THE GROUNDS

REAL ESTATE DEVELOPMENT AG

ANNUAL REPORT | 2022

THE GROUNDS
REAL ESTATE DEVELOPMENT AG

ANNUAL REPORT
for the financial year 1 January to 31 December
2022

This annual report was published on 28 April 2023 and is also available in English.
The German version takes precedent in the case of any doubt.

Both versions of the annual report are available online on our website:
www.thegroundsag.com/geschäftsberichte.html
www.thegroundsag.com/annual-reports.html

For reasons of better legibility, we mostly use the masculine form of personal nouns in this annual report. This always refers to female and male persons at the same time and expressly includes other gender identities.

CONTENT

KEY FIGURES

Group key figures		31 Dec. 2022	31 Dec. 2021
Sales revenues	TEUR	36,751	31,588
… of which sales	TEUR	34,600	29,266
… of which rental income	TEUR	1,885	1,593
Earnings before interest and taxes (EBIT)	TEUR	3,359	9,170
Consolidated profits	TEUR	1,186	4,904
Earnings per share	EUR	0.07	0.28
Total assets	TEUR	138,279	102,902
Equity	TEUR	32,569	25,337
Equity ratio	%	23.6%	24.6%
Financial liabilities & bonds	TEUR	80,104	60,747
Loan to value (LTV)	%	67%	69%
Cash flow from operating activities	TEUR	–12,453	7,028
Cash flow from investing activities	TEUR	–4,421	–14,723
Cash flow from financing activities	TEUR	16,732	9,457
Employees		15	13

Portfolio key figures		31 Dec. 2022	31 Dec. 2021
Portfolio properties (Fixed assets)			
Living/usable space	m²	27,319	26,263
Units		434*	410
Rental income p.a.	TEUR	1,713*	1,486
Portfolio development (Current assets)			
Living/usable space	m²	3,024	7,027
Units		26	69
Rental income p.a.	TEUR	208	458
Land development			
Planned living/usable space	m²	112,288	30,168
Planned living/usable space in joint venture projects	m²	78,179	79,244

*including the units from non-current assets held for sale

Overview of The Grounds shares (Xetra prices)		2022	2021
Market capitalisation (as at 31 Dec.)	TEUR	34,542	40,597
Share capital (as at 31 Dec.)	TEUR	17,806	17,806
Closing price	EUR	1.94	2.28
Share price low	EUR	1.88	1.95
Share price high	EUR	2.60	3.16
ISIN			DE000A2GSVV5
Segment			Primary market, Düsseldorf Stock Exchange

LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Dear Ladies and Gentlemen,

We succeeded in recording further substantial growth in the past year. Sales revenues increased by 16%, while our total assets rose by over 34%.

This means the company's total assets have more than quadrupled compared with the last year before the relaunch (2020).

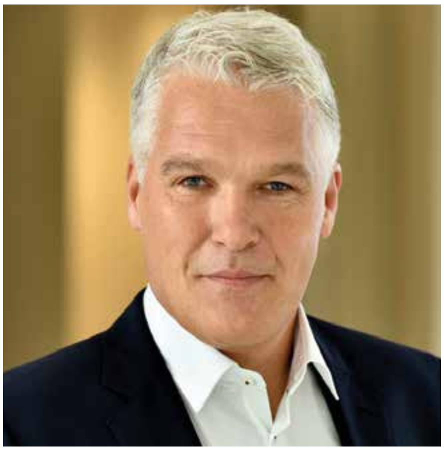
Of course, the successful relaunch with its focus on housing projects does not make us immune from the current developments on the market.

For institutional investors, rising interest rates have led to a distinct reluctance to make purchases.

The number of private buyers who can afford annuity loans has also fallen significantly in the new interest rate environment, meaning it is taking longer for properties to sell.

In other words, the two sales markets in which we operate have become considerably more challenging of late.

Rising interest rates are not the only variable having an adverse impact on the market. Inflation,



ARNDT KRIENEN
Executive Board

Arndt Krienen, lawyer, has been an member of the Company's Executive Board since March 2020.

Before his current position, Mr. Krienen was CEO of Westgrund AG (Berlin) as well as of SDAX listed Adler Real Estate AG. He was largely responsible for growing the portfolio to more than 50,000 existing apartments as well as managing a staff of more than 500 people. Arndt has an extensive knowledge of real estate industry.

Arndt Krienen is Chairman of the Supervisory Board of European Science Parc Group (Cologne) and Grillador AG (Remscheid).

