cash received from disposals of other assets	-	-150
thereof in property, plant and equipment	-	-150
Interest received	6,866	410
Cash flows from investing activities	**-295,247**	**-1,694,686**

Cash received from borrowings	428,384	307,619
Cash repayments of borrowings	-132,534	-186,504
Proceeds from shareholder loans	74,576	20,225
Cash repayments of lease liabilities	-896	-316
Interest paid	-42,424	-41,473
Cash flows from financing activities	**327,106**	**99,551**

Net change in cash and cash equivalents	**115,413**	**-1,352,943**
Cash and cash equivalents as of 1 January	**157,657**	**1,510,601**
Cash and cash equivalents as of 31 December	**273,069**	**157,657**

Condensed statement of cash flows

for the period from 1 January to 31 December 2023

in EUR k	**2023**	**2022**
Cash flows from operating activities	**83,554**	**242,192**
Cash flows from investing activities	**-295,247**	**-1,694,686**
Cash flows from financing activities	**327,106**	**99,551**

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 around 76,400 residential units of its own relevant for valuation as of the reporting date 31.12.2023, 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.

Under the cooperation agreement "Affordable rents, new housing construction and social housing supply" 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 (WBS). These also include, in particular, special needs groups, such as recipients of transfer benefits, refugees and homeless persons. 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 in fiscal year 2023. From 01.01.2024, the provisions of the new cooperation agreement will come into force for the state-owned housing companies, which, among other things, will allow rent increases of up to 2.9% on average for existing properties. At the same time, it ensures that WBS-eligible households do not have to spend more than 27% of their household income on net rent (excluding heating and utilities).

These consolidated financial statements were authorized by the management board for issue to the supervisory board on 25.03.2024.

1.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements as of 31.12.2023 were prepared in accordance with International Financial Reporting Standards (IFRSs) and the interpretations of the IFRS Interpretations Committee, as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code]. All pronouncements of the International Accounting Standards Board (IASB) whose adoption is mandatory were considered. The income statement for the period from 01.01.2023 to 31.12.2023 is classified using the nature of expense method. HOWOGE is a publicly traded company within the meaning of Sec. 264d HGB and is therefore considered a large corporation within the meaning of Sec. 267 HGB. Furthermore, HOWOGE is a corporation within the meaning of Sec. 327a HGB.

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 01.01.2023.

The new or amended standards and interpretations listed below were effective for the first time in fiscal year 2023. They did not lead to any significant impact on these consolidated financial statements.

Standard	Change	Effective date
IFRS 17	Insurance Contracts including Subsequent Amendments to IFRS 17: Insurance Contracts	1 Jan 2023
IAS 1	Disclosure of Accounting Policies	1 Jan 2023
IAS 8	Definition of Accounting Estimates	1 Jan 2023
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 Jan 2023

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.

Standard	Change	Effective date
IFRS 16	Lease Liability in a Sale and Leaseback	1 Jan 2024
IAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	1 Jan 2024
IAS 7 and IFRS 7	Supplier Finance Arrangements	1 Jan 2024
IAS 21	Lack of Exchangeability	1 Jan 2025

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

3 Consolidation principles

3.1 Subsidiaries

The consolidated financial statements as of 31.12.2023 include the separate financial statements of HOWOGE and its subsidiaries (see the table below). Alongside the parent company, the basis of consolidation as of 31.12.2023 comprised 17 companies, one of which, HOWOGE Reinigung GmbH, was added in fiscal year 2023. Unless otherwise stated, all companies in the list of shareholdings are fully consolidated.

Company	Registered office	Shareholding 2023	Shareholding 2022
Wohnungsbaugesellschaft Lichtenberg mbH	Berlin, Germany	100%	100%
HOWOGE Servicegesellschaft mbH[1]	Berlin, Germany	100%	100%
HOWOGE Reinigung GmbH[1,2]	Berlin, Germany	100%	-
HOWOGE Wärme GmbH[1]	Berlin, Germany	100%	100%
Kramer + Kramer Bau- und Projektmanagement GmbH[1]	Berlin, Germany	100%	100%
Entwicklungsgesellschaft Elisabeth-Aue-GmbH[3]	Berlin, Germany	50%	50%
Dolgenseestrasse GbR[4]	Berlin, Germany	<1%	<1%
HOWOGE Klingsorstrasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Herbststrasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Roedernallee GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Soldinerstrasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Schöneberger Strasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Goldschmidtweg GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Damerowstrasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Baumschulenstrasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Mühsamstrasse GmbH[1]	Berlin, Germany	100%	100%
HOWOGE High Deck Siedlung B.V.	Amsterdam, Netherlands	100%	100%
HOWOGE Landsberger Allee GmbH[1]	Berlin, Germany	100%	100%
HOWOGE Goeckestrasse GmbH	Berlin, Germany	100%	100%

[1]Exemption pursuant to Sec. 264 (3) HGB

[2]Included for the first time in fiscal year 2023

[3]Consolidated using the equity method

[4]Shareholding of 0.4%

HOWOGE Reinigung GmbH was established by articles of association dated 07.02.2023 and entered in the commercial register on 24.03.2023. The purpose of the entity is to provide cleaning services in the buildings and related external facilities owned or managed by HOWOGE. It has commenced business operations successively since 01.07.2023.

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 as remeasured at the date of acquisition. All intragroup receivables and liabilities, income and expenses and gains and losses resulting from intragroup transactions are eliminated.

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

The exemption provisions of Sec. 264 HGB were applied for the first time in fiscal year 2023. Companies that have made use of the exemption provision pursuant to Sec. 264 (3) HGB are marked accordingly in the list of shareholdings.

3.2 Joint ventures

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

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

4 Accounting policies

4.1 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 twelve 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 purchases of real estate whose economic transfer has not yet taken place are reported under prepayments on investment property.

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 31.12.2023 and the comparative period 31.12.2022, 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. 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. 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 contractual obligations, which were taken into account in connection with the valuation of investment property if they have a significant effect on the valuation.

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 1.20% (2.98%) due to the anticipated minimum (average) development of rents in the next five years. *Note 7.1 Investment property* contains an overview of the key value drivers.

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.

There are currently contractual obligations in place to purchase five projects (development). HOWOGE has undertaken to purchase the project on completion if the contractual requirements are met. To this end, payments are regularly made on the basis of construction progress according to predefined milestones. There are no further contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

See *note 7.15 Financial liabilities* for information on investment property encumbered with real property liens in favor of various creditors.

4.2 Inventories for school construction projects

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

Cost includes expenditure that can be directly attributed to the units of production, in particular the cost of materials and labor costs. Cost also includes fixed and variable production overheads that are incurred during conversion into finished goods. Production overheads in this context refer directly to the proportionate costs of management and administration. As the average construction period for school buildings is up to 6.5 years, the requirements for a qualifying asset are met. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as the cost of that asset.

A 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.

4.3 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

4.4 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.

4.5 Impairment of assets

Intangible assets and property, plant and equipment are tested for impairment pursuant to IAS 36 *Impairment of Assets* as soon as there are indications or changes in circumstances that point to an impairment. 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.

It is assessed at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset. If the recoverable amount of the asset or CGU increases following the impairment, the impairment loss is reversed to a maximum of the recoverable amount. The reversal is limited to the amortized or depreciated carrying amount that would have been recognized had no impairment loss previously been recognized. The write-up is recognized in profit or loss. Reversals of impairment losses recognized on goodwill are not permitted.

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

4.6 Leases

4.6.1 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 one 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. Lease liabilities are reported as non-current and current financial liabilities in the statement of financial position based on their maturity.

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 cost in accordance with the accounting rules of IAS 40 based on their initial recognition and are reported under the investment property item. The other right-of-use assets are reported under property, plant and equipment.

