IFRS consolidated financial statements for fiscal year 2020

Howoge Wohnungsbaugesellschaft mit beschränkter Haftung

IFRS consolidated financial statements

31 December 2020

HOWOGE IFRS consolidated financial statements for fiscal year 2020

Consolidated income statement and consolidated statement of comprehensive income

for the period from 1 January to 31 December 2020

in EUR k	Note	31 Dec 2020	31 Dec 2019
Rental and lease revenue (IFRS 16)		303,748	292,761
Revenue from operating costs (IFRS 16)		21,734	19,784
Revenue from real estate management	**6.1**	**325,482**	**312,545**
Revenue from operating costs (IFRS 15)		20,353	18,531
Revenue from heating costs (IFRS 15)		35,582	31,782
Revenue from management services and other trade		4,158	3,148
Other revenue		640	492
Other revenue from real estate management	**6.1, 7.20**	**60,733**	**53,952**
Total revenue		**386,215**	**366,498**
Profit or loss from the sale of property	6.3	-	67
Profit or loss from the remeasurement of investment property	6.2	294,165	794,571
Change in inventories for property and other inventories	7.12	17,807	-
Own work capitalized		2,216	2,369
Cost of materials	6.4	- 118,297	- 99,842
Personnel expenses	6.6	- 48,591	- 41,759
Amortization, depreciation and impairment	6.5	- 6,489	- 6,625
Impairment of financial assets	7.9	1,200	- 4,367
Other operating income	6.7	10,784	7,324
Other operating expenses	6.8	- 24,875	- 20,241
Profit or loss from investments accounted for using the equity method	7.10	498	763
Finance income	6.9	4,738	4,602
Finance costs	6.9	- 28,830	- 29,823
Profit or loss before taxes		**490,541**	**973,537**
Income taxes	6.10	- 109,146	- 201,949
Other taxes	6.11	- 13,100	- 12,595
Profit or loss for the period		**368,295**	**758,993**
Other comprehensive income		-	-
Total comprehensive income		**368,295**	**758,993**

In the fiscal years ended 31 December 2020 and 31 December 2019, 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 financial position

as of 31 December 2020

Assets in EUR k	Note	**31 Dec 2020**	**31 Dec 2019**
Non-current assets			
Intangible assets	7.5	541	2,870
Investment property	7.1	10,543,853	9,898,134
Prepayments on investment property		79,296	46,225
Property, plant and equipment	7.2	32,912	24,999
Investments in associates and joint ventures	7.10	11,530	11,032
Financial assets	7.6	81,860	77,189
Rental and lease receivables	7.13	8	9
Receivables from other trade	7.13	163	131
Other financial assets	7.6, 7.13	-	-
Other assets	7.11	0	11,097
Total non-current assets		**10,750,163**	**10,071,685**
Current assets			
Inventories for property and other inventories	7.12	19,477	1,305
Rental and lease receivables	7.13	21,523	21,271
Receivables from other trade	7.13	831	333
Contract assets	6.1	47,946	41,344
Other financial assets	7.6, 7.13	4,140	4,686
Other assets	7.11	36,594	33,974
Income tax receivables		1,779	3,448
Cash and cash equivalents	7.15	43,485	56,899
Assets held for sale	7.21	220	-
Total current assets		**175,995**	**163,258**
Total assets		**10,926,159**	**10,234,944**

Equity and liabilities in EUR k	Note	**31 Dec 2020**	**31 Dec 2019**
Equity			
Subscribed capital		25,000	25,000
(Other) capital reserves		311,565	309,773
Accumulated retained earnings		6,650,139	5,890,646
Consolidated net retained profit		367,144	757,962
Total equity	7.16	**7,353,848**	**6,983,381**
Non-current liabilities			
Other provisions	7.17	1,250	1,092
Financial liabilities	7.14	1,799,659	1,580,713
Trade payables	7.14	5,407	5,035
Tax liabilities		1,961	291
Other liabilities	7.18, 7.20	27,375	28,137
Deferred tax liabilities	7.19	1,515,511	1,417,572
Total non-current liabilities		**3,351,163**	**3,032,840**
Current liabilities			
Other provisions	7.17	4,637	2,408
Rental and lease liabilities	7.6, 7.14	8,797	9,335
Trade payables	7.6, 7.14	72,571	74,171
Contract liabilities	7.6, 7.14	55,717	51,076
Financial liabilities	7.6, 7.14	74,597	77,846
Tax liabilities		676	672
Other liabilities	7.18, 7.20	4,153	3,214
Total current liabilities		**221,148**	**218,723**
Total liabilities		**3,572,311**	**3,251,563**
Total equity and liabilities		**10,926,159**	**10,234,944**

Consolidated statement of changes in equity

for the period from 1 January to 31 December 2020

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

in EUR k	Subscribed capital	(Other) capital reserves	Retained earnings	Reserve required by the articles of incorporation and bylaws	Accumulated retained earnings	Consolidated net retained profit	Total equity
1 Jan 2019	25,000	302,382	5,018,166	22,500	5,040,666	849,292	6,217,340
Contribution from land transfers	-	7,390	-	-	-	-	7,390
Allocation to retained earnings from consolidated profits earned	-	-	850,553	-	850,553	- 850,553	-
Appropriation of retained earnings	-	-	- 229	-	- 229	229	-
Other changes	-	-	- 343	-	- 343	-	- 343
Total comprehensive income	-	-	-	-	-	758,993	758,993
31 Dec 2019	25,000	309,773	5,868,146	22,500	5,890,646	757,962	6,983,381

Consolidated statement of cash flows

for the period from 1 January to 31 December 2020

in EUR k	2020	2019
Profit or loss before taxes	**490,541**	**973,537**
Non-cash expenses and income	**-295,164**	**-803,464**
(Gains)/losses on the remeasurement of investment property and assets held for sale	-294,165	-794,571
Amortization, depreciation and impairment/(reversals of impairment) of intangible assets and property, plant and equipment	6,489	6,625
(Decrease)/increase in provisions	2,386	-807
Other non-cash expenses/(income)	-9,376	-13,947
(Gain)/loss on joint ventures accounted for using the equity method, and other investments	-498	-763
Working capital adjustments	**-29,634**	**1,319**
Decrease/(increase) in rental and lease receivables, receivables from other trade and contract assets	-7,383	-1,797
Decrease/(increase) in inventories	-18,172	-490
(Decrease)/increase in trade payables and other liabilities, and contract liabilities	-4,079	3,606
Reclassifications to other areas of activity	**28,111**	**26,384**
(Gains)/losses on disposals of investment property and assets held for sale	-	-67
(Gains)/losses on the disposal of intangible assets and property, plant and equipment	4,020	1,230
Net finance costs/(income)	24,091	25,221
Other taxes paid	-13,100	-12,595
Income taxes paid	-11,208	-9,359
Cash flows from operating activities	**169,546**	**175,822**
Cash paid for investments in investment property	-275,819	-346,846
Cash received from disposals of investment property	-	-
Cash paid for investments in other non-current assets	-61,338	-7,508
- thereof in property, plant and equipment	-10,016	-912
- thereof in intangible assets	-340	-1,348
- thereof in financial assets	-50,982	-5,248
Cash received from disposals of other assets	-	-
- thereof in property, plant and equipment	-	-
- thereof in intangible assets	-	-
- thereof in financial assets	-	-
Interest received	41	42
Cash flows from investing activities	**-337,116**	**-354,312**

in EUR k	2020	2019
Cash received from borrowings	296,521	256,747
Cash repayments of borrowings	-113,580	-99,263
Proceeds from shareholder loans	-	25,000
Cash repayments of lease liabilities	-592	-583
Interest paid	-28,806	-29,926
Cash flows from financing activities	**153,543**	**151,975**
Net change in cash and cash equivalents	**-14,027**	**-26,516**
Cash and cash equivalents as of 1 January	**56,899**	**83,415**
Cash and cash equivalents as of 31 December	**42,872**	**56,899**

Notes to the consolidated financial statements

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 Charlottenburg under register number HRB 44819 B. The Company's registered office is Ferdinand-Schultze-Strasse 71, 13055 Berlin. With over 76,500 rental units of its own relevant for valuation, as of the reporting date 31 December 2020, HOWOGE is one of Germany's biggest landlords.

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

These consolidated financial statements were prepared by HOWOGE's management board on 16 March 2021.