JACOPO MINGAZZINI

Executive Board

Jacopo Mingazzini, business graduate (Dipl.-Kfm.) and real estate economist, has been member of the Company's Executive Board since August 2020.

Until March 2020 he was Managing Director of Accentro GmbH, which he founded in 1999 – additional since 2011 member of the Management Board of Accentro Real Estate AG.

Jacopo Mingazzini is lecturer at IREBS and, amongst others, he is member of the Management Board of "Liberale Immobilienrunde" as well of "Association to Promote residential property" in Berlin.

reduced subsidies, increased caution on the part of financing banks and a continuous wave of new political regulation are causing additional uncertainty.

We are encouraged by the permanent growth in demand for housing, especially in urban areas, as the gap between the number of properties being completed and the growth in the population becomes ever wider.

The construction industry is continuing to fall well below the German federal government's target of 400,000 new homes every year, with the changes made by the government to the available subsidies playing a notable role in this respect.

There are currently no signs that the government is prepared to take substantial action to reverse this negative trend.

We have responded to the changed circumstances by becoming even more selective when it comes to new investments. Having been fortunate enough to acquire sufficient projects in the past that we are now developing and gradually bringing to realisation, we expect our sales revenues to continue to rise.

For example, we obtained the building permit for our Central Offices project (Magdeburg) in late 2022, while the first planning application for our Börde Bogen project (Magdeburg) was submitted following the adoption of the development plan in 2022. The building permit for our terraced house project in Blankenfelde-Mahlow is also expected to be granted in the near future. We already have four properties under construction: two in Magdeburg, one in Erkner, and one in Berlin.

We are delighted that you have kept your faith in us as shareholders in spite of the aforementioned challenges, which also left their mark on our share price.

With kind regards,

The Management Board
Arndt Krienen Jacopo Mingazzini

Berlin, April 2023

REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

After a bright start to 2022, the economic conditions for the German property market deteriorated over the course of the financial year due to the war in Ukraine, the dramatic upturn in energy prices, rising construction and financing costs, and growing reluctance among investors as a result of these developments. Although The Grounds Real Estate Development AG (hereinafter "The Grounds") actively focuses on Berlin's affluent commuter belt where demand is high, the changed market conditions made themselves felt in the reporting year. While consolidated sales revenues met expectations and exceeded the prior-year figure at EUR 36.8 million (previous year: EUR 31.6 million), this was not the case for consolidated EBIT, which declined to EUR 3.4 million (previous year: EUR 9.2 million). In addition to the current status of projects, including target/actual comparisons in terms of budgeting, scheduling and marketing, all discussions with the Management Board in 2022 therefore also included a detailed examination of developments on the German property market and the Group's financial and liquidity situation. This was reflected in intensified Supervisory Board activity in 2022, including an increased number of meetings.

In the reporting year, the Supervisory Board of The Grounds again performed all duties incumbent upon it under the law, the Articles of Association and its rules of procedure with due care. The Supervisory Board advised the Management Board and monitored its management of The Grounds AG and The Grounds Group. It satisfied itself that the Management Board's work was legal, appropriate and correct at all times. The Supervisory Board raised no objections to the Management Board's satisfaction of its duties to provide information or to the information provided in the 2022 calendar year. This relates to information in regular meetings as well as information communicated verbally outside of meetings. In 2022, the Management Board provided information on business development, strategy and planning, especially financial and liquidity planning, at all The Grounds companies. This also included information on the risk situation and risk development in the individual projects in 2022. The Management Board and the members of the Supervisory Board engaged in a regular exchange of information and opinions on key topics and upcoming decisions. The Supervisory Board was directly involved in all decisions of fundamental importance to the company and the Group. The Supervisory Board approved individual transactions to the extent required by the law, the Articles of Association and its rules of procedure (see “Work of the Supervisory Board in the reporting year” below).

Composition of the Management Board and the Supervisory Board

There were no changes in the composition of the Management Board or the Supervisory Board of The Grounds in the reporting year. The company was managed by its Management Board members Arndt Krienen and Jacopo Mingazzini. The Supervisory Board was composed of Timo Tschammler (Chairman), Armin Hofmann (Vice Chairman) and Eric Mozanowski.

Work of the Supervisory Board in the reporting year

The Supervisory Board held six regular meetings in the reporting year, on 12 and 27 April, 21 June, 3 August, 22 September and 14 December 2022. All meetings were attended by all members of the Supervisory Board. The majority of the meetings were held in person with the presence of the Management Board. The meeting to approve the financial statements for the 2021 financial year on 12 April 2022 was also attended by representatives of the auditor, Buschmann & Bretzel GmbH Wirtschaftsprüfungsgesellschaft, Berlin, as guests.