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. The lessee's right-of-use assets that meet the definition of IAS 40 *Investment Property* are measured using the fair value model.

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.

4.6.2 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.

4.7 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.

4.7.1 Rental and lease receivables and receivables from other trade

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

4.7.2 Other financial assets

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.

4.7.3 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 contract liability is presented as part of financial liabilities. See note *4.14 Revenue recognition* for further details.

4.7.4 Cash and cash equivalents

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

4.7.5 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.
Aside from the abovementioned liabilities from unbilled operating costs (4.7.3), financial liabilities include liabilities to banks, bonds issued (4.7.6) and government grants (4.7.7) as well as liabilities from rental and lease agreements and trade payables.

4.7.6 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.

4.7.7 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 also deferred and subsequently recognized as other revenue over the remaining term of the liabilities concerned.

4.8 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.

In 2023, borrowing costs of EUR 1,742k were included for the first time in the cost of three school construction projects, which were recognized as assets under construction. The related interest rate is 3.0%.

4.9 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 written off in full.

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.

4.10 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.

4.11 Fair value of financial instruments

HOWOGE measures financial instruments at fair value at each reporting date (for details of the measurement of investment property, see also note *7.1 Investment property*). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments are accounted for in accordance with the provisions of IFRS 9 *Financial Instruments*. When financial instruments are not recognized at fair value, their fair value is determined for disclosure in the notes (see note *7.7 Financial assets and financial liabilities*).

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

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

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

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

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

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

4.12 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 twelve 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, unless IFRS 5 refers to another standard for measurement. Investment property classified as held for sale is measured at fair value pursuant to IAS 40.

4.13 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. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation as of the reporting date. 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.

4.14 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*.

4.14.1 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).

4.14.2 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 31.12.2023 for the prepayments received, which was done using a calculated allocation key based on the work in process figures (see note *6.1 Revenue from real estate management and other revenue from real estate management*).

Revenue from management services and other trade

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

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

Other revenue

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

4.14.3 Interest and similar income

Interest income is recognized using the EIR method on an accrual basis. Income from the subsequent measurement of life insurance policies is determined on the basis of the change in the regularly calculated guaranteed cash surrender values and participation features.

4.15 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 way the Group expects, at the reporting date, to settle the liability or realize the asset.

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

5 Significant accounting judgments, estimates and assumptions

5.1 Exercise of options and judgments

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

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

5.2 Estimates and assumptions

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

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

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

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

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

See note *7.1 Investment property* for a detailed description of the discounted cash flow (DCF) method applied. For reporting purposes, the respective fair values of the investment property held by HOWOGE are calculated pursuant to IAS 40 in conjunction with IFRS 13. The measurement can be influenced by changes in relevant market conditions, such as current rent levels and the interest rate level, which can have an impact on the capitalization rate (used to calculate the residual value from the most recent cash flow for the DCF calculation) and discount rate (used to discount the cash flows of the forecast horizon). 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.

The calculations are based in particular on past experience of the outcomes of previous tax audits and their effects for the subsequent periods as well as the currently applicable tax legislation and prevailing opinion. As such, there may be deviations from the current estimates in the future.

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

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

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

6 Notes to the income statement

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

in EUR k	2023	2022
Rental and lease revenue (IFRS 16)	385,211	372,446
Revenue from operating costs (IFRS 16)	38,592	30,055
Revenue from real estate management	**423,804**	**402,501**
Revenue from operating costs (IFRS 15)	28,926	43,552
Revenue from heating costs (IFRS 15)	78,674	62,554
Revenue from management services and other trade	7,784	5,290
Other revenue	1,889	1,399
Other revenue from real estate management	**117,274**	**112,795**
Total revenue	**541,078**	**515,296**

6.1.1 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 385,211k (2022: EUR 372,446k). Revenue from real estate management also includes revenue from allocable operating costs (property tax, building and liability insurance) of EUR 38,592k (2022: EUR 30,055k).

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

in EUR k	31 Dec 2023	31 Dec 2022
Due within one year	399,210	381,383
Between one and two years	415,849	390,909
Between two and three years	436,436	405,809
Between three and four years	459,820	423,879
Between four and five years	481,929	449,444
More than fice years	2,717,362	2,471,636

6.1.2 Other revenue from real estate management

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

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

- Operating and heating costs: over time

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

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

Contract assets and liabilities (IFRS 15)

in EUR k	31 Dec 2023	31 Dec 2022
Current contract assets from operating costs	6,856	30,488
Current contract assets from heating costs	2,677	13,429
Impairment loss (IFRS 9)	-479	-1,358
Total contract assets	**9,054**	**42,560**
Current contract liabilities from operating costs	16,329	15,562
Current contract liabilities from heating costs	6,960	28,384
Total contract liabilities	**23,289**	**43,946**

Revenue from operating costs relates to contract liabilities of EUR 16,329k (netted) as of 31 December (31.12.2022: EUR 15,562k). As of the reporting date, they contrasted with contract assets of EUR 6,856k (31.12.2022: EUR 30,488k). Revenue from heating costs relates to contract liabilities of EUR 6,960k (netted) as of the reporting date (31.12.2022: EUR 28,384k). As of the reporting date, they contrasted with assets of EUR 2,677k (31.12.2022: EUR 13,429k).

The decrease in contract liabilities and assets as of the reporting date 31.12.2023 is essentially due to the special effects from a sharp rise in macroeconomic costs during 2022, driven primarily by a hike in energy prices. This had a significant impact in the prior year, as the prepayments made and prepayments received could not be correctly balanced due to the dynamic growth. This development stabilized in fiscal year 2023.

6.1.3 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 1,994k (2022: EUR 891k) was recognized.

See note *7.21 Government grants* for further details.

6.2 Profit or loss from the remeasurement of investment property

Profit or loss from the remeasurement of investment property amounts to EUR -1,179,694k (2022: EUR - 198,203k). 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 -1,179,694k (2022: EUR -198,203k) were recognized in the consolidated statement of comprehensive income.

Rental income and income from residential services related to investment property came to EUR 385,211k in the fiscal year (2022: EUR 372,446k). Operating expenses directly connected with this property came to EUR 44,927k in the fiscal year (2022: EUR 50,595k). 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 the capitalization rates based on the higher level of interest rates. Further adjustments resulted from the commissioning of completed project developments and the assumptions on property market trends used for property valuation. Macroeconomic developments during fiscal year 2023 led to impairments on the properties.

In addition, the overall negative development of the fair value adjustment was generally influenced by the interest rate trend throughout the whole of fiscal year 2023.

6.3 Cost of materials

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

in EUR k	2023	2022
Facility management expenses	184,260	173,884
thereof operating costs	139,332	123,289
thereof maintenance and modernization	44,927	44,016
thereof other cost of purchased services	-	6,579
Expenses for land held for sale	0	2
Expenses for other goods and services	6,725	2,956
Total cost of materials	**190,984**	**176,842**
Change in inventories for property and other inventories	172,783	89,692
Adjustments to construction costs for school construction	-	-26,672
Cost of materials according to the income statement	**363,767**	**239,862**

The increase in facility management expenses in 2023 is connected to the full-year effects of higher energy costs, in particular heating costs, compared to the prior year. The higher change in inventories is due to the ongoing construction work as part of the School Building campaign and the associated projects.

6.4 Amortization, depreciation and impairment

in EUR k	2023	2022
Depreciation and impairment of property, plant and equipment	6,780	2,949
Amortization and impairment of intangible assets	487	346
	7,266	**3,295**

The increase in amortization, depreciation and impairment compared to the prior year is attributable on the one hand to the recognition of plant and machinery based on the distinction between IAS 40 and IAS 16. These items are reported under property, plant and equipment starting from fiscal year 2023 and are therefore subject to depreciation. On the other hand, the increase is due to the higher depreciation of residential buildings, some of which are for own use. No impairment was identified in fiscal year 2023.