1.2. Basis of preparation of the consolidated financial statements

The consolidated financial statements as of 31 December 2020 were prepared in accordance with all effective International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and the interpretations issued by the IFRS IC. They were prepared on a voluntary basis in accordance with IFRS. The consolidated financial statements prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*, "**HGB**") are relevant for the purposes of the disclosure requirements of German commercial law. HOWOGE did not exercise the option afforded by Sec. 315e (3) HGB for fiscal year 2020.

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

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

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

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

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

2. New and amended standards and interpretations

2.1. Standards effective for the first time in the fiscal year

The Group applied for the first time certain standards and amendments, which are effective for fiscal years beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to References to the Conceptual Framework in IFRS Standards

On publication of the revised Conceptual Framework on 29 March 2018, the Amendments to References to the Conceptual Framework in IFRS Standards were also issued. The amendments are effective for fiscal years beginning on or after 1 January 2020. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group. For prospective transactions, HOWOGE assumes that the amendments to IFRS 3 will reduce the number of transactions that meet the definition of a business.

Amendments to IAS 1 and IAS 8 – Definition of Material

In October 2018, the IASB published amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments had no impact on the consolidated financial statements of the Group and are not expected to have any impact in the future.

Phase I of the IBOR reform

The published amendments to IFRS 9, IAS 39 and IFRS 7 address financial reporting issues in the period prior to the replacement of an existing benchmark interest rate (e.g. LIBOR, EURIBOR) with an alternative interest rate and the effects on certain hedge accounting provisions in IFRS 9 and IAS 39 that require a forward-looking analysis. Amendments were also made to IFRS 7 relating to additional disclosures on uncertainty in connection with the IBOR reform. These amendments had no impact on the consolidated financial statements of the Group and are not expected to have any impact in the future.

Covid-19-Related Rent Concessions (Amendments to IFRS 16)

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions – Amendments to IFRS 16, Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendments apply to fiscal years beginning on or after 1 June 2020. These amendments had no impact on the consolidated financial statements of the Group.

2.2. Standards issued but not yet effective

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

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

IFRS 17 Insurance Contracts

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

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

In January 2020, the IASB issued amendments to IAS 1 to the paragraphs 69 to 76 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- The right to defer settlement of a liability is explained.
- The right to defer settlement of a liability must exist at the reporting date.
- For classification purposes, it is irrelevant whether the entity expects to actually exercise this right.
- Only if a derivative embedded in a convertible debt instrument is an equity instrument that must be accounted for separately do, the terms of the debt instrument not have to be taken into account in its classification.

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

Amendments to IFRS 3: Reference to the Conceptual Framework

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

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

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

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

Amendments to IAS 16: Proceeds before Intended Use

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

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

The Group does not expect the amendments to have a material impact on the consolidated financial statements.

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

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

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

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

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

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

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

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

On 27 August 2020, the IASB published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as part of phase 2 of its IBOR reform project. The amendments relate to accounting issues in connection with the introduction of alternative risk-free benchmark interest rates for financial instruments that previously referenced the interbank offered rates (IBOR). Phase 2 focuses on issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free interest rate. These amendments are applicable for fiscal years beginning on or after 1 January 2021 with early application permitted. HOWOGE does not expect any effects from these amendments on its consolidated financial statements.

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

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

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

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

3. Consolidation principles

3.1. Subsidiaries

The consolidated financial statements as of 31 December 2020 include the separate financial statements of HOWOGE and its subsidiaries, Wohnungsbaugesellschaft Lichtenberg mbH (WBL), HOWOGE Servicegesellschaft mbH (Servicegesellschaft), HOWOGE Wärme GmbH (Wärme GmbH) and Kramer + Kramer Bau- und Projektmanagement GmbH (Kramer + Kramer) which have identical fiscal years (calendar year). All companies have their registered office in Berlin.

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

Acquisition accounting is based on the acquisition method, according to which cost is offset against the Group's share in equity at the date of acquisition. All intragroup receivables and liabilities, income and expenses and gains and losses resulting from intragroup transactions are eliminated. Kramer + Kramer was consolidated for the first time as of 1 January 2018.

On 28 January 2020, HOWOGE acquired 100% of the shares in KW Goecke S.A.R.L., Bertrange, Luxembourg. The purpose of the entity is to construct a residential rental building on the land at Goeckestrasse 32-24 in Berlin-Lichtenberg. The entity is to be legally merged into HOWOGE in 2021. The share acquisition is treated as an asset deal for accounting purposes and not as a business combination, since KW Goecke S.A.R.L. does not constitute a business pursuant to IFRS 3.

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

3.2. Joint ventures

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

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

4. Accounting policies

a) Investment property

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

Investment property that is held for sale and whose sale is considered to be highly probable within the next 12 months is accounted for under assets held for sale in current assets in accordance with IFRS 5. They are measured in the same way as the properties held as investments.

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

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

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

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

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

As of the reporting date 31 December 2020 and the comparative period 31 December 2019, 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. As part of the first-time application of IFRSs, the management board established a valuation process according to which the valuation of the real estate portfolio is tendered out annually to an external party on the basis of predefined criteria. Criteria for the selection of the independent appraiser include independence, reputation, market knowledge and whether professional standards are maintained.

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

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

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

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

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

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

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

Rent increase restrictions apply to approximately 1,456 residential units; for this portfolio of funded housing, cost rents or the agreed rent amounts are realized until the end of the extended rent restriction period. These amounts are mostly below market rents, giving rise to reduced income and therefore effects on the market value. An additional 44 units are subject to rent controls due to the obligation to provide inexpensive housing for a period of five years from the completion of construction (according to the purchase agreement). In addition, HOWOGE has signed the cooperation agreement "Affordable rents, new residential construction and supply of social housing". Under this agreement, for new construction projects for which construction started on or after 1 July 2017, 50% of units are to be let to tenants holding housing entitlement certificates (WBS) subject to rent and occupancy restrictions and the other 50% in the freely funded new construction segment at less than EUR 10/sqm per month on average with appropriately differentiated pricing.

These restrictions can prevent HOWOGE from realizing future market rent increases for newly constructed properties, which would also have an effect on the profitability and market values of the properties. In the calculation of multi-period excess earnings, it is assumed that in the unlikely event of a sale, the letting requirements pertaining the new construction project will continue to be met by the buyer. According to the information provided, no sales are expected at present.

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

Furthermore, at the end of January 2020, the Berlin House of Representatives adopted the Act on the Limitation of Rents for Housing in Berlin (*Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin*) (rent cap). The law provides for a five-year rent freeze, whereby the rents effectively agreed until 18 June 2019 under the German Civil Code (*Bürgerliches Gesetzbuch*, "**BGB**") may not be exceeded. There are exemptions for new buildings completed from 2014, publicly funded housing construction, dormitories and uninhabitable living space that is being restored for residential purposes. It also contains a rule on rent caps. These caps range from EUR 3.92/sqm to EUR 9.80/sqm and are largely based on the rents stated in the Berlin rent index of 2013. Rent higher than this amount must be reduced to the permitted level within nine months of the law taking effect. Modernizations and necessary refurbishments to make properties more energy efficient may only be passed on at a rate of EUR 1.00/sqm per month. Rental cash flows based on the currently applicable rent cap in Berlin were taken into account when valuing residential properties in Berlin. This primarily relates to market rent assumptions and capped existing rents. Furthermore, no increase in market rent was factored in for the residential units subject to the rent cap.

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

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

b) Inventories for property and other inventories

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

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

c) Property, plant and equipment

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

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

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

d) Intangible assets

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

e) Impairment of assets

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

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

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

f) Leases

Accounting for leases as the lessee

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

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

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

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

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

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

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

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

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

Accounting for leases as the lessor

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

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

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

g) Financial assets and liabilities (financial instruments)

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

- Financial assets at amortized cost (at 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. 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.

By contrast, financial liabilities are assigned to the categories:

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

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 stock exchange price. If no active market or stock exchange price can be determined for a financial instrument, the fair value is calculated using appropriate financial models, such as accepted option pricing models, or by using the market interest rate to discount future cash flows. Amortized cost is the acquisition cost minus principal repayments, reductions for impairment and the amortization using the EIR method of any difference between the acquisition cost and the maturity amount.