The Supervisory Board also passed resolutions by way of circulation, all of which related to the approval of property purchases. In addition to the reports and topics described above, the Supervisory Board meetings discussed financing issues, preparations for the 2022 Annual General Meeting and the subsequent debrief.

Annual and consolidated financial statements as at 31 December 2022

The Annual General Meeting on 21 June 2022 elected Buschmann & Bretzel GmbH Wirtschaftsprüfungsgesellschaft, Berlin (hereinafter “Buschmann & Bretzel”), as the auditor of the annual and consolidated financial statements for the 2022 financial year. The auditor audited the annual financial statements in accordance with HGB and the consolidated financial statements under IFRS prepared by the Management Board, including the Group management report, and issued an unqualified audit opinion.

The aforementioned documents relating to the financial statements and the auditor's audit reports were discussed and examined at the meeting to approve the financial statements on 24 April 2023 in the presence of representatives of the auditor. The necessary documents were distributed to all members of the Supervisory Board in good time before this meeting. The auditor reported on the scope, procedure and material findings of its audit and was available for questions and further information. In particular, the auditor discussed the focal points of the audit agreed in advance. The auditor also reported that it found no material weaknesses in the accounting-related internal control and risk management system, meaning that the Management Board satisfied all of the tasks incumbent on it in an appropriate form.

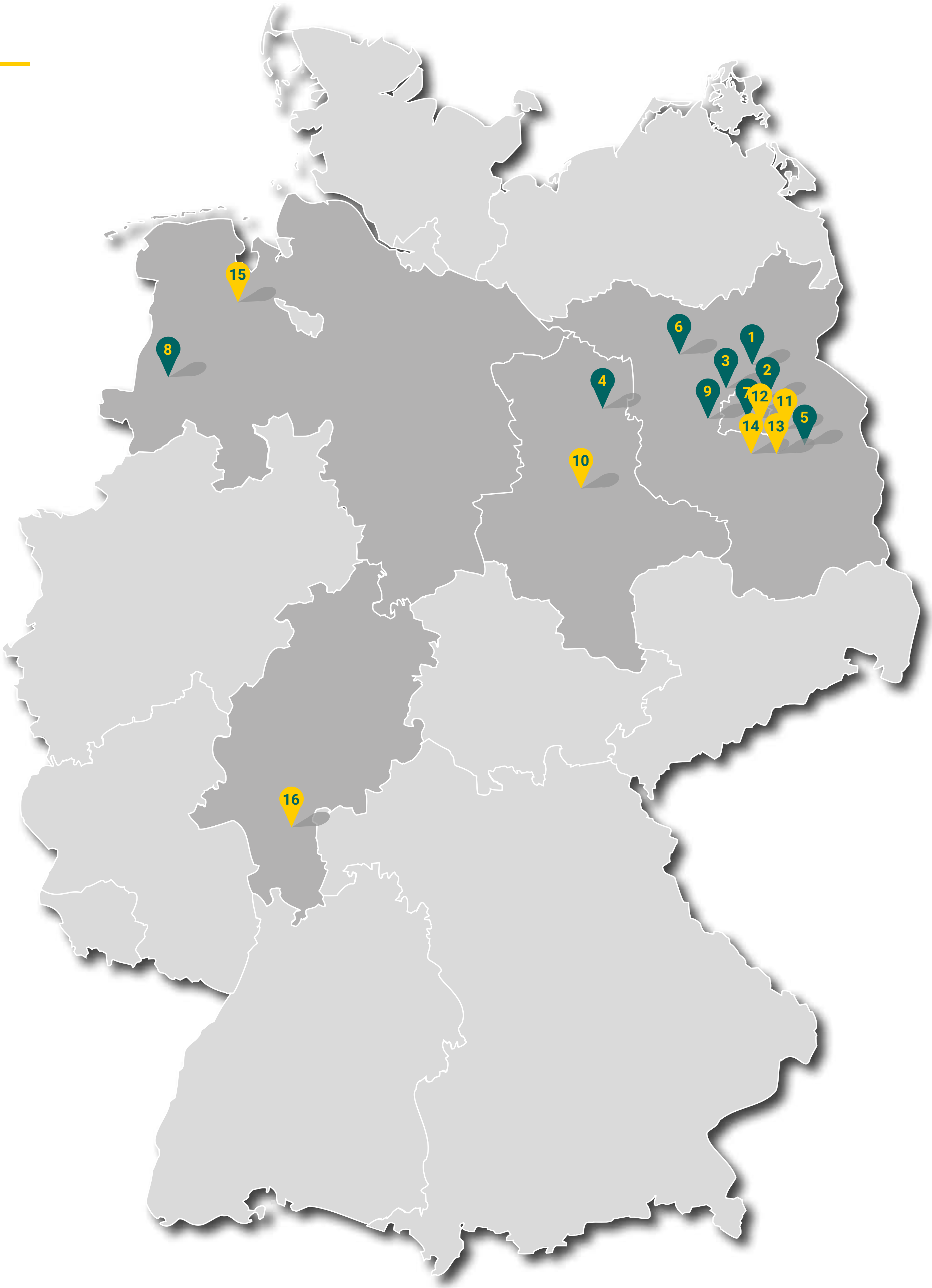
Based on its own review of all documents relating to the financial statements for the 2022 financial year, the Supervisory Board did not raise any objections and endorsed the auditor's audit findings. On 24 April 2023, the Supervisory Board approved the annual financial statements and consolidated financial statements of The Grounds for the 2022 financial year as prepared by the Management Board. The annual financial statements for 2022 are thus adopted in accordance with Section 172 of the Aktiengesetz (German Stock Corporation Act – AktG). The Supervisory Board also examined and approved the Management Board's proposal for the appropriation of net income for the year.