Depreciation of right-of-use assets presented under property, plant and equipment is shown separately in note *7.3 Property, plant and equipment* and note *7.4 Leases as the lessee*; it amounted to EUR 34k in the fiscal year (2022: EUR 40k).

6.5 Personnel expenses

in EUR k	2023	2022
Wages and salaries	53,744	44,897
Social security costs	10,366	9,183
Pension costs	514	556
	64,624	**54,636**

Of pension costs, EUR 488k (prior year: EUR 493k) relates 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.

On average over the entire year, group headcount developed as follows:

	Average for 2023	Average for 2022
Management board (HOWOGE Wohnungsbaugesellschaft mbH)	2	1
Salaried employees (including management of subsidiaries)	698	656
Wage earners	320	289
Trainees	30	30
Students	2	6
	1,052	**981**

By company, the development breaks down as follows:

	Average for 2023	Average for 2022
HOWOGE Wohnungsbaugesellschaft mbH	687	660
HOWOGE Service GmbH	268	254
HOWOGE Reinigung GmbH	27	-
HOWOGE Wärme GmbH	46	41
Kramer + Kramer Bauprojektmanagement GmbH	25	26
	1,052	**981**

The increase in headcount in fiscal year 2023 is mainly due to the foundation of Howoge Reinigung GmbH and partly to the growth strategy in the various divisions.

6.6 Other operating income

in EUR k	2023	2022
Recognition of plant and machinery	38,387	-
Reversal of provisions	7,525	3,705
Out-of-period income	690	1,155
Income from cost allocations	169	464
Miscellaneous other income	10,257	7,578
	57,028	**12,902**

The increase in income compared to 2022 is mainly due to the recognition of plant and machinery of just under EUR 38.4m, in particular combined heat and power plants, which are classified as property, plant and equipment starting from fiscal year 2023 due to a review of the distinction between IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*. The figure also increased year on year due to grants of almost EUR 8.3m under KfW Bank's emergency aid for gas and heat program and the reversal of provisions for operating costs exempt from billing for December 2022.

6.7 Other operating expenses

in EUR k	2023	2022
IT costs	9,780	9,686
Audit and consulting fees	9,477	8,481
Non-staff expenses	4,781	3,325
Insurance premiums	3,119	2,649
Advertising and sponsorship costs	1,493	2,400
Training costs	2,745	2,059
Contributions to associations	506	379
Donations	350	321
Out-of-period expenses	693	294
Miscellaneous other operating expenses	3,314	1,317
	36,257	**30,910**

The increase in expenses compared to 2022 is attributable on the one hand to higher insurance premiums reflecting the general increase in premium payments, and on the other hand to investments in employee training. Miscellaneous other operating expenses rose by EUR 1,326k in the fiscal year, mainly due to increased litigation cost risks.

The auditor's total fees pursuant to Sec. 314 (1) No. 9a HGB for 2023 include EUR 708k for audit services and EUR 96k 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 assurance engagement on the non-financial report for the reporting year.

6.8 Finance income and costs

in EUR k	2023	2022
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	5,287	5,057
Other finance income	6,862	414
Finance income	**12,190**	**5,513**
Finance costs from loan liabilities	-35,730	-38,918
Finance costs from lease liabilities	-550	-541
Finance costs from provisions	-54	-62
Amortization of government grants received	-3,538	-1,426
Other finance costs	-3,492	-512
Finance costs	**-43,363**	**-41,459**
Net finance costs	**-31,173**	**-35,946**

Finance costs largely stem from the interest on property financing loans. See note *7.16 Financial liabilities* for the development of current and non-current liabilities.

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

	Net gains and losses from interest		Net gains and losses from		Net gains and losses from impairments	
in EUR k	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Financial assets (at fair value)	-	-	5,287	5,057	-	-
Financial assets (at amortized cost)	6,855	-784	-	-	-1,388	-1,341
Financial liabilities (at amortized cost)	-46,236	-41,811	-	-	52	43
	-39,381	**-42,595**	**5,287**	**5,057**	**-1,336**	**-1,298**

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 generated interest income in the fiscal year. Negative interest accrued on these balances in the prior year. Expenses were also incurred from the change in impairment losses recognized in accordance with IFRS 9. This resulted in particular from the increase in gross receivables in the past fiscal year, which cannot be offset by the slightly lower expected credit loss (ECL) rate.

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

6.9 Income taxes

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

in EUR k	2023	2022
Current income taxes	22,222	10,652
Out-of-period current income taxes	-844	-1,650
Deferred taxes	-226,354	-50,629
	-204,976	**-41,627**

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

in EUR k	2023	2022
IFRS profit or loss before taxes	-926,202	40,587
Group tax rate in %	30.175%	30.175%
Anticipated tax income/expense	**-279,481**	**12,247**
Trade tax add-backs and deductions	-9,000	-40,577
Tax-free income	-693	-35,621
Effects from initial recognition of assets and liabilities	15,763	1,297
Effects from tax loss carryforwards	-	7,927
Effect from tax rate differences	81,296	13,541
Other tax effects	-12,861	-441
Income taxes according to the statement of comprehensive income	**-204,976**	**-41,627**
Effective tax rate in %	**22.13%**	**-102.56%**

For greater clarity, the presentation of the tax reconciliation statement has been revised compared to the prior year by adding the reconciliation items “Effects from the initial recognition of assets and liabilities” and “Effects from tax rate differences.”

The effects from tax rate differences of EUR 81.3m (2022: EUR 13.5m) and the difference of 8.045% between the statutory tax rate (30.175%) and the effective tax rate (22.13%) are mainly due to the lower taxation of an asset-managing company. It is only subject to corporate income tax and is exempt from trade tax.

The tax rate used to determine the anticipated tax income/expense is derived from the corporate income tax rate of 15% (2022: 15%), the solidarity surcharge of 5.5% (2022: 5.5%) and the trade tax rate of 14.35% (2022: 14.35%).

6.10 Other taxes

Other taxes of EUR 16,551k (2022: EUR 16,394k) mainly contain property tax.

7 Notes to the consolidated statement of financial position

7.1 Investment property

The fair values of investment property developed as follows in fiscal years 2023 and 2022:

in EUR k	Residential properties	Undeveloped land	Project development	Hereditary building rights granted to third parties	Total
1 Jan 2023	**12,910,893**	**231,256**	**137,060**	**1,885**	**13,281,094**
Purchases and other additions	155,699	44,313	399	-	200,411
Reclassification between categories	885	170,453	-171,339	-	-
Reclassification from property, plant and equipment	21,085	2,193	-	-	23,279
Fair value adjustment	-1,068,967	-144,740	34,279	-266	-1,179,694
31 Dec 2023	**12,019,595**	**303,476**	**399**	**1,619**	**12,325,089**

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	-11,200	-	-	-	-11,200
Reclassification between categories	175,656	-42,146	-133,510	-	-
Fair value adjustment	-174,281	16,639	-40,617	56	-198,203
31 Dec 2022	**12,910,893**	**231,256**	**137,060**	**1,885**	**13,281,094**

Purchases and other additions include additions of EUR 33,746k that have been reclassified from property, plant and equipment.

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 31.12.2023.

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.

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

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

The net valuation effect from adjustments to fair value related to portfolio property (net) in 2023 and 2022 and is included in the profit or loss from the remeasurement of investment property.