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

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

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

Receivables and other assets

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

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

Receivables and liabilities from unbilled operating costs

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

Cash and cash equivalents

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

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. Based on these criteria, an asset is measured at amortized cost using the EIR method or at fair value.

Financial liabilities

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

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

Government grants

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

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

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

h) <u>Borrowing costs</u>

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

i) <u>Impairment of financial instruments</u>

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 at initial recognition. The standard introduces a three-stage model to determine expected losses.

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

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

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

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

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

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

j) Derecognition of financial liabilities

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

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

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

k) Fair value of financial instruments

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

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

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

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

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

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

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

l) Assets held for sale

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

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

m) Other provisions

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

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

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

n) Revenue recognition

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

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

Revenue from real estate management

Rental and lease revenue (IFRS 16)

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

Revenue from operating costs (IFRS 16)

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

Other revenue from real estate management

Revenue from operating and heating costs (IFRS 15)

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

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

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

Revenue from management services and other trade

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

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

Other revenue

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

Interest and similar income

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

o) Income taxes

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

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

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

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

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 whether or not to exercise unilaterally granted termination the renewal options can be discretionary, in particular if there are no economic incentives to exercise or refrain from exercising options.
- The requirement to incorporate forward-looking information in the calculation of expected credit losses results in the use of judgment with regard to the effect of changes in economic factors on expected credit losses.
- Since a definition of the term “a separate major line of business or geographical area of operations” (IFRS 5) is not specified, judgment may be exercised when it comes to disposal groups in connection with property sales.

5.2. Estimates and assumptions

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

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

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

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

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

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

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

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

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

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

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

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

6. Notes to the income statement

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

Rental and lease revenue

in EUR k	2020	2019
Rental and lease revenue (IFRS 16)	303,748	292,761
Revenue from operating costs (IFRS 16)	21,734	19,784
Revenue from real estate management	**325,482**	**312,545**
Revenue from operating costs (IFRS 15)	20,353	18,531
Revenue from heating costs (IFRS 15)	35,582	31,782
Revenue from management services and other trade	4,158	3,148
Other revenue	640	492
Other revenue from real estate management	**60,733**	**53,952**
Total revenue	**386,215**	**366,498**

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 303,748k (2019: EUR 292,761k). Revenue from real estate management also includes revenue from allocable operating costs (property tax, building and liability insurance) of EUR 21,734k (2019: EUR 19,784k).

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

Maturity analysis of future lease payments (undiscounted)

in EUR k	31 Dec 2020	31 Dec 2019
Due within 1 year	310,010	299,811
More than 1 year and up to 5 years	1,380,843	1,322,671
More than 5 years	2,007,462	1,963,899

Other revenue from real estate management

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

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 2020**	**31 Dec 2019**
Current contract assets from operating costs	18,464	14,877
Current contract assets from heating costs	30,837	29,387
Impairment loss (IFRS 9)	- 1,356	- 2,919
Total contract assets	**47,946**	**41,344**
Current contract liabilities from operating costs	16,352	14,346
Current contract liabilities from heating costs	39,365	36,730
Total contract liabilities	**55,717**	**51,076**

Revenue from operating costs relates to contract liabilities of EUR 14,346k (not netted) at the beginning of the period (1 January 2019: EUR 13,970k). At the beginning of the fiscal year, they contrasted with contract assets of EUR 14,877k (1 January 2019: EUR 10,962k). As of 31 December 2020, contract liabilities came to EUR 16,352k and contract assets to EUR 18,464k (gross).

Revenue from heating costs relates to contract liabilities of EUR 36,730k (not netted) at the beginning of the period (1 January 2019: EUR 34,555k). At the beginning of the fiscal year, they contrasted with assets of EUR 29,387k (1 January 2019: EUR 29,329k). As of 31 December 2020, contract liabilities came to EUR 39,365k and contract assets to EUR 30,837k (gross).

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 640k (2019: EUR 492k) was recognized.

See note *7.20 Government grants* for further details.

6.2. Profit or loss from the remeasurement of investment property

Profit or loss from the remeasurement of investment property amounts to EUR 294,165k (2019: EUR 794,571k). Based on the property held at the beginning of the fiscal year (including purchases), this is equivalent to a 3.0% increase in the value of the investment property (2019: 9.2%).

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 294,165k (2019: EUR 794,571k) were recognized in the consolidated statement of comprehensive income.

Rental income and income from residential services related to investment property came to EUR 303,748k in the fiscal year (2019: EUR 292,761k). Operating expenses directly connected with this property came to EUR 41,324k in the fiscal year (2019: EUR 46,368k). These include expenses for maintenance, non-allocable operating costs, personnel expenses from property management and residential services.

6.3. Profit or loss from the sale of property

There were no property sales in fiscal year 2020. A profit from the sale of property of EUR 67k was generated in 2019. This relates to the sale of plots of land (Karower Strasse 6, 8, 10, 12/Alt-Buch 32, 34) and the sale of land (Papendickstrasse 6), in each case to the shareholder, the State of Berlin, in 2019.

6.4. Cost of materials

Cost of materials **in EUR k**	**2020**	**2019**
Facility management expenses	101,527	98,764
thereof operating costs	*58,921*	*54,671*
thereof maintenance and modernization	*35,464*	*32,956*
thereof other cost of purchased services	*7,142*	*11,137*
Expenses for land held for sale	2	1
Expenses for other goods and services	16,769	1,078
	118,297	**99,842**

The increase in expenses for other goods and services in the fiscal year is connected to activities performed by HOWOGE as part of the Berlin school construction scheme. The cost of materials for school construction is due to activities extending beyond the basic model.

6.5. Amortization, depreciation and impairment

Amortization, depreciation and impairment of non-financial assets in EUR k	**2020**	**2019**
Impairment of property, plant and equipment	3,820	3,843
Amortization and impairment of intangible assets	2,669	2,781
	6,489	**6,625**

Depreciation of right-of-use assets presented under property, plant and equipment is shown separately in note *7.2 Property, plant and equipment* and *note 7.3 Leases as the lessee*; it amounted to EUR 10.5k in the fiscal year (2019: EUR 6.8k).

6.6. Personnel expenses

Employee benefits expenses in EUR k	2020	2019
Wages and salaries	40,817	34,663
Social security costs	7,260	6,619
Pension costs	514	478
	48,591	**41,759**

The increase in expenses for other goods and services in the fiscal year is connected to activities performed by HOWOGE as part of the Berlin school construction scheme. Personnel expenses in the school construction segment reflect the costs for the employees working in this segment and personnel costs from other segments allocated to the school construction segment.

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

Group headcount developed as follows:

	31 Dec 2020	31 Dec 2019
Management board (HOWOGE Wohnungsbaugesellschaft)	2	2
Salaried employees (including management of subsidiaries)	556	518
Wage earners	246	238
Trainees	27	26
Students	6	6
	837	**790**

By company, the development breaks down as follows:

	31 Dec 2020	31 Dec 2019
HOWOGE	573	549
Servicegesellschaft	205	188
Kramer + Kramer	28	25
Wärme GmbH	31	28
	837	**790**

6.7. Other operating income

in EUR k	2020	2019
Reversal of provisions	2,205	4,461
Out-of-period income	368	629
Income from cost allocations	495	615
Miscellaneous other income	7,716	1,619
	10,784	**7,324**

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

6.8. Other operating expenses

in EUR k	2020	2019
IT costs	7,393	4,782
Audit and consulting fees	5,726	3,482
Advertising and sponsorship costs	2,311	2,420
Insurance premiums	2,528	2,620
Non-staff expenses	2,643	2,337
Training costs	1,541	1,721
Contributions to associations	395	366
Development studies	403	359
Donations	656	221
Out-of-period expenses	165	212
Miscellaneous other operating expenses	1,116	1,719
	24,875	**20,241**

6.9. Finance income and costs

in EUR k	2020	2019
Finance income from the unwinding of the discount on a lease receivable	41	42
Finance income from the cash surrender value of insurance policies held	4,694	4,558
Other finance income	3	2
Finance income	**4,738**	**4,602**
Finance costs from loan liabilities	- 28,123	- 28,336
Finance costs from lease liabilities	- 474	- 470
Finance costs from provisions	- 64	- 63
Amortization of government grants received	594	320
Other finance costs	- 763	- 1,274
Finance costs	**- 28,830**	**- 29,823**
Net finance costs	**- 24,091**	**- 25,220**