The meeting on 24 April 2023 also discussed and adopted this report of the Supervisory Board and the agenda for the Annual General Meeting in Berlin on 4 July 2023.

The Supervisory Board would like to thank the Management Board and all The Grounds Group employees for their dedication and their successful work in the past financial year.

Berlin, 24 April 2023

Timo Tschammler
Chairman of the Supervisory Board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PORTFOLIO AND PROPERTIES

Specialist for German residential property

The Grounds Group carries out housing projects in German metropolitan regions. In addition, The Grounds Group holds a steadily growing residential property portfolio as fixed assets. The Grounds Real Estate Development AG is listed in the Düsseldorf Stock Exchange's OTC segment Primary market (ISIN: DE000A2GSVV5) and is based in Berlin.

REGIONAL OVERVIEW

1 Schorfheide
Fixed assets

2 Bernau
Fixed assets

3 Kremmen
Fixed assets

4 Stendal/Prignitz
Fixed assets

5 Rauen
Fixed assets

6 Fehrbellin
Fixed assets

7 Berlin
Fixed assets

8 Meppen
Portfolio development

9 Dallgow-Döberitz
Portfolio development

10 Magdeburg
Land development

- Property Garden
- LennéQuartier
- Central Offices
- Börde Bogen (Joint Venture)

11 Erkner
Land development

12 Berlin
Land development

13 Königs Wusterhausen
Land development

14 Blankenfelde-Mahlow
Land development
(Joint Venture)

15 Bad Zwischenahn
Land development

16 Neu-Isenburg
Land development
(Joint Venture)

PORTFOLIO OVERVIEW

Portfolio properties

Our rental portfolio properties

Schorfheide near Eberswalde 1

- 38 residential units
- Usable space: 2,066 m²

Bernau 2

- 59 residential units
- Usable space: 4,070 m²

Kremmen 3

- 24 residential units
- Usable space: 1,430 m²

Stendal/Prignitz 4

- Multiple locations
- 240 residential and commercial units*
- Usable space: 15,607 m²

*As at 31 December 2022 incl. assets held for sale

Rauen near Fürstenwalde

- 27 residential units
- Usable space: 1,554 m²

Fehrbellin

- 24 residential units
- Usable space: 1,503 m²

Berlin-Lichtenberg

- 22 residential units
- Usable space: 1,089 m²

Portfolio development

Condominiums and terraced houses for investors and owner occupiers

Meppen

- 9 residential units*
- Usable space: 629 m²*
- In the sales process

Dallgow-Döberitz

- 17 residential units*
- Usable space: 2,395 m²*
- In the sales process

*Space and unit data relates to units with transfer of ownership outstanding as at 31 December 2022

Land development

Our land development projects

Property Garden in Magdeburg

10

- 64 units
- Usable space: 3,637 m²
- Under construction
- Sold

LennéQuartier in Magdeburg

10

- 181 units
- Usable space: 5,100 m²
- Under construction
- Sold

Central Offices in Magdeburg

10

- Office space
- Gross floor space: 17,140 m²
- Building permit obtained
- Sales launch: still pending