The situation on the real estate markets continues to be shaped by low returns on purchase prices. 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 2023**	**31 Dec 2022**
Fair value according to external valuation	12,277,637	13,246,432
Adjustments to lease liabilities	47,451	34,662
Fair value in the statement of financial position	**12,325,089**	**13,281,094**

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 31.12.2023 and as of 31.12.2022:

Valuation inputs as of 31 December 2023		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		12,046,993	-27,398	12,019,595	DCF	-	-	-	-
	Residential	-	-	-	-	6.50/8.24/20.00	2.80/12.09/15.50	260.00/272.00/450.00	0.00%/0.50%/100.00%
	Commercial (office/retail/ other commercial use)	-	-	-	-	0.25/7.57/40.00	2.30/11.92/15.50	3.00%	-
	Garages	-	-	-	-	10.00/59.08/142.50	17.00/81.03/85.00	45.00	-
	Outdoor parking spaces	-	-	-	-	10.00/32.00/85.00	7.30/36.31/36.50	45.00	-
Undeveloped land/ hereditary building rights granted to third parties		305,095	-	305,095	Capitalization of earnings method/ sales comparison approach	-	-	-	-
Project developments		399	-	399	Residual value/ carrying amount	-	-	3.50%/4.30%/5.00%	-
	Residential	-	-	-	-	-	-	-	-
	Commercial (office/retail/ other commercial use)	-	-	-	-	-	-	-	-
	Garages	-	-	-	-	-	-	-	-
	Outdoor parking spaces	-	-	-	-	-	-	-	-
Total portfolio (IAS 40)		**12,352,487**	**-27,398**	**12,325,089**		-	-	-	-

	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	2.93%/4.67%/7.88%	1.13%/2.68%/6.08%	1.20%/2.98%/3.30%	1.00%/1.99%/2.20%
Undeveloped land/ hereditary building rights	-	-	-	-
Project developments	-	0.20%/1.93%/3.40%	-	-

Valuation inputs as of 31 December 2022		Fair value (in EUR k)	Adjustment (owner occupation and leasing)	Measurement in accordance with IAS 40	Valuation method	Market rent EUR/m^2 or parking space per month	Maintenance costs EUR/m^2 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	-	-	-	-
Project developments	-	1.05%/1.67%/3.35%	-	-

The following sensitivities arose as of 31.12.2023 and as of 31.12.2022:

Sensitivity analysis as of 31 December 2023	**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	12,046,993	-27,398	12,019,595	DCF	11,355,646	-826,447	-6.8%	13,183,287	1,001,193	8.2%
Undeveloped land/ hereditary building rights granted to third parties	305,095	-	305,095	Capitalization of earnings method/ sales comparison approach	305,095	-	-	305,095	-	-
Project developments	399	-	399	Residual value	-	-	-	-	-	-
Total portfolio (IAS 40)	**12,352,487**	**-27,398**	**12,325,089**		**11,660,741**	**-826,447**	**-6.8%**	**13,488,382**	**1,001,193**	**8.2%**

	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	12,046,993	-27,398	12,019,595	DCF	11,926,065	-256,028	-2.10%	12,444,119	262,026	2.2%
Undeveloped land/ hereditary building rights granted to third parties	305,095	-	305,095	Capitalization of earnings method/ sales comparison approach	305,095	-	-	305,095	-	-
Project developments	399	-	399	Residual value	-	-	-	-	-	-
Total portfolio (IAS 40)	**12,352,487**	**-27,398**	**12,325,089**		**12,231,160**	**-256,028**	**-2.1%**	**12,749,214**	**262,026**	**2.1%**

	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	12,046,993	-27,398	12,019,595	DCF	12,315,471	133,378	1.1%	12,044,404	-137,689	-1.1%
Undeveloped land/ hereditary building rights granted to third parties	305,095	-	305,095	Capitalization of earnings method/ sales comparison approach	305,095	-	-	305,095	-	-
Project developments	399	-	399	Residual value	-	-	-	-	-	-
Total portfolio (IAS 40)	**12,352,487**	**-27,398**	**12,325,089**		**12,620,566**	**133,378**	**1.1%**	**12,349,499**	**-137,689**	**-1.10%**

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	-2.1%	13,223,069	281,085	2.2%
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**	**-2.1%**	**13,593,270**	**281,085**	**2.2%**

	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	-1.1%	12,794,718	-147,265	-1.1%
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**	**-1.1%**	**13,164,919**	**-147,265**	**-1.1%**

7.2 Prepayments on investment property

Prepayments on investment property include prepayments on property under construction, as part of construction projects, measured on the basis of construction progress, and prepayments for purchases of existing property. Assets under construction are recognized at cost. Prepayments increased by EUR 33.8m year on year to EUR 96.5m in total. The main value driver was the Company's own Hartfilplatz/Eichenring construction project with an addition of just under EUR 22.1m in fiscal year 2023. Prepayments of EUR 7.7m are attributable to the purchase of the existing property at Carlsgarten 6, 8 for which the benefits and burdens will be transferred in fiscal year 2024. Properties recognized as prepayments are not depreciated. After completion, they are reclassified on the basis of the type of use.

7.3 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	Plant and machinery	Assets under construc-tion	Construc-tion prepara-tion costs	Furniture, fixtures and office equip-ment	Right-of-use assets	Total
Cost									
1 Jan 2022	**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**
Additions	1,685	247	1,778	43,432	17,349	15,927	1,495	20	81,933
Disposals	-14,079	-	-6,445	-561	-27,752	-8,748	-217	-	-57,802
Reclassification	12,394	-	4,668	-	5,646	- 22,708	-	-	-
31 Dec 2023	**5,488**	**38,963**	**91**	**42,871**	**-**	**-**	**18,115**	**192**	**105,721**
Depreciation and impairment									
1 Jan 2022	**948**	**7,930**	**-**	**-**	**494**	**-**	**11,347**	**53**	**20,770**
Depreciation and impairment for the fiscal year	213	680	-	-	-	-	2,016	40	2,949
Disposals	-	-	-	-	-	-	-776	-	-776
Reclassification	-	494	-	-	-494	-	-	-	-
31 Dec 2022	**1,162**	**9,103**	**-**	**-**	**-**	**-**	**12,586**	**93**	**22,943**
Depreciation and impairment for the fiscal year	1,589	304	-	3,194	-	-	1,659	34	6,780
Disposals	-	-	-	-546	-	-	-207	-	-753
Assets held for sale	-	-	-	-	-	-	-	-	-
Reclassification	1,145	-1,145	-	-	-	-	-	-	-
31 Dec 2023	**3,896**	**8,262**	**-**	**2,648**	**-**	**-**	**14,038**	**127**	**28,969**
Net carrying amount									
31 Dec 2023	**1,592**	**30,701**	**91**	**40,223**	**-**	**-**	**4,077**	**65**	**76,751**
31 Dec 2022	**4,326**	**29,613**	**90**	**-**	**4,757**	**15,529**	**4,251**	**79**	**58,645**

The increase compared to the prior year is mainly due to the recognition of plant and machinery, which are reported under property, plant and equipment starting from fiscal year 2023 in connection with the review of the distinction between IAS 40 and IAS 16. The value as of the reporting date was EUR 40.2m. Offsetting effects are attributable to the completion of assets under construction and to construction preparation costs, which were reclassified to investment property and are recognized in accordance with the principles of IAS 40. See note *7.1. Investment property*.

7.4 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	2023	2022
Depreciation of right-of-use assets	34	40
Interest expenses on lease liabilities	550	541
Expense relating to leases of low-value assets	81	72
Total amount recognized in profit or loss	**665**	**652**

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 1,018k (2022: EUR 1,015k) for leases. No variable lease payments were made.

The development of right-of-use assets for vehicle leases and waste vacuum cleaners is disclosed in *note 7.3 Property, plant and equipment*, while the development of hereditary building rights is disclosed in *note 7.1 Investment property*.