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

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

	Net gains and losses from interest		Net gains and losses from fair value measurement		Net gains and losses from impairments	
in EUR k	2020	2019	2020	2019	2020	2019
Financial assets (at fair value)	-	-	4,694	4,558	-	-
Financial assets (at amortized cost)	-206	-218	-	-	1,815	-1,198
Financial liabilities (at amortized cost)	-28,718	-29,554	-	-	60	48
	-28,924	**-29,772**	**4,694**	**4,558**	**1,875**	**-1,150**

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

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

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

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

6.10. Income taxes

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

Income taxes in EUR k	**2020**	**2019**
Current income taxes	10,890	8,820
Out-of-period current income taxes	318	1,119
Deferred taxes	97,939	192,011
	109,146	**201,949**

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

in EUR k	**2020**	**2019**
IFRS profit or loss before taxes	490,541	973,537
Group tax rate in %	30.18%	30.18%
Anticipated tax expense	**148,021**	**293,765**
Trade tax effects	- 31,152	- 90,696
Non-deductible business expenses and off-balance sheet add-backs	9	80
Tax-free income and off-balance sheet deductions	- 6,430	- 4,820
Deductibility of other taxes	- 4,271	- 4,919
Other tax effects	2,969	8,540
Income taxes according to the statement of comprehensive income	**109,146**	**201,949**
Effective tax rate in %	**22.3%**	**20.7%**

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

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

6.11. Other taxes

Other taxes of EUR 13,100k (2019: EUR 12,595k) 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 2020 and 2019:

in EUR k	Residential properties	Undeveloped land	Project development	Hereditary building rights granted to	Total
1 Jan 2019	**8,387,018**	**142,550**	**148,230**	**5,715**	**8,683,513**
Purchases	81,612	4,524	2,370	-	88,506
Other additions	142,002	123,659	66,986	-	332,647
Reclassification to assets held for sale	-	-	-	-	-
Reclassification between categories	7,672	-32,231	24,559	-	-
Reclassification to property, plant and equipment	-	-	-	-	-
Reclassification from property, plant and equipment	-	-	-	-	-
Disposals	-1,103	-	-	-0	-1,103
Fair value adjustment	949,008	-74,183	-80,615	361	794,571
31 Dec 2019	**9,566,208**	**164,320**	**161,530**	**6,076**	**9,898,134**

in EUR k	Residential properties	Undeveloped land	Project development	Hereditary building rights granted to third parties	Total
1 Jan 2020	**9,566,208**	**164,320**	**161,530**	**6,076**	**9,898,134**
Purchases	165,450	13,701	1,118	-	180,270
Other additions	25,048	25,651	120,806	-	171,504
Reclassification to assets held for sale	-	-220	-	-	-220
Reclassification between categories	72,070	-47,632	-20,079	-4,360	-
Reclassification to property, plant and equipment	-	-	-	-	-
Reclassification from property, plant and equipment	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value adjustment	295,944	14,430	-16,255	47	294,165
31 Dec 2020	**10,124,720**	**170,250**	**247,120**	**1,763**	**10,543,853**

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

Purchases relate to investment property acquired, contributed by the shareholder or recognized for the first time in the fiscal year because the benefits and burdens were transferred in the fiscal year (see below for details). In the fiscal year (as in the prior year), there were no additions from acquisitions by way of business combinations within the meaning of IFRS 3. As of 31 December 2020, the quantifiable purchase commitments for construction services and developments amounted to EUR 319m (31 December 2019: EUR 467m).

Other additions comprise subsequent acquisition costs, primarily relating to project developments, as well as capitalized expenses in connection with capitalizable maintenance and refurbishment work. 2019 included effects of EUR 451k (2020: EUR 0k) on recognized right-of-use assets from the adjustment (increase) in indexed rent payments for hereditary building rights granted to the Group and held as investment property. These relate to properties for which the land on which the leased residential property is located is not owned by HOWOGE but is instead leased under a hereditary building right. The right-of-use assets allocated to the lease are recognized at fair value pursuant to IAS 40.

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 2020 and 2019 and is included in the profit or loss from the remeasurement of investment property.

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

In fiscal years 2020 and 2019, this mainly relates to the following projects:

- Wandlitzstrasse 5/Wildensteiner Strasse 1
- Archenholdstrasse 23
- Schwanebecker Chaussee 22 – 32
- Altenbraker Strasse 25, 25a/Nogatstrasse 35
- Neuendorfer Strasse 87

Complex maintenance will be carried out on the following properties in 2021:

- Grevesmühlener Strasse 16-20
- Hendrichplatz 2 – 10, Ruschestrasse 22-33b
- Kienhorststrasse 97, 99/Lienemannstrasse 30-36
- Leopoldstrasse 18, 18a, 19, 19a, 20
- Rosenfelder Strasse 1, 1a/Skandinavische Strasse 10 – 13a
- Turmstrasse 45

In line with the 2035 strategy, HOWOGE will focus on making its properties more energy efficient in the years to come. In order to achieve the 2050 climate targets, it will be necessary to further reduce carbon emissions. We will only succeed in doing so by developing technical and other innovations together with Wärme GmbH. The relevant surveys and planning are being conducted for Rhinstrasse 2, 4 and Zerbster Strasse 80-84. Additionally, all new construction projects will be built to meet the KfW40 standard at a minimum.

HOWOGE has expressed interest in the contribution of a large number of state-owned properties. The following properties were contributed in 2019:

- Lückstrasse 33, 34
- Wiecker Strasse 8 – 10
- Zum Hechtgraben 6
- Welsestrasse 1, 3
- Rosenfelder Ring 78, 80.

In addition, the following properties were contributed by the shareholder in 2020:

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

HOWOGE is also active in the purchase of developments in order to achieve its growth targets. As part of this growth strategy, HOWOGE has added 15 developments to the portfolio relevant for valuation since 2015. In 2020, the development at Goeckestrasse 32-34e with 264 apartments was completed and handed over to HOWOGE (2019: three developments with 494 apartments in total).

Additionally, the purchase of portfolio properties relevant for valuation in the fiscal year added around 723 apartments to the portfolio (2019: around 600 apartments). This is the result of purchases and contributions of Rhinstrasse 129-135, Grenadierstrasse 13-16 and 18, Zerbster Strasse 80-104, Eitelstrasse 81, 82/Margaretenstrasse 30, Dolgenseestrasse 1a-m/Sewanstrasse 168-180a, Franz-Mett-Strasse 12-16 and Ernst-Barlach-Strasse 1-6.

The residential portfolio relevant for valuation was expanded by our own new buildings with 803 apartments (Rathausstrasse 14-17, Matenzeile 20,22/Rüdickenstrasse 33-33b, Glasbläserallee and Frankfurter Allee 218).

Disposals in the prior year 2019 relate to the sale of plots (Karower Strasse 6, 8, 10, 12; Alt-Buch 32, 34) and portfolio land (Papendickstrasse 6). Additionally, an existing property (Rotkamp 2, 6) was demolished to enable new construction.

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

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

in EUR k	**31 Dec 2020**	**31 Dec 2019**
Fair value according to external valuation	10,519,916	9,874,089
Adjustments to lease liabilities	23,937	24,045
Fair value in the statement of financial position	10,543,853	9,898,134

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

Valuation inputs as of 31 December 2020

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

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

Valuation inputs as of 31 December 2019

		Fair value (in EUR k)	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		9,542,163	DCF	-	-	-	0.00%/0.49%/3.00%
	Residential			2.21/6.20/15.00	7.00/9.96/15.00	200.00/213.18/450.00	-
	Commercial (office/retail/ other commercial use)			0.25/6.19/18.00	1.90/9.87/15.00	3.00%	-
	Garages			12.50/58.26/132.50	14.00/65.86/70.00	37.00	-
	Outdoor parking spaces			10.00/25.78/60.00	6.00/29.95/30.00	37.00	-
Undeveloped land/ hereditary building rights granted to third parties		170,396	Capitalization of earnings method/ sales comparison approach	-	-	-	-
Project developments		161,530	Residual value	-	-	1.50%/2.85%/3.50%	-
	Residential			7.80/8.24/9.44	9.00	-	-
	Commercial (office/retail/ other commercial use)			12.50/17.01/18.32	7.50	-	-
	Garages			50.00/65.34/100.00	50.00	-	-
	Outdoor parking spaces			35.00/41.38/100.00	30.00	-	-
Total portfolio (IAS 40)		**9,874,089**		-	-	-	-