Terra Homes in Erkner

11

- 34 homes
- Usable space: 4,279 m²
- Under construction
- Sold

(Continued from page 21)

Land development

Our land development projects

Maggie in Berlin-Lichtenberg

12

- 27 units
- Usable space: 1,859 m²
- Under construction
- In the sales process

Betty in Königs Wusterhausen

13

- 90 residential units
- Usable space: 6,640 m²
- In planning
- Sales launch: still pending

Elements* in Bad Zwischenahn

15

- 255 units
- Gross floor space: 41,534 m²
- In planning
- Sales launch: still pending

*Notarised; transfer of economic ownership still outstanding

Joint ventures

Joint development of land

Börde Bogen in Magdeburg

10

- 655 units
- Gross floor space: 67,857 m²
- In planning

Highfly in Blankenfelde-Mahlow

14

- 186 terraced houses
- Gross floor space: 32,099 m²
- In planning
- Sales launch: still pending

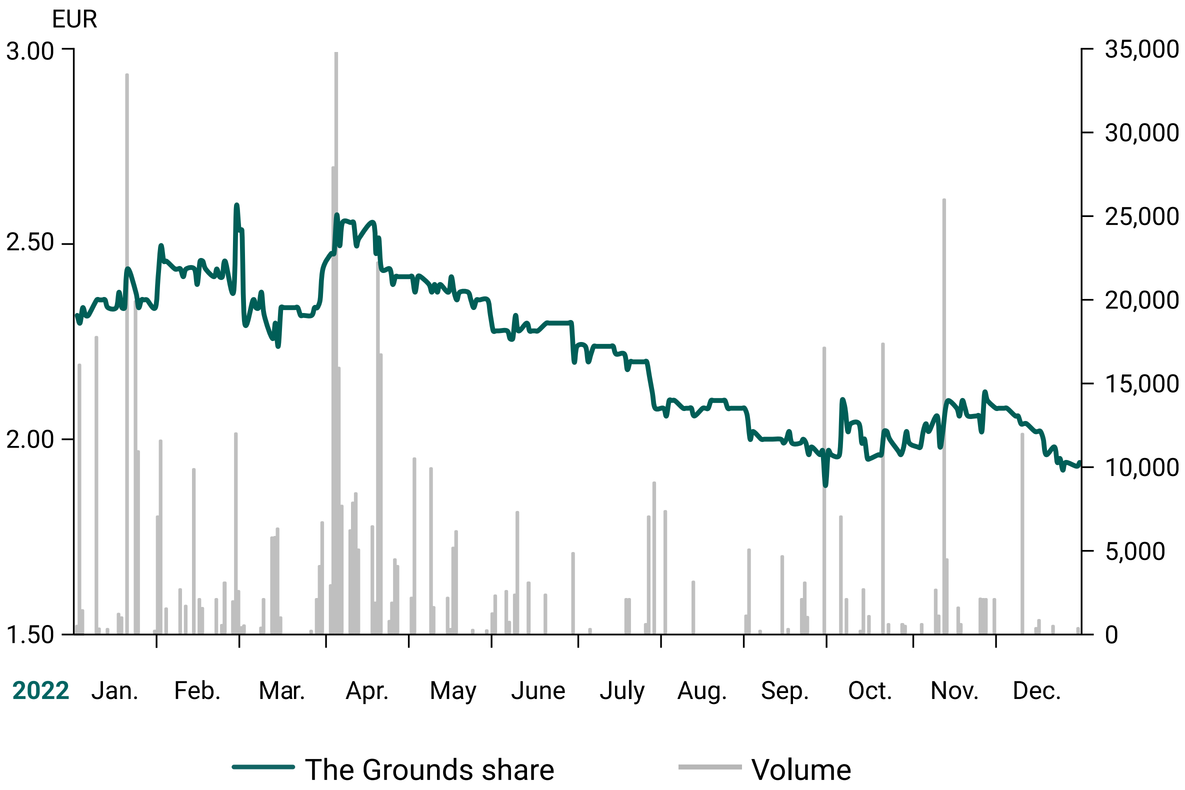
Terminal 3 in Neu-Isenburg

16

- Hotel
- Gross floor space: 10,322 m²
- Building permit obtained

THE GROUNDS ON THE CAPITAL MARKET

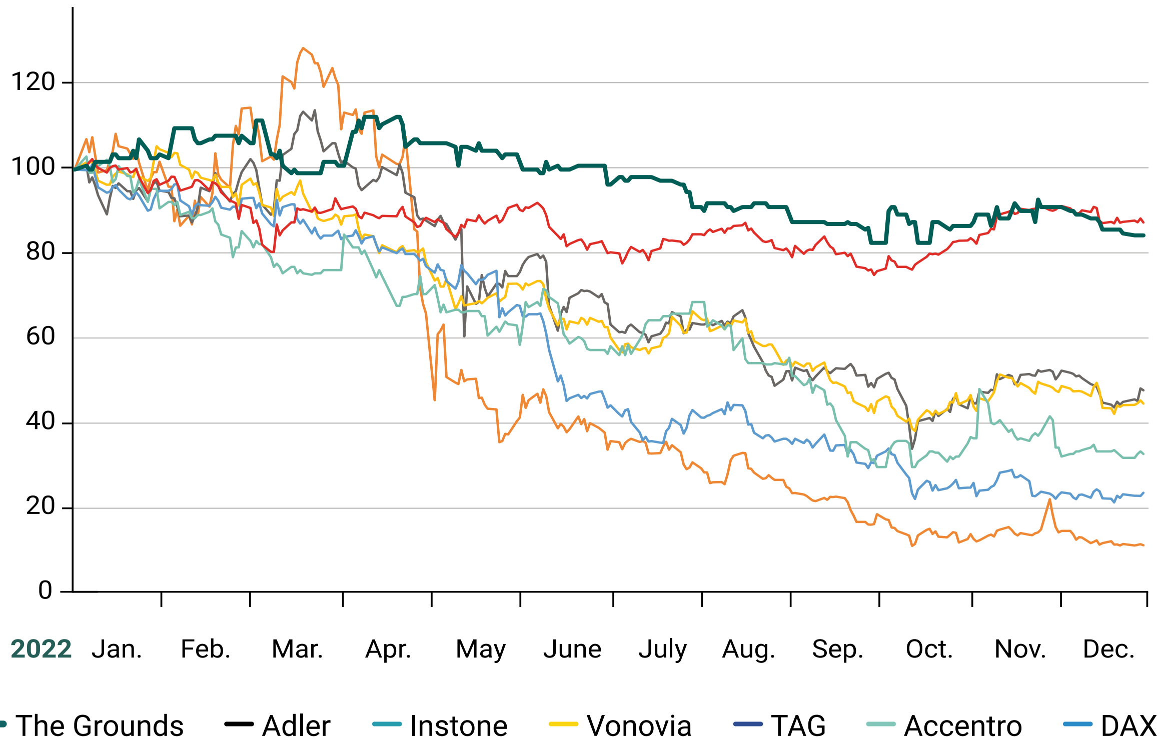
Development of The Grounds Share from 1 January to 31 December 2022 (Xetra prices)



A turbulent year on the stock markets: Ukraine war, inflation and turnaround in interest rate policy impact the markets in 2022 – DAX falls by 12%

2022 was characterised by a substantial downturn in share prices around the world. Russia's invasion of Ukraine pushed energy prices and inflation up to new record levels, prompting rapid intervention on the part of the central banks. The European Central Bank (ECG) raised its key interest rate from 0% to 2.5% over the course of 2022, while the US Federal Reserve announced several increases to 4.4%. The German benchmark index DAX enjoyed a strong start to 2022, climbing to a new all-time