Maturity of lease liabilities (undiscounted)

in EUR k	31 Dec 2023	31 Dec 2022
Within twelve months	940	946
one to three years	1,843	1,848
three to five years	1,821	1,823
More than five years	55,975	56,591
	60,578	**61,209**

Lease liabilities are reported as non-current and current financial liabilities in the statement of financial position based on their maturity.

The following table shows the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings; note *7.16 Financial liabilities*) and the movements during the period:

Development of lease liabilities

in EUR k	2023	2022
As of 1 January	**34,730**	**23,879**
Additions	1,426	11,264
Accretion of interest	550	541
Payments	-979	-954
As of 31 December	**35,726**	**34,730**

	31 Dec 2023	31 Dec 2022
thereof current	975	375
thereof non-current	34,751	34,355

Lease liabilities of EUR 35,645k relate to hereditary building rights. Hereditary building rights associated with these lease liabilities are reported under "Investment property."

7.5 Leases as the lessor

7.5.1 Investment property

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

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

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

7.5.2 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.

Income of EUR 68k (2022: EUR 63k) was generated from the subletting of leased parking spaces and hereditary building rights granted to the Group.

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 2023	31 Dec 2022
Within twelve months	65	68
one to two years	61	65
two to three years	61	61
three to four years	58	61
four to five years	54	58
More than five years	3,475	3,529
	3,775	**3,843**

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

7.6 Intangible assets

Intangible assets comprise purchased software licenses and goodwill.

in EUR k	Software	Goodwill	Total
Cost			
1 Jan 2022	**16,046**	**357**	**16,402**
Additions	689	-	689
Disposals	-1	-	-1
31 Dec 2022	**16,734**	**357**	**17,091**
Additions	431	-	431
Disposals	-	-	-
31 Dec 2023	**17,165**	**357**	**17,523**
Amortization and impairment			
1 Jan 2022	**15,098**	**357**	**15,455**
Amortization for the fiscal year	346	-	346
Disposals	-1	-	-1
31 Dec 2022	**15,443**	**357**	**15,800**
Amortization in 2023	487	-	487
Disposals	-	-	-
31 Dec 2023	**15,931**	**357**	**16,288**
Net carrying amount			
31 Dec 2023	**1,235**	**-**	**1,235**
31 Dec 2022	**1,291**	**-**	**1,291**

The goodwill resulted from the first-time consolidation of Kramer + Kramer (Residential segment) as of 01.01.2018, which as of 31.12.2023 had already been fully expensed in prior years.

7.7 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 2023

in EUR k	IFRS 9 measurement category	Carrying amount 31 Dec 2023	Fair value 31 Dec 2023	thereof Level 1	thereof Level 2	thereof Level 3
Financial assets		97,053	97,053	-	-	95,013
thereof in scope:						
Investments	At fair value through profit or loss	95,013	95,013	-	-	95,013
thereof not in scope:						
Non-current assets from subleases		2,040	2,040	-	-	-
thereof in scope:						
Rental and lease receivables	Amortized cost	40,057	40,057	-	-	-
Receivables from other trade	Amortized cost	474	474	-	-	-
Other financial assets	Amortized cost	4,985	4,985	-	-	-
Cash and cash equivalents	Amortized cost	273,650	273,650	-	-	-
		416,219	**416,219**	**-**	**-**	**95,013**
Financial liabilities		4,257,643	3,782,827	1,479,715	2,267,249	-
thereof in scope:						
Bonds	Amortized cost	1,693,623	1,479,715	1,479,715	-	-
Liabilities to banks	Amortized cost	2,393,353	2,144,705	-	2,144,705	-
Liabilities to shareholders	Amortized cost	134,804	122,544	-	122,544	-
Other financial liabilities	Amortized cost	137	137	-	-	-
thereof not in scope:						
Lease liabilities		35,726	35,726	-	-	-
thereof in scope:						
Rental and lease liabilities	Amortized cost	17,137	17,137	-	-	-
Trade payables	Amortized cost	121,768	121,768	-	-	-
Other liabilities		14,027	14,027	-	-	-
thereof in scope:						
Other financial liabilities	Amortized cost	5,396	5,396	-	-	-
		4,410,574	**3,935,758**	**1,479,715**	**2,267,249**	**-**

Thereof aggregated by IFRS 9 measurement category:		
Financial assets at fair value through profit or loss		95,013
Financial assets at amortized cost		319,166
Financial liabilities at amortized cost		4,366,217

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

For assets related to contracts with customers (IFRS 15) and leases (IFRS 16) see the relevant notes (*7.4 Leases as the lessee, 7.5 Leases as the lessor* and *6.1 Revenue from real estate management and other revenue from real estate management*).

7.8 Fair value of financial instruments

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

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

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

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

7.9 Collateral

Overall, financial assets of EUR 95,013k were pledged as collateral as of 31.12.2023 (31.12.2022: EUR 89,726k). As in the prior year, collateral in the fiscal year mainly comprised 18 long-term life insurance policies for eleven 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).

7.10 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.

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.

7.10.1 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 68,861k (2022: EUR 65,153k).

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

in EUR k	2023	2022
As of 1 January	**4,646**	**2,448**
Allocation	12,310	14,754
Reversal	-11,560	-14,879
Change in calculation parameters	2,735	2,790
Utilization	-1,137	-466
As of 31 December	**6,995**	**4,646**

Loss allowances for contract assets are presented below:

in EUR k	2023	2022
As of 1 January	**1,358**	**66**
Allocation	479	1,358
Reversal	-1,358	-66
Change in calculation parameters	-	-
As of 31 December	**479**	**1,358**

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 2023, expected credit losses determined using the simplified approach amounted to 60% for rental and lease receivables (31.12.2022: 60%) and around 5.0% for contract assets (31.12.2022: 3.1%). Financial assets that are individually assessed and subject to loss allowances have a probability of default of around 78.0% (31.12.2022: 77.8%). 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.

7.10.2 Interest rate and currency risk

There is no risk arising from increasing interest rates for interest-bearing financial liabilities since all loans and bonds 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.

7.10.3 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 273,651k as of 31.12.2023 (31.12.2022: EUR 158,255k).

There are credit lines at Aareal Bank AG for a total of EUR 20.0m, at DKB Bank for a total of EUR 32.5m, at Berliner Sparkasse for a total of EUR 50.0m and at BerlinHyp for a total of EUR 100.0m, which had not been utilized as of the reporting date. In addition, further loans of EUR 100.0m and EUR 35.0m were agreed with Council of Europe Development Bank (CEB) and Investitionsbank des Landes Brandenburg, respectively.

Follow-up conditions have already been arranged for a volume of EUR 300m to refinance the corporate bond with a nominal value of EUR 500m falling due in 2024. It will be refinanced by loans secured by land charges with terms of between five and twelve years.

For further information on the Company's general refinancing risk, please refer to the risk report (section 3.1.2) in the group management report.

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

31 Dec 2023

in EUR k	Up to 1 year	1 to 5 years	More than 5 years	Total
Bonds	511,183	544,642	739,944	**1,795,769**
Liabilities to banks [1]	286,844	756,573	1,675,978	**2,719,395**
Liabilities to shareholders[1]	1,186	4,745	137,743	**143,674**
Rental and lease liabilities	16,785	-	-	**16,785**
Trade payables	9,348	9,563	23	**18,934**
Other financial liabilities	6,463	-	-	**6,463**
				4,701,020

[1]Liabilities to banks and shareholders comprise interest liabilities

31 Dec 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 [1]	152,663	691,451	1,568,870	**2,412,983**
Liabilities to shareholders[1]	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

A reconciliation of the statement of financial position items to financial liabilities is presented under note *7.7 Financial assets and financial liabilities*.