	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	3.05%/4.29%/ 6.70%	1.25%/2.29%/ 4.90%	0.00%/0.38%/3.30%	1.00%/1.99%/2.20%
Undeveloped land/ hereditary building rights granted to third parties	-	-	-	-
Project developments	-	1.25%/1.79%/ 2.25%	-	-
	-	-	-	-

The following sensitivities arose as of 31 December 2020 and in the comparative period:

Sensitivity analysis as of 31 December 2020

	Fair value (in EUR k)	Valuation method	Capitalization rate sensitivity					
			+0.25%			-0.25%		
			Fair value (in EUR)	Absolute variance	Percentage variance	Fair value (in EUR)	Absolute variance	Percentage variance
Residential properties	10,100,783	DCF	9,273,805	(826,978)	-8.19%	11,138,174	1,037,391	10.27%
Undeveloped land/hereditary building rights granted to third parties	172,013	Capitalization of earnings method/ sales comparison approach	172,013	-	-	172,013	-	-
Project developments	247,120	Residual value	247,120	-	-	247,120	-	-
Total portfolio (IAS 40)	**10,519,916**		**9,692,938**	**(826,978)**	**-7.86%**	**11,557,307**	**1,037,391**	**9.86%**

	Fair value (in EUR k)	Valuation method	Discount rate sensitivity					
			+0.25%			-0.25%		
			Fair value (in EUR)	Absolute variance	Percentage variance	Fair value (in EUR)	Absolute variance	Percentage variance
Residential properties	10,100,783	DCF	9,883,080	(217,703)	-2.16%	10,322,391	221,608	2.19%
Undeveloped land/hereditary building rights granted to third parties	172,013	Capitalization of earnings method/ sales comparison approach	172,013	-	-	172,013	-	-
Project developments	247,120	Residual value	247,120	-	-	247,120	-	-
Total portfolio (IAS 40)	**10,519,916**		**10,302,213**	**(217,703)**	**-2.07%**	**10,741,524**	**221,608**	**2.11%**

	Fair value (in EUR k)	Valuation method	Market rent sensitivity					
			2.00%			-2.00%		
			Fair value (in EUR)	Absolute variance	Percentage variance	Fair value (in EUR)	Absolute variance	Percentage variance
Residential properties	10,100,783	DCF	10,182,720	81,937	0.81%	10,020,982	(79,801)	-0.79%
Undeveloped land/hereditary building rights granted to third parties	172,013	Capitalization of earnings method/ sales comparison approach	172,013	-	-	172,013	-	-
Project developments	247,120	Residual value	247,120	-	-	247,120	-	-
Total portfolio (IAS 40)	**10,519,916**		**10,601,853**	**81,937**	**0.78%**	**10,440,115**	**(79,801)**	**-0.76%**

Sensitivity analysis as of 31 December 2019

	Fair value (in EUR k)	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	9,542,163	DCF	8,780,547	(761,617)	-7.98%	10,497,862	955,699	10.02%
Undeveloped land/hereditary building rights granted to third parties	170,396	Capitalization of earnings method/ sales comparison approach	170,396	-	-	170,396	-	-
Project developments	161,530	Residual value	161,530	-	-	161,530	-	-
Total portfolio (IAS 40)	**9,874,089**		**9,112,473**	**(761,617)**	**-7.71%**	**10,829,788**	**955,699**	**9.68%**

	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	9,542,163	DCF	9,340,115	(202,048)	-2.12%	9,750,544	208,380	2.18%
Undeveloped land/hereditary building rights granted to third parties	170,396	Capitalization of earnings method/ sales comparison approach	170,396	-	-	170,396	-	-
Project developments	161,530	Residual value	161,530	-	-	161,530	-	-
Total portfolio (IAS 40)	**9,874,089**		**9,672,041**	**(202,048)**	**-2.05%**	**10,082,470**	**208,380**	**2.11%**

	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	9,542,163	DCF	9,617,133	74,970	0.79%	9,471,984	(70,180)	-0.74%
Undeveloped land/hereditary building rights granted to third parties	170,396	Capitalization of earnings method/ sales comparison approach	170,396	-	-	170,396	-	-
Project developments	161,530	Residual value	161,530	-	-	161,530	-	-
Total portfolio (IAS 40)	**9,874,089**		**9,949,059**	**74,970**	**0.76%**	**9,803,910**	**(70,180)**	**-0.71%**

7.2. Property, plant and equipment

in EUR k	Land and land rights with residential buildings	Land and land rights with commercial and other buildings	Land and land rights without buildings	Assets under construction	Construction preparation costs	Furniture, fixtures and office equipment	Right-of-use assets	Total
Cost								
1 Jan 2019	**6,586**	**8,846**	**3,365**	**-**	**1,765**	**8,765**	**18**	**29,345**
Additions	-	-	-	7,961	222	929	1	9,113
Acquisition of a subsidiary	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	- 246		- 246
31 Dec 2019	**6,586**	**8,846**	**3,365**	**7,961**	**1,986**	**9,448**	**19**	**38,212**
Additions	-	-	-	10,016	-	1,703	19	11,738
Acquisition of a subsidiary	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	- 178		- 178
Reclassification						-	-	-
31 Dec 2020	**6,586**	**8,846**	**3,365**	**17,978**	**1,986**	**10,973**	**38**	**49,771**
Amortization, depreciation and impairment							-	
1 Jan 2019	**237**	**2,503**	**-**	**-**	**-**	**6,808**	**5**	**9,553**
Amortization, depreciation and impairment for the fiscal year	237	2,503				1,097	7	3,843
Disposals						- 183	-	- 183
31 Dec 2019	**474**	**5,006**	**-**	**-**	**-**	**7,721**	**12**	**13,213**
Amortization, depreciation and impairment for the fiscal year	237	2,503				1,070	11	3,820
Disposals						- 171	-	- 171
31 Dec 2020	**711**	**7,509**	**-**	**-**	**-**	**8,620**	**22**	**16,861**
Net carrying amount								
31 Dec 2020	**5,874**	**1,337**	**3,365**	**17,978**	**1,986**	**2,353**	**16**	**32,912**
31 Dec 2019	**6,111**	**3,840**	**3,365**	**7,961**	**1,986**	**1,727**	**7**	**24,999**

The additions to assets under construction are attributable to the part of the new construction project at Frankfurter Allee 135 that is expected to be for owner occupation (administrative building). No significant borrowing costs were incurred in this context.

7.3. Leases as the lessee

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

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

Lease expenses

in EUR k	2020	2019
Depreciation and impairment of right-of-use assets	11	7
Interest expenses on lease liabilities	474	470
Expense relating to leases of low-value assets	58	49
Total amount recognized in profit or loss	**542**	**526**

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 650k (2019: EUR 632k) for leases. No variable lease payments were made.

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

Maturity of lease liabilities (undiscounted)

in EUR k	31 Dec 2020	31 Dec 2019
Within 12 months	588	589
1 to 3 years	1,167	1,168
3 to 5 years	1,163	1,163
More than 5 years	46,967	47,586
	49,885	**50,506**

The following table shows the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings; note *9.4 Financial liabilities*) and the movements during the period:

Development of lease liabilities

in EUR k	2020	2019
As of 1 January	**24,056**	**23,717**
Additions	11	452
Accretion of interest	474	470
Payments	- 592	- 583
As of 31 December	**23,948**	**24,056**
	31/12/2020	*31/12/2019*
thereof current	98	96
thereof non-current	23,850	23,960

7.4. Leases as the lessor

Investment property

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

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

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

Subleases

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

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

Maturity of lease receivables (undiscounted)

in EUR k	**31 Dec 2020**	**31 Dec 2019**
Within 12 months	64	64
1 to 2 years	59	64
2 to 3 years	54	59
3 to 4 years	54	54
4 to 5 years	54	54
More than 5 years	3,638	3,692
	3,924	**3,988**

Finance income from the recognized net investment is discussed in *note 6.9 Finance income and costs* in connection with interest income.