high of just under 16,272 points. However, this was followed by a downward correction that lasted into the autumn of 2022, with the DAX recording a low for the year of below 12,000 points. Although it rallied towards the end of the year, the DAX closed at 13,924 points, down just over 12% against the start of 2022. Globally speaking, 76 of the 123 benchmark indices lost value over the course of 2022.

Indexed price performance of property shares in Germany from 1 January to 31 December 2022 (Xetra)



Property shares hard hit by turnaround in interest rate policy in 2022

The capital markets were impacted by high inflation, rising interest rates and fears of a recession in 2022, with property shares seeing more pronounced price declines than shares in other sectors. Financing costs were pushed upwards by the interest rate spiral in response to inflation. Uncertainty concerning the development of construction and financing costs caused a number of new build projects to be postponed, which was reflected in a growing number of order cancellations in the construction industry. Rising bond yields also made property shares less attractive by comparison. These factors had a pronounced impact on all listed housing companies in the DAX, the MDAX and the SDAX in 2022 as investors priced in these unfavourable circumstances in the form of a sharp downturn in share prices. Property companies including Vonovia, LEG Immobilien, TAG Immobilien and the Adler Group saw their share prices fall by as much as 87% in 2022.

We expect the current reluctance to ease again by the second half of 2023 at the latest. Property shares already saw a recovery in January 2023 as central banks indicated that they would pursue a less stringent policy of interest rate rises in the event of inflation slowing.