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

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

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

7.11 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). HOWOGE is pursuing a long-term strategy of maintaining its portfolio and, in this context, the contract for project development was renewed accordingly.

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 2023**	**31 Dec 2022**
Current assets, including cash and cash equivalents of EUR 1,584k (2022: EUR 1,528k)	19,102	17,424
Non-current assets	-	-
Current liabilities, including tax liabilities of EUR 0.6k (2022: EUR 0.6k)	150	123
Non-current liabilities	-	-
Equity	**18,952**	**17,301**
HOWOGE's share in equity: 50% (2022: 50%)	9,476	8,651
Carrying amount of the Group's investmentbefore adjustment	**7,212**	**7,287**
Adjustment for IAS 40 measurement of the land	12,058	8,638
Carrying amount of the Group's investmentafter adjustment	**19,270**	**15,925**

Income statement of Elisabeth-Aue (condensed)	**2023**	**2022**
Revenue from contracts with customers	29	29
Other operating income	-	-
Cost of purchased goods and services	-37	-73
Depreciation and impairment of property, plant and equipment	-	-
Other operating expenses	-151	-106
Other interest and similar expenses	-	-
Other interest and similar income	8	-
Total comprehensive income for the fiscal year	**-150**	**-149**
Group's share in equity (50%) before adjustment	**-75**	**-75**
Adjustment for IAS 40 measurement of the land	2,475	2,450
Recognized Group's share in equity after adjustment	**2,400**	**2,375**

The joint venture had no contingent liabilities or obligations as of 31.12.2023 and 2022. There were no financial liabilities other than those presented in the above table. There were no significant finance costs or income in both fiscal years.

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

7.12 Other assets

Other non-current assets of EUR 1 (2022: EUR 1) comprise the carrying amount of the investment of HOWOGE in GbR Dolgenseestrasse (2023: 0.4%; 2022: 0.4%).

Other current assets of EUR 57,102k (31.12.2022: EUR 55,252k) 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 54,069k (31.12.2022: EUR 53,787k). The unbilled operating costs are valued at acquisition cost. Other current assets comprise assets relating to prepaid services not yet rendered.

7.13 Inventories for school construction projects

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 2023, EUR 283.9m of own work capitalized (school construction) related to expenses incurred in the fiscal year attributable to the construction, planning and preparation costs for the School Building campaign (prior year: EUR 111.3m).

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

7.14 Assets held for sale

As of the reporting date, HOWOGE reported assets held for sale with a value of EUR 33.9m (prior year: EUR 10.8m). One of these assets is the former head office at Ferdinand-Schulze-Strasse 71. The other is the Insel Gartenfeld land (EUR 23.4m), which was purchased as part of the School Building campaign in fiscal year 2023 and is expected to be sold on to the state of Berlin in mid-2024.

The property held for sale at Ferdinand-Schulze-Strasse 71 has been recognized at its new fair value, the agreed purchase price, since its reclassification from investment property (Level 2 fair value). The benefits and burdens were transferred as planned on 01.02.2024.

7.15 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).

in EUR k	Current gross receivables	Non-current gross receivables	Total gross receivables	thereof past due	thereof credit impaired
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**
Rental and lease receivables	47,017	88	47,105	8,513	-7,048
Receivables from other trade	474	-	474	-	-
Other financial assets	4,985	-	4,985	-	-
Contract assets	9,533	-	9,533	-	-479
As of 31 December 2023	**62,009**	**88**	**62,097**	**8,513**	**-7,527**

7.16 Financial liabilities

31 Dec 2023 in EUR k	Current	Non-current
Liabilities from bonds	501,753	1,191,870
Liabilities to banks	198,095	2,195,257
Liabilities to shareholders	-	134,804
Lease liabilities	975	34,751
Other financial liabilities	137	-
Financial liabilities	**700,961**	**3,556,683**
Rental and lease liabilities	**17,137**	**-**
Trade payables	**121,768**	**-**
Contract liabilities	**23,289**	**-**
	863,154	**3,556,683**

31 Dec 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**	**-**
	222,814	**3,913,790**

The purchase of the portfolios from Vonovia and Deutsche Wohnen was financed in 2021 by issuing a corporate bond. A debt issuance program with a total volume of EUR 4.0b was established for this purpose, under which three tranches comprising a total amount of EUR 1.7b and featuring different terms (three, seven and twelve years) were issued. The first tranche of EUR 500,000k is due for repayment in November 2024 and is classified as a current liability.

EUR 2,162,298k (2022: EUR 1,989,634k) of liabilities to banks are secured by real property liens and EUR 257,870k (2022: EUR 104,632k) are secured by state guarantees.

For other financial liabilities see note *7.20 Other liabilities*.

7.17 Cash and cash equivalents

in EUR k	31 Dec 2023	31 Dec 2022
Cash and cash equivalents	273,650	158,255
thereof freely available	273,069	157,657
Cash and cash equivalents	**273,650**	**158,255**

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 581k (2022: EUR 598k).

7.18 Equity

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

7.18.1 Subscribed capital

Subscribed capital amounted to EUR 25k in the fiscal year (2022: EUR 25k).

7.18.2 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.

7.18.3 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. The primary objective of investments is to maintain this cash flow at its current level in order to secure the Group's economic strength for market phases in which interest rates rise and the macroeconomic situation deteriorates. This is integrated in a business plan along with additional key points for long-term planning, such as operating result, debt levels, rent increases, cost benchmarks and cost-benefit criteria for investments.

7.19 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 as well as an archiving costs provision for the retention of business documents. The allocation to other provisions in the fiscal year is partly due to a pending claim for damages in connection with architectural and engineering services rendered in accordance with Sec. 34 HOAI ["Honorarordnung für Architekten und Ingenieure": Fee Schedule for Architects and Engineers].

Most of the reversal of provisions relates to a provision recognized in the prior year for the settlement of operating costs for December 2022.

Cash outflows from provisions within one year are estimated at around EUR 7,107k (2022: EUR 15,947k). Other cash outflows from provisions are longer term.

in EUR k	1 Jan 2023	Utilization	Reversal	Allocation	31 Dec 2023
Other provisions	12,722	5,223	7,253	3,270	3,516
Provision for financial statement costs	1,206	1,123	52	1,212	1,244
Provision for retention of business documents	133	-	17	16	133
Provision for advertising fund	69	2	-	6	73
Warranty provision	77	-	26	-	51
Provision for consulting fees	87	31	1	70	125
Miscellaneous other provisions	**14,295**	**6,378**	**7,348**	**4,574**	**5,142**
Provision for long-service awards	1,174	45	-	88	1,217
Provisions for employee bonuses	1,661	1,379	176	1,974	2,079
Provisions for employees	**2,835**	**1,424**	**176**	**2,062**	**3,296**
Total other provisions	**17,129**	**7,802**	**7,525**	**6,636**	**8,438**
thereof current	15,947				7,107
thereof non-current	1,182				1,330

in EUR k	1 Jan 2022	Utilization	Reversal	Allocation	31 Dec 2022
Other provisions	3,723	2,781	886	12,666	12,722
Provision for financial statement costs	426	405	1	1,186	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**	**3,224**	**979**	**13,972**	**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**	**5,957**	**1,055**	**15,690**	**17,129**
thereof current	7,078				15,947
thereof non-current	1,373				1,182

7.20 Other liabilities

in EUR k	31 Dec 2023	31 Dec 2022
Other liabilities	**93,055**	**91,271**
Liabilities to employees	699	544
Government grants	86,960	42,244
Other	5,396	48,318
Other non-financial liabilities	**93,055**	**91,106**
thereof current	14,027	52,076
thereof non-current	79,028	39,195

Additionally, as of the end of the fiscal year, liabilities to employees of EUR 699k (2022: EUR 544k) 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 fiscal year 2018 and the full amount of which was not requested in the fiscal year. For government grants from interest-subsidized and repayment-subsidized loans, see note *7.22 Government grants*.