7.5. Intangible assets

Intangible assets exclusively relate to purchased software licenses.

in EUR k	Software	Goodwill	Total
Cost			
1 Jan 2019	**13,519**	**357**	**13,876**
Additions	1,348	-	1,348
Acquisition of a subsidiary	-	-	-
Disposals	-	-	-
31 Dec 2019	**14,867**	**357**	**15,224**
Additions	340	-	340
Acquisition of a subsidiary	-	-	-
Disposals	-	-	-
31 Dec 2020	**15,208**	**357**	**15,564**
Amortization and impairment			
1 Jan 2019	**9,218**	**357**	**9,575**
Amortization and impairment for the fiscal year	2,781	-	2,781
Disposals			-
31 Dec 2019	**11,998**	**357**	**12,355**
Amortization and impairment for the fiscal year	2,669	-	2,669
Disposals			-
31 Dec 2020	**14,667**	**357**	**15,024**
Net carrying amount			
31 Dec 2020	**541**	**-**	**541**
31 Dec 2019	**2,870**	**-**	**2,870**

7.6. Financial assets and financial liabilities

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

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

Measurement categories as of 31 December 2020

in EUR k	IFRS 9 measurement category	**Carrying amount 31 Dec 2020**	**Fair value 31 Dec 2020**	thereof Level 3
Financial assets		81,860		
thereof in scope:				
Investments	At fair value through profit or loss	79,788	79,788	79,788
Rental and lease receivables	Amortized cost	21,531	21,531	-
Receivables from other trade	Amortized cost	994	994	-
Other financial assets	Amortized cost	4,140	4,140	-
Cash and cash equivalents	Amortized cost	43,485	43,485	-
		149,938	**149,938**	**79,788**
Financial liabilities		1,874,256		
thereof in scope:				
Liabilities to banks	Amortized cost	1,825,259	2,048,672	-
Liabilities to shareholders	Amortized cost	25,049	25,262	-
Rental and lease liabilities	Amortized cost	8,797	8,797	-
Trade payables	Amortized cost	77,978	77,978	-
Other liabilities		31,528		
thereof in scope:				
Other financial liabilities	Amortized cost	5,980	6,018	
		1,974,591	**2,166,727**	**-**

Thereof aggregated by IFRS 9 measurement category:	
Financial assets at fair value through profit or loss	79,788
Financial assets at amortized cost	70,150
Financial liabilities at amortized cost	1,974,591

Measurement categories as of 31 December 2019

in EUR k	IFRS 9 measurement category	**Carrying amount 31 Dec 2019**	**Fair value 31 Dec 2019**	thereof Level 3
Financial assets		77,189		
thereof in scope:				
Investments	At fair value through profit or loss	75,094	75,094	75,094
Rental and lease receivables	Amortized cost	21,280	21,280	-
Receivables from other trade	Amortized cost	463	463	-
Other financial assets	Amortized cost	4,686	4,686	-
Cash and cash equivalents	Amortized cost	56,899	56,899	-
		158,422	**158,422**	**75,094**
Financial liabilities		1,658,599		
thereof in scope:				
Liabilities to banks	Amortized cost	1,609,604	1,779,922	-
Liabilities to shareholders	Amortized cost	24,899	24,302	-
Rental and lease liabilities	Amortized cost	9,335	9,335	-
Trade payables	Amortized cost	79,206	79,220	-
Other liabilities		31,351		
thereof in scope:				
Other financial liabilities	Amortized cost	6,124	6,472	
		1,760,519	**1,899,251**	**-**
Thereof aggregated by IFRS 9 measurement category:				
Financial assets at fair value through profit or loss		75,094		
Financial assets at amortized cost		83,328		
Financial liabilities at amortized cost		1,760,519		

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

7.7. Fair value of financial instruments

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

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

- The fair value of liabilities to banks and other financial liabilities is determined as the present value of future cash inflows and outflows assuming an interest rate for an equivalent maturity.

- In all other cases, due to the short-term maturities of trade receivables not subject to factoring agreements, the carrying amounts of trade payables, other financial assets as well as cash and cash equivalents as of the reporting date do not deviate significantly from their fair values.

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

7.8. Collateral

Overall, financial assets of EUR 79,788k were pledged as collateral as of 31 December 2020 (31 December 2019: EUR 75,094k). As in the prior year, collateral in the fiscal year mainly comprised 18 long-term life insurance policies for 11 policyholders with terms until 2055 at the latest. The claims from these insurance policies have been assigned to HOWOGE in full. The life insurance policies have been assigned as collateral for a credit line granted (EUR 75.5m).

7.9. Risk management for financial instruments

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

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

All relevant risks and risk management measures are systematically identified, categorized and documented electronically in the course of a half-yearly risk inventory. The aim is to identify and monitor material risks and going concern risks at an early stage. For this purpose, standard risks are documented in a risk catalog and concrete issues from which specific individual risks arose are summarized in a half-yearly risk report to the management board. Pursuant to the articles of incorporation, specific individual risks starting from a threshold of EUR 1m are also communicated to the supervisory board in a half-yearly report. Additionally, there is a group-wide ad hoc reporting obligation for significant changes in the risk situation. Risk assessment is aimed at quantifying significant risks. If this does not seem possible or reasonable, at least a qualitative estimate is made for each case in accordance with a standardized format.

Credit risk

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

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

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

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

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

Additionally, business relationships with customers and lessees are exposed to a low credit risk due to the contractual arrangements. Generally, such relationships are settled by payments made in advance. Rental receivables are already past due on first-time recognition, but they can still be realized for the most part. Since rental receivables and contract assets relate to a mostly homogeneous customer base, the expected credit losses are determined based on historical default rates, adjusted for future expectations. Rental receivables are secured in the amount of EUR 21,956k (2019: EUR 14,550k).

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

Changes in loss allowances

in EUR k	2020	2019
As of 1 January	**2,903**	**1,705**
Allocation	7,752	5,777
Reversal	- 8,776	- 4,579
Change in calculation parameters	768	524
Utilization	- 431	- 524
As of 31 December	**2,216**	**2,903**

Loss allowances for contract assets are presented below:

Changes in loss allowances

in EUR k	2020	2019
As of 1 January	**2,919**	**773**
Allocation	1,356	2,919
Reversal	- 2,919	- 773
Change in calculation parameters	-	-
Utilization	-	-
As of 31 December	**1,356**	**2,919**

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 2020, expected credit losses determined using the simplified approach amounted to 60% for rental and lease receivables (31 December 2019: 60%) and around 2.7% (31 December 2019: 6.6%) for contract assets. Financial assets that are individually assessed and subject to loss allowances have a probability of default of around 64% (31 December 2019: 70.3%). No significant expected credit losses within the meaning of IFRS 9 were identified for the other financial assets based on historical data.

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

Interest rate and currency risk

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

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

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

Liquidity risk

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

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

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

The Group had cash and cash equivalents of EUR 43,485k as of 31 December 2020 (31 December 2019: EUR 56,899k).

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

31 Dec 2020

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

[1] Liabilities to banks and shareholders comprise interest liabilities

31 Dec 2019

in EUR k	Up to 1 year	1 to 5 years	More than 5 years	**Total**
Liabilities to banks	128,670	419,065	1,395,847	**1,943,582**
Liabilities to shareholders	276	1,104	23,935	**25,315**
Rental and lease liabilities	9,335	-	-	**9,335**
Trade payables	74,171	5,035	-	**79,206**
Other financial liabilities	474	5,650	-	**6,124**
				2,063,562

[1] Liabilities to banks and shareholders comprise interest liabilities

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

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

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

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

7.10. Investments in joint ventures

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

Statement of financial position of Elisabeth-Aue (condensed) In EUR k	***31 Dec 2020***	***31 Dec 2019***
Current assets, including cash and cash equivalents of EUR 1,561k (2019: EUR 1,584k)	14,809	14,832
Non-current assets	-	-
Current liabilities, including tax liabilities of EUR 0.1k (2019: EUR 0.2k)	25	20
Non-current liabilities	0	0
Equity	**14,784**	**14,812**
HOWOGE's share in equity: 50% (2019 50%)	7,392	7,406
Carrying amount of the Group's investment before adjustment	**7,392**	**7,406**
Adjustment for IAS 40 measurement of the land	*4,138*	*3,626*
Carrying amount of the Group's investment after adjustment	**11,530**	**11,032**

Income statement of Elisabeth-Aue (condensed)	***2020***	***2019***
Revenue from contracts with customers	25	21
Other operating income	0	1
Cost of purchased goods and services	-28	-31
Depreciation and impairment of property, plant and equipment	-	-
Other operating expenses	-25	-39
Total comprehensive income for the fiscal year	**-28**	**-48**
Group's share of profit (50%) before adjustment	**-14**	**-24**
Adjustment for IAS 40 measurement of the land	513	788
Recognized Group's share in profit after adjustment	**498**	**763**

The joint venture had no contingent liabilities or obligations as of 31 December 2020 and 2019. There were no financial liabilities other than those presented in the above table. There were no significant finance costs or income in both fiscal years.