The Grounds shares lose ground in line with the general downturn affecting property shares

Like the market as a whole, The Grounds shares initially enjoyed a dynamic start to 2022. In spite of the Russian invasion of Ukraine and the resulting market turbulence, The Grounds share price climbed to its high for the year of EUR 2.60 in late February 2022. After losing ground in March 2022, the shares made another assault on their high for the year, peaking at EUR 2.58 in early April 2022 on the back of a high level of turnover. The Grounds shares succeeded in holding their own at EUR 2.50 until mid-April 2022. Reflecting the wider market development with a certain time lag, they then began a downward slide that lasted until autumn 2022. Like the DAX, The Grounds shares recovered some of their losses, rallying from their low for the year in late September 2022 (EUR 1.88) to EUR 2.12 in late November 2022. However, they were unable to maintain this level, ultimately closing 2022 at EUR 1.94. All in all, The Grounds share price fell by 16.4% over the course of the year, although this still meant it performed well compared with some of the dramatic price drops experienced by the company's peers. Unlike the capital markets, the housing market in which we are active continues to enjoy positive development. The main reasons for this are the sustained housing shortage and the low level of new construction activity, which means the ratio of supply and demand is favourable. As a result, rental development in metropolitan regions and urban areas is set to remain positive.

The trading volume for The Grounds shares (Xetra) declined to 0.6 million shares (previous year: 0.8 million). The first four months of the reporting year accounted for almost two-thirds of the total volume. A further 0.6 million shares were traded on Tradegate (previous year: 0.6 million).

The capital markets have also priced in the changed market conditions with regard to The Grounds shares. The share price slipped further at the start of the current year, including in response to the announcement that The Grounds had failed to achieve its EBIT forecast for 2022, even though it did meet its target for sales revenues. At the time this annual report was prepared, the analysts from SMC Research and Quirin Privatbank

Equity Research who monitor The Grounds shares had not yet issued any updated studies reflecting the publication of the figures for 2022. In September 2022, they both issued a “buy” recommendation with a target price of EUR 3.10 (SMC) and EUR 2.60 (Quirin).

The Grounds share at a glance

There were no changes to the basic information on The Grounds shares in the reporting year. As previously, the share capital amounted to EUR 17,805,517.00, divided into 17,805,517 no-par-value registered shares.

The Grounds’ largest single shareholder is the Vice Chairman of the Supervisory Board, Armin H. Hofmann, who holds a stake of 32.3% via Millennium Verwaltungs GmbH, followed by ZuHause Immobilien Handelsgesellschaft mbH with 12.7% (attributable to the Supervisory Board member Eric Mozanowski) and Tarentum GmbH (single family office) with 12.4%. Around 27% of the shares are in free float.

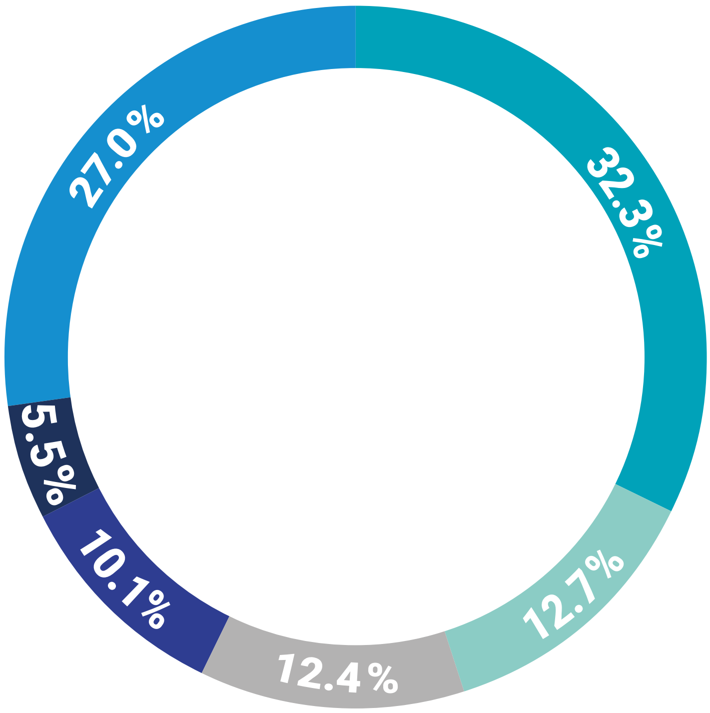
The Grounds’ market capitalisation as at 31 December 2022 was EUR 34.5 million.