7.21 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:

	31 Dec 2023		31 Dec 2022	
in EUR k	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Investment property, property, plant and equipment and inventories	-	1,399,274	-	1,626,077
Investments	-	3,975	-	4,805
Non-current financial assets	-	615	-	623
Rental and lease receivables and receivables from other trade	585	-	1,402	-
Contract assets	144	-	410	-
Other financial assets, current	-	7	-	8
Other assets, current	683	429	-	-
Other provisions	878	2,123	353	-
Non-current financial liabilities	12,170	2,477	7,781	-
Current financial liabilities	1,265	-	113	-
Trade payables	29	-	29	-
Other liabilities	105	-	105	631
	15,859	**1,408,901**	**10,193**	**1,632,144**
Tax loss carryforwards	7,508	-	10,064	-
Total deferred taxes	**23,367**	**1,408,901**	**20,257**	**1,632,144**
Offsetting	-23,367	-23,367	-20,257	-20,257
Amount recognized in the statement of financial position	**-**	**1,385,534**	**-**	**1,611,887**

Deferred tax assets and liabilities are offset against each other if they have the same tax creditor and tax debtor 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 (net deferred tax liabilities, 2023: EUR 1,403.7m; 2022: EUR 1,631.5m) and non-current liabilities (net deferred tax assets, 2023: EUR 9.69m; 2022: EUR 7.8m) are expected to reverse more than twelve months after the reporting date according to the above table.

in EUR k	31 Dec 2023	31 Dec 2022
Tax loss carryforwards	**126,029**	**139,554**
thereof trade tax	78,586	77,797
thereof corporate income tax	47,443	61,757
thereof unusable loss carryforwards	**78,586**	**77,797**
thereof trade tax	78,586	77,797
thereof corporate income tax	-	-

There are corporate income tax loss carryforwards of EUR 47.4m in fiscal year 2023 (2022: EUR 61.8m). A deferred tax asset is recognized on the corporate income tax loss carryforwards, as it is possible to offset them against deferred tax liabilities from the IAS 40 measurement of investment property. No deferred tax assets were recognized on the existing trade tax loss carryforward of EUR 78.6m (2022: EUR 77.8m), as this is attributable to asset-managing companies. It is therefore unlikely that the trade tax loss carryforwards will be utilized in the coming years.

Deferred tax liabilities of EUR 79.4m (2022: EUR 86.5m) were not recognized for temporary differences and for undistributed profits of HOWOGE subsidiaries as it is not probable that the temporary differences will reverse.

	31 Dec 2023		31 Dec 2022	
in EUR k	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Deferred taxes as of 1 January	**-**	**1,611,888**	**-**	**1,662,622**
Deferred tax income in the income statement	-	226,354	-	50,629
Additions and disposals of companies	-	-	-	105
Deferred taxes as of 31 December	**-**	**1,385,534**	**-**	**1,611,888**

7.22 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:

in EUR k	**2023**	**2022**
As of 1 January	**42,244**	**24,057**
Received during the year	50,247	21,012
Amortized to profit or loss	5,531	2,825
As of 31 December	**86,960**	**42,244**
thereof current	7,932	3,049
thereof non-current	79,028	39,195

In the fiscal year, income from repayment subsidies of EUR 1,994k (2022: EUR 891k) was recognized and presented under other revenue from real estate management; income from interest subsidies of EUR 3,538k (2022: EUR 1,426k) was recognized and presented under interest expenses.

8 Notes to the statement of cash flows

The cash funds underlying the statement of cash flows only comprise cash and cash equivalents that are not subject to any restrictions on use. 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 2023	31 Dec 2022
Cash and cash equivalents	273,650	158,255
thereof freely available	273,069	157,657
Cash and cash equivalents in the statement of cash flows	**273,069**	**157,657**

The cash flow from operating activities is calculated from the profit or loss for the period using the indirect method, whereby non-cash transactions, changes in statement of financial position items and income and expense items attributable to investing or financing activities are adjusted.

The change in cash flow from investing activities in fiscal year 2023 is chiefly due to the absence of the special effects from business acquisitions in the prior year. The cash paid for this purpose in the prior year were the main value drivers behind the development. The increase in cash flow from financing activities is mainly attributable to new loans taken out for the School Building campaign.

EUR 11,058k was paid for income taxes in the reporting year (2022: EUR 10,542k). Moreover, interest expenses of EUR 42,424k were incurred, thereof EUR 550k for leasing (2022: EUR 41,473k, thereof EUR 541k for leasing). Interest income also increased to EUR 6,866k (2022: EUR 410k), which is attributable to the rise in interest on bank balances in 2023.

The increase in interest received resulted from interest on bank balances.

in EUR k	31 Dec 2022	Cash flows	New leases	Other	31 Dec 2023
Current interest-bearing loans and borrowings (excluding lease liabilities)	-	-	-	198,095	198,095
Current lease liabilities	375	-375	975	-	975
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	2,192,029	370,426	-	-232,393	2,330,061
Non-current lease liabilities	34,355	74,951	917	-	34,751
	2,226,759	**445,002**	**1,892**	**-34,298**	**2,563,883**

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	1,899,934	-165,492	-	457,587	2,192,029
Non-current lease liabilities	23,763	-200	10,792	-	34,355
	1,994,907	**-236,903**	**11,167**	**457,587**	**2,226,759**

The other changes in non-current interest-bearing loans and borrowings are effects that either do not impact cash or have not yet done so. This mainly relates to interest subsidies recognized as government grants and their release to profit or loss, increases in interest liabilities and amortization of previously deferred costs as part of effective interest calculations.

The other changes in current interest-bearing loans and borrowings resulted from the decreasing residual term of loans previously classified as non-current.

9 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. The following key performance indicators are calculated and assessed for the purposes of performance management.

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.

An integrated planning and control system based on key performance indicators is used for performance management. An integrated long-term plan for a period of ten 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.

9.1 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.

9.2 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 26 new schools and will remodel twelve school complexes. More than EUR 5b 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.

9.3 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.

Significant 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. Interest income of EUR 1,385k earned on bank balances is allocated to the School Construction segment. Capitalizable interest components that fall under the classification of IAS 23 are allocated to the School Construction segment and are also reported there accordingly. Finance costs, in particular interest expenses from loans, are allocated to the segments; most of the finance costs are attributable to the Residential segment.

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. A proportionate amount of trade and corporate income tax is also reported in the School Construction segment. 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.

9.4 Reconciliation of profit or loss

The reconciliation from the HGB to IFRSs as of 31.12.2023 is as follows:

in EUR k	Residential (HGB)	School Constructio n (HGB)	HGB Total operating segments	Group HGB	Reconcil-iation IFRSs	Group (IFRSs)
External customers	560,769	-	560,769	560,769	-19,691	541,078
Intersegment	-	-	-	-	-	-
Total revenue	**560,769**	-	**560,769**	**560,769**	**-19,691**	**541,078**
Increase or decrease in inventories*	32,764	-	32,764	32,764	-32,764	-
Own work capitalized	2,242	1,523	3,765	3,765	-	3,765
Profit or loss from the remeasurement of investment	-	-	-	-	-1,179,694	-1,179,694
Net valuation effect from assets held for sale	-	-	-	-	-300	-300
Cost of materials	-255,598	-28	-255,625	-255,625	-108,142	-363,767
Employee benefits expenses	-61,464	-3,160	-64,624	-64,624	-	-64,624
Amortization, depreciation and impairment	-116,883	-7	-116,890	-116,890	106,001	-10,890
Share of profit or loss from investments	-	-	-	-	2,400	2,400
Net finance costs	-33,033	976	-32,057	-32,057	884	-31,173
Other operating expenses	-36,946	-1,174	-38,120	-38,120	1,862	-36,257
Taxes	-45,459	545	-44,914	-44,914	233,339	188,425
Other operating income	34,195	37	34,232	34,232	22,796	57,028
Change in inventories for property and other inventories	-	-	-	-	172,783	172,783
Segment result	**80,588**	**-1,287**	**79,301**	**79,301**	**-800,526**	**-721,226**

* According to IFRSs, changes in inventories are reflected in revenue

The differences between the HGB and IFRS figures are generally due to the different accounting policies and total EUR -800.5m. The main effect stems from the investment property measured at a fair value of EUR -1,179.7m, HOWOGE having opted to apply the fair value method. In this context, regular building depreciation and impairment losses of EUR 106.0m 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 233.3m under IFRSs.