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

7.11. Other assets

Other non-current assets of EUR 1 (2019: EUR 1) comprise the carrying amount of the investment of HOWOGE in GbR Dolgenseestrasse (2020: 0.4%; 2019: 0.4%). The prepayment of EUR 11,097k for the acquisition of shares in Goeckestrasse received in the prior year was reclassified in the fiscal year due to the addition. The developed land is held as an investment property, accounted for pursuant to IAS 40 and recognized under residential property.

Other current assets of EUR 36,594k (31 December 2019: EUR 33,974k) include operating costs not yet billed for which HOWOGE is not the primary service provider, i.e. for which it 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 35,369k (31 December 2019: EUR 32,798k). The unbilled operating costs are valued at acquisition cost. Other current assets comprise assets relating to prepaid services not yet rendered.

7.12. Inventories for property and other inventories

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

Inventories

in EUR k	**31 Dec 2020**	**31 Dec 2019**
Own work capitalized (school construction)	18,361	-
Work in process (planning and project services)	1,117	1,305
Other	-	-
	19,477	**1,305**

Own work capitalized (school construction) relates to expenses incurred in the fiscal year attributable to the planning and preparation costs for the school construction scheme. Changes in inventories for property and other inventories of EUR 17,807k and own work capitalized of EUR 554k in the income statement are attributable to this project.

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

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

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

Rental and lease receivables – maturity and impairment

in EUR k	Current gross receivables	Non-current gross receivables	Total gross receivables	thereof past due	thereof credit impaired
Rental and lease receivables	24,160	23	**24,183**	2,449	2,903
Receivables from other trade	333	131	**464**	130	-
Other financial assets	4,686	-	**4,686**	-	-
Contract assets	44,264	-	**44,264**	-	2,919
As of 31 December 2019	73,443	154	**73,596**	2,579	5,822
Rental and lease receivables	23,726	20	**23,746**	2,730	2,216
Receivables from other trade	831	163	**994**	163	
Other financial assets	4,140	-	**4,140**		
Contract assets	49,302	-	**49,302**		1,356
As of 31 December 2020	77,999	183	**78,182**	2,892	3,571

7.14. Financial liabilities

Maturity of financial liabilities

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

31 Dec 2019 in EUR k	current	*non-current*
Liabilities to banks	77,473	1,532,131
Liabilities to shareholders	277	24,622
Lease liabilities	96	23,960
Financial liabilities	**77,846**	**1,580,713**
Rental and lease liabilities	**9,335**	**-**
Trade payables	**74,171**	**5,035**
Contract liabilities	**51,076**	**-**
Other financial liabilities	**474**	**5,650**
Total	**212,902**	**1,591,398**

EUR 1,799,551k (2019: EUR 1,556,245k) of liabilities to banks are secured by real property liens and EUR 46,211k (2019: EUR 70,828k) are secured by state guarantees.

HOWOGE was granted interest-subsidized loans of EUR 33,411k in the fiscal year (2019: EUR 33,026k).

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

7.15. Cash and cash equivalents

in EUR k	31 Dec 2020	31 Dec 2019
Cash and cash equivalents	43,485	56,899
- thereof freely available	42,872	56,284
Cash and cash equivalents	**43,485**	**56,899**

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 613k (2019: EUR 615k).

Cash and cash equivalents are recognized at amortized cost.

7.16. Equity

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

a) Subscribed capital

Subscribed capital amounted to EUR 25k in the fiscal year (2019: EUR 25k).

b) Reserves

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

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

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

In the fiscal year, two properties were transferred to HOWOGE by shareholder resolution (2019: five properties). The capital reserves are increased by the value of this contribution in kind.

c) Capital management

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

7.17. Other provisions

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

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

Other 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 public obligations to upgrade fire safety systems, provisions for financial statements and consulting fees, litigation cost provisions and an archiving costs provision for the retention of business documents.

Cash outflows from provisions within one year are estimated at around EUR 4,637k (2019: EUR 2,408k). Other cash outflows from provisions are longer term.

Development of other provisions

in EUR k	1 Jan 2019	Utilization	Reversal	Allocation	31 Dec 2019
Provision for fire safety measures	877	123	755	-	-
Provision for litigation costs	27	24	-	63	67
Other provisions	654	240	419	563	557
Provision for financial statement costs	112	101	-	101	112
Provision for retention of business documents	111	12	-	27	127
Provision for advertising fund	69	11	-	7	66
Warranty provision	27	-	-	108	135
Provision for consulting fees	17	8	0	18	28
Miscellaneous other provisions	**1,896**	**518**	**1,174**	**887**	**1,091**
Provision for long-service awards	743	46	-	124	822
Provisions for employee bonuses	1,668	1,571	46	1,537	1,587
Provisions for employees	**2,412**	**1,617**	**46**	**1,661**	**2,409**
Total other provisions	**4,307**	**2,135**	**1,220**	**2,548**	**3,500**
thereof current	3,411				2,408
thereof non-current	896				1,092

in EUR k	1 Jan 2020	Utilization	Reversal	Allocation	31 Dec 2020
Provision for fire safety measures	-	-	-	-	-
Provision for litigation costs	67	12	13	343	385
Other provisions	557	530	33	2,108	2,103
Provision for financial statement costs	112	101	0	149	160
Provision for retention of business documents	127	13	-	19	132
Provision for advertising fund	66	7	-	7	65
Warranty provision	135	-	-	32	166
Provision for consulting fees	28	16	0	18	30
Miscellaneous other provisions	**1,091**	**679**	**47**	**2,676**	**3,042**
Provision for long-service awards	822	51	-	153	924
Provisions for employee bonuses	1,587	1,320	84	1,736	1,920
	2,409	**1,371**	**84**	**1,890**	**2,844**
Total other provisions	**3,500**	**2,049**	**131**	**4,566**	**5,886**
thereof current	2,408				4,637
thereof non-current	1,092				1,250

7.18. Other liabilities

Other liabilities		
in EUR k	**31 Dec 2020**	**31 Dec 2019**
Other liabilities	**31,528**	**31,351**
thereof financial (notes 7.6, 7.14)	5,980	6,124
thereof non-financial	25,548	25,227
Advance rent payment for hereditary building rights	-	6,949
Liabilities to employees	359	547
Government grants	23,846	16,571
Other	1,343	1,159
Other non-financial liabilities	25,548	25,227
thereof current	2,913	2,740
thereof non-current	22,635	22,487

In 2019, other liabilities mainly related to rent payments received in advance for hereditary building rights granted to third parties, which were reacquired by HOWOGE in the fiscal year.

Additionally, as of the end of the fiscal year, liabilities to employees of EUR 359k (2019: EUR 547k) comprised accrued vacation.