In addition, there is a difference of EUR -19.7m 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.

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 0.9m. 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.

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 Construc-tion (HGB)	HGB Total operating segments	Reconcil-iation IFRSs	Group (IFRSs)
Segment result	80,588	-1,287	79,301	-800,526	-721,226
Finance income	-5,481	-1,385	-6,866	-37	-6,903
Finance costs	43,802	408	44,210	-847	43,363
Profit or loss from investments accounted for using the equity method	-	-	-	-2,400	-2,400
Taxes	28,908	-545	28,362	-233,339	-204,976
Amortization, depreciation and impairment	116,883	7	116,890	-109,624	7,266
appraisal	-	-	-	1,179,694	1,179,694
EBITDA	**264,698**	**-2,801**	**261,897**	**32,921**	**294,818**
EBIT	**147,816**	**-2,808**	**145,008**	**142,543**	**287,551**
Cash flows from operating activities	**240,547**	**-573**	**239,974**	**-156,420**	**83,554**
Indebtedness	**4,147,987**	**396,705**	**4,544,692**	**1,376,072**	**5,920,764**
Equity ratio	**31%**	**-2%**	**29%**	**26%**	**56%**

All revenue is generated in Germany.

10 Information on group companies and related party disclosures

10.1 Subsidiaries

Note *3.1 Subsidiaries* provides information about the Group's structure and the subsidiaries.

10.2 Shareholder

The sole shareholder of HOWOGE Wohnungsbaugesellschaft mbH is the State of Berlin. There were the following direct relationships/transactions with the State of Berlin to be reported in the period under review (2023):

- The "Regulations on tenant protection at the state-owned housing companies due to the abolition of the MietenWoG Bln" ["Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin": Act on the Limitation of Rents for Housing in Berlin] based on the resolution adopted by the Berlin Senate on 01.06.2021 and the shareholder resolution of 16.08.2021 with effect until 31.12.2023
- The moratorium on tenancy terminations and the rent freeze implemented for the state-owned housing companies as announced in the letter from the Senate Department for Urban Development, Building and Housing dated 01.11.2022
- The cooperation agreement "Affordable rents, new housing construction and social housing supply" dated 05.04.2017 as well as the supplementary agreements dated 11.03.2021, 31.03.2021 and 20.12.2022, effective until 31.12.2023
- Rental agreements for three refugee shelters with a total base rent of just under EUR 3.2m p.a.
- In connection with the contribution of land:
    - Hobrechtsfelder Chaussee for a purchase price of EUR 56m with transfer of benefits and burdens as of 01.01.2024
    - Sewanstrasse for a purchase price of EUR 1.6m, which was offset against the capital reserves
    - Zum Hechtgraben with a contribution value of EUR 1.5m according to the resolution
- The Insel Gartenfeld land at a current sales price of EUR 23.4m is expected to be sold in mid-2024
- In addition, various expense subsidies, loans and debt waivers were granted:
    - In fiscal year 2023, a total of EUR 1.5m was granted in expense subsidies for various rental properties.
    - Subsidized loans with a volume of EUR 34.0m were granted in accordance with housing promotion regulations.

- Federal subsidies (KfW) with a volume of EUR 90,620k were granted.
- HOWOGE was also granted bridge financing of EUR 163.8m and shareholder loans of EUR 74.8m as part of the School Building campaign.
- In the context of subsidized loans from IBB and KfW, EUR 23.1m in repayment subsidies and debt forgiveness was granted in fiscal year 2023, either for reaching a contractually agreed construction progress milestone or on the condition that rents would not be increased for a certain period of time.

There were no other significant transactions with shareholders in fiscal year 2023.

10.3 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), which 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.

There is a service agreement in place between HOWOGE and the development company, whereby HOWOGE performs defined services for Elisabeth-Aue (these services essentially relate to the fields of legal, procurement and personnel) and invoices the company for these services. Since the planning for the development of the area has currently 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.

10.4 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
- Katharina Greis (since 01.04.2023)

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

1. Central real estate management
2. Operational portfolio management
3. Processes and digitalization
4. Information technology
5. Asset and portfolio management
6. Technical management
7. New buildings
8. School construction
9. Corporate communications and marketing
10. Central procurement
11. HOWOGE Wärme GmbH
12. Kramer + Kramer
13. HOWOGE Reinigung GmbH

Katharina Greis joined the HOWOGE Group as of 01.04.2023 and is responsible for the following areas:

1. Financial control and data modeling
2. Treasury and investor relations
3. Legal
4. Finance and accounting
5. Human resources
6. HOWOGE Servicegesellschaft mbH

The supervisory board comprises:

Name	Function and activities	Duration of appointment
Mr. Hendrik Jellema	Chairman, chair of the personnel committee, former CEO of GEWOBAG	since 17 September 2018
Mr. Alexander Slotty	Chair of the building committee and deputy chair of the supervisory board	since 16 June 2023
Ms. Elfriede Baumann	Chair of the audit committee, former general manager of EY Austria GmbH	since 9 April 2019
Mr. Sebastian Lange	Representative from the tenants' council	since 9 September 2022
Mr. Jörn Lorenz	Secretary, employee representative, deputy chair of HOWOGE's employee council	since 1 January 2005
Ms. Tanja Mildenberger	State Secretary of the Senate Department for Finance	since 16 June 2023
Ms. Daniela Riedel	Head of Section in the Senate Chancellery	since 1 April 2023
Mr. Michael Schiller	Employee representative, head of HOWOGE's Properties and Mortgage Management department	since 1 July 2022
Mr. Frank Sparmann	Employee representative, head of HOWOGE's customer center	since 21 April 2015

The following members left during the year:

Ms. Jana Borkamp	until 16 June 2023
Mr. Christian Gaebler	until 16 June 2023
Dr. Jochen Lang	until 31 January 2023

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	2023	2022
Short-term benefits due to the management board	526	596
Short-term benefits due to the supervisory board	53	53
Payments into defined contribution pension plans	50	26
Total compensation	**629**	**675**

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

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

11 Events after the reporting date

We are not aware currently of any events that have a material impact on the assets, liabilities, financial position and financial performance of the HOWOGE Group.

Berlin, 25.03.2024

HOWOGE Wohnungsbaugesellschaft

mit beschränkter Haftung

The Management Board

Katharina Greis 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, 2023, 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, 2023, 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, 2023. 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, 2023, and of its financial performance for the financial year from January 1 to December 31, 2023, 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, 2023. 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 matter of most significance in our audit was as follows:

❶ Measurement of investment properties

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

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matter:

❶ **Measurement of investment properties**

① Investment properties amounting to EUR 12,325 million (92.5% of total assets) are reported in the Company's consolidated financial statements as of December 31, 2023. 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 -1,179.7 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.

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. 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 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 4.1, 6.2 and 7.1 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 August 8, 2023. We were engaged by the supervisory board on January 16, 2024. 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 Susanne Riedel.