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

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

7.19. Deferred tax assets and liabilities

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

in EUR k	31 Dec 2020		31 Dec 2019	
	Deferred tax assets	*Deferred tax liabilities*	*Deferred tax assets*	*Deferred tax liabilities*
Investment property and property, plant and equipment	-	1,538,058	-	1,452,328
Investments in associates and joint ventures	-	1,157	-	1,007
Non-current financial assets	-	625	-	632
Rental and lease receivables and other receivable from other trade	57	-	64	-
Contract assets	409	-	880	-
Other financial assets, current	-	7	-	7
Other assets, current	54		54	
Assets held for sale		23	-	-
Other provisions	225	-	2,100	-
Non-current financial liabilities	7,197	-	7,230	-
Current financial liabilities	30	-	29	-
Trade payables	29	-	29	-
Other liabilities	-	291	-	-
	8,001	**1,540,160**	**10,386**	**1,453,973**
Tax loss carryforwards	16,649		26,015	
Total deferred taxes	**24,650**	**1,540,160**	**36,401**	**1,453,973**
Offsetting	- 24,650	- 24,650	- 36,401	- 36,401
Amount recognized in the statement of financia	**-**	**1,515,511**	**-**	**1,417,572**

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

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

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

Deferred taxes on loss carryforwards in EUR k	**31 Dec 2020**	**31 Dec 2019**
Tax loss carryforwards	16,666	26,257
thereof trade tax	18	242
thereof corporate income tax	16,649	26,015
Unusable loss carryforwards	- 18	- 242
	16,649	**26,015**

Deferred tax assets on tax loss carryforwards are recognized in the amount of any deferred tax liabilities from temporary differences. Net deferred tax assets on loss carryforwards are recognized to the extent that is probable that the Company will generate taxable profits in the future. The loss carryforwards do not generally expire. Loss carryforwards from trade tax of EUR 124k (unrecognized deferred tax assets of EUR 18k) were not recognized since they are attributable to a subsidiary exempted from trade tax and, based on the circumstances, it is assumed that they will not be utilized in the next five years.

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

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

No deferred tax liabilities were recognized on temporary differences arising from investments in subsidiaries, associates and joint ventures that will not reverse in the foreseeable future amounting to EUR 267k (2019: EUR 248k).

Development of deferred taxes
in EUR k

	31 Dec 2020		31 Dec 2019	
	Deferred tax assets	*Deferred tax liabilities*	*Deferred tax assets*	*Deferred tax liabilities*
Deferred taxes as of 1 January	-	**1,417,572**	**-**	**1,225,562**
Deferred tax expense in the income statement	-	97,939	-	192,011
Deferred taxes in connection with first-time consolidation	-	-	-	-
Change in deferred taxes on available-for-sale financial assets recognized in other comprehensive income	-	-	-	-
Deferred taxes recognized directly in equity	-	-	-	-
Other	-	-	-	-
Deferred taxes as of 31 December	**-**	**1,515,511**	**-**	**1,417,572**

7.20. Government grants

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

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

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

Government grants (deferred under liabilities)

In EUR k	2020	2019
As of 1 January	**16,571**	**7,554**
Received during the year	8,509	9,829
Amortized to profit or loss	1,234	812
As of 31 December	**23,846**	**16,571**
	31/12/2020	**31/12/2019**
thereof current	1,211	904
thereof non-current	22,635	15,666

In the fiscal year, income from repayment subsidies of EUR 640k (2019: EUR 492k) was recognized and presented under other revenue from real estate management; income from interest subsidies of EUR 594k (2019: EUR 320k) was recognized and presented under interest expenses.

Additionally, repayment subsidies of EUR 2,065k (2019: EUR 1,425k) were recognized as investment subsidies, reducing the corresponding acquisition cost.

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

7.21. Assets held for sale

As of the end of fiscal year 2020, HOWOGE recognized an investment property held for sale (Strasse 9 No. 17) at its fair value of EUR 220k. This is undeveloped land without an economic use for HOWOGE. The purchase agreement was notarized in 2020, but the benefits and burdens will only be transferred at the beginning of 2021.

8. Notes on the statement of cash flows

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

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

in EUR k	**31 Dec 2020**	**31 Dec 2019**
Cash and cash equivalents	43,485	56,899
- thereof freely available	42,872	56,284
Cash and cash equivalents in the statement of cash flows	**42,872**	**56,899**

The change compared to the prior year is minus EUR 14,027k (2019: minus EUR 26,516k).

There are credit lines of EUR 75,000k at Aareal Bank AG and of EUR 25,000k at DKB Bank, which had not been utilized as of the reporting date.

In the reporting year, income taxes of EUR 11,208k were paid (2019: EUR 9,359k). Moreover, interest of EUR 28,806k was paid, thereof EUR 474k for leasing (2019: EUR 29,926k, thereof EUR 417k for leasing) and interest of EUR 41k (2019: EUR 42k) was received.

Liabilities from financing activities

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

in EUR k	31 Dec 2018	Cash flows	Change in fair value	New leases	Other	31 Dec 2019
Current interest-bearing loans and borrowings (excluding lease liabilities)	81,042	- 81,042			77,750	77,750
Current lease liabilities	112	- 112			96	96
Non-current interest-bearing loans and borrowings (excluding lease liabilities)	1,366,289	- 30,375			220,840	1,556,753
Non-current lease liabilities	23,605	- 472			826	23,960
Total	**1,471,048**	**- 112,000**			**299,512**	**1,658,559**

9. Information on group companies and related party disclosures

a) <u>Subsidiaries</u>

Share in %	*Main business activity*	*31 Dec 2020*	*31 Dec 2019*
Wohnungsbaugesellschaft Lichtenberg mit beschränkter Haftung	Holding company	100	100
HOWOGE Servicegesellschaft mbh	Ancillary residential services	100	100
HOWOGE Wärme GmbH	Supplier of heating energy and hot water to the group portfolio	100	100
Kramer + Kramer Bau- und Projektmanagement GmbH	Project management services	100	100
KW Goecke S.A.R.L.	Special purpose entity	100	0

On 28 January 2020, HOWOGE acquired 100% of the shares in KW Goecke S.A.R.L. The purpose of the entity is to construct a residential rental building on the land at Goeckestrasse 32-34 in Berlin-Lichtenberg. The entity is to be legally merged into HOWOGE in 2021. The share acquisition is treated as an asset deal for accounting purposes and not as a business combination, since KW Goecke S.A.R.L. does not constitute a business pursuant to IFRS 3.

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

b) <u>Shareholder</u>

The sole shareholder of HOWOGE Wohnungsbaugesellschaft mbH is the State of Berlin. With regard to the State of Berlin, there were the following matters to be reported in the period under review (2020):

- Capital reserves were increased by EUR 1,792k in 2020 by the non-cash contribution by the shareholder and by EUR 7,390k in 2019.

Additionally, the following matters to be reported occurred in 2019:

- A shareholder loan of EUR 25,000k was issued in 2019 as part of the school construction initiative and can be increased by up to EUR 200,000k in the subsequent years. Interest is charged at market rates for public-sector loans.

- The sale of two properties (235 sqm plot of land at Karower Strasse 6, 8, 10, 12/Alt-Buch 32, 34 and land at Papendickstrasse 6) to the shareholder in 2019 led to sales proceeds of EUR 102k.

c) Joint ventures

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

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

d) Information on management board compensation

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

The management board comprises:

- Ulrich Schiller
- Thomas Felgenhauer

The supervisory board comprises:

- Mr. Hendrik Jellema (Chairman)
- Mr. Klaus Feiler (Deputy Chairman until 31 August 2020)
- Mr. Sebastian Scheel (until 30 September 2020)
- Dr. Frank Nägele (Deputy Chairman since 16 September 2020)
- Ms. Elfriede Baumann
- Ms. Vera Junker (since 1 September 2020)
- Ms. Wenke Christoph (since 1 October 2020)
- Ms. Babette Buschmann
- Mr. Jörn Lorenz

- Ms. Kerstin Wittke
- Mr. Frank Sparmann

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 were compensated as follows:

In EUR k	***2020***	***2019***
Short-term benefits	561	578
Payments into defined contribution pension plans	54	47
Other long-term benefits		
Total compensation	**615**	**625**

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.

10. Events after the reporting date

There were no significant events after the reporting date.

Berlin, 16 March 2021

HOWOGE Wohnungsbaugesellschaft

mit beschränkter Haftung

The Management Board

Felgenhauer Schiller

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the consolidated financial statements and group management report (Konzernlagebericht) of HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung as of and for the fiscal year ended December 31, 2020. The group management report is neither included nor incorporated by reference in this Document.

INDEPENDENT AUDITOR'S REPORT

(Translation – the German text is authoritative)

To HOWOGE Wohnungsbaugesellschaft mit beschränkter Haftung, Berlin

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 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, 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 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance of the state of Berlin.

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, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, 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 the statement on corporate governance of the state of Berlin referred to above.

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 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 German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. 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.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance of the state of Berlin.

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 and, in so doing, to consider whether the other information

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

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and 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.
- 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.

Berlin, 16 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd.) Dr. Frederik Mielke
Wirtschaftsprüfer
(German Public Auditor)

(spd.) ppa. Marius Möller
Wirtschaftsprüfer
(German Public Auditor)