The Grounds share

ISIN / WKN	DE000A2GSVV5 / A2GSVV	
Market segment	Primary market, Düsseldorf Stock Exchange	
Markets	Xetra Tradegate OTC in Berlin, Frankfurt, Munich, Stuttgart	
Type of shares	No-par-value registered shares	
Number of shares as at 31 Dec.	17,805,517	
Analyst recommendations 2022	SMC Research Price target: EUR 3.10 “Buy”	Quirin Privatbank E. R. Price target: EUR 2.60 “Buy”
	2022	**2021**
Share price at the end of the financial year*	EUR 1.94	EUR 2.28
Percentage change in year	–14.9%	–18.6%
Market capitalisation as at 31 December	EUR 34,542,703	EUR 40,596,579
Annual high*	EUR 2.60	EUR 3.16
Annual low*	EUR 1.88	EUR 1.95

* Prices on Xetra trading system of Deutsche Börse AG

Shareholder structure (as at December 2022)

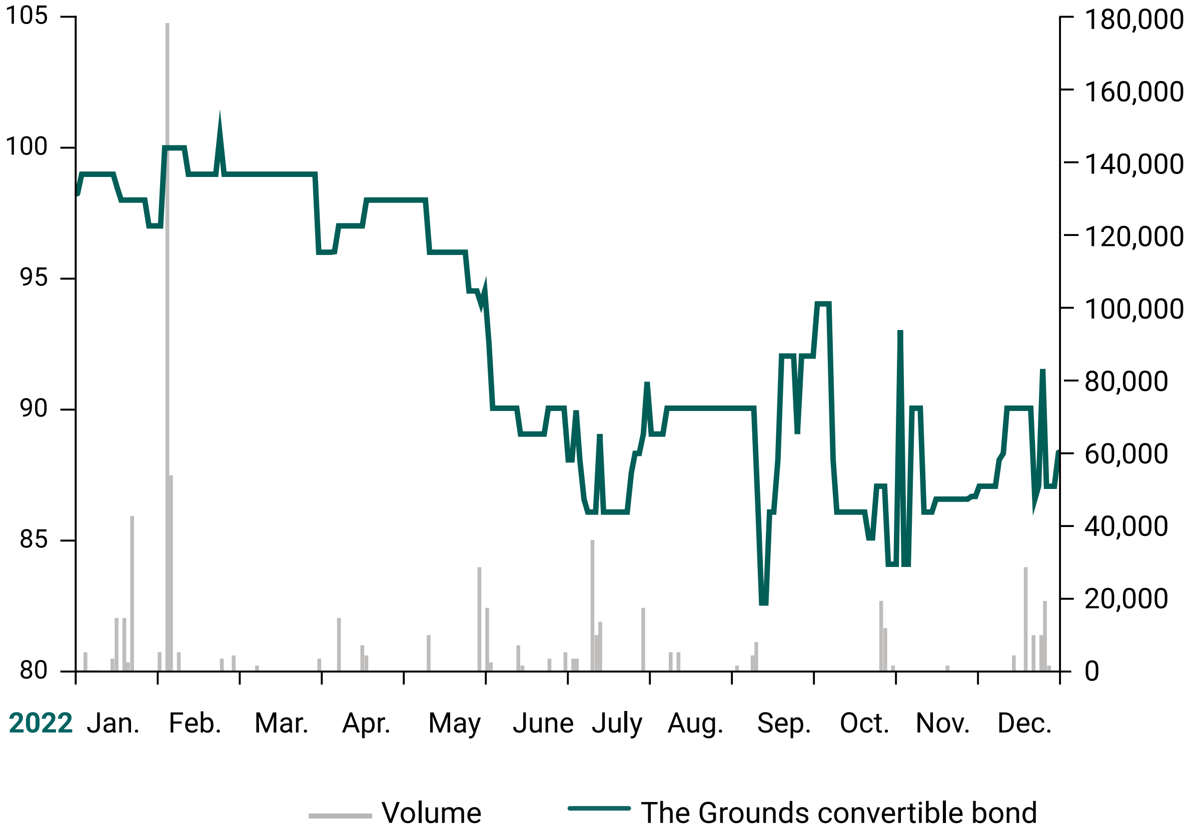


- Millennium Verwaltungs GmbH
- ZuHause Immobilien Handelsgesellschaft mbH
- Tarentum GmbH (Single Family Office)
- RESI Beteiligungs GmbH
- Management
- Free float (approx.)

Total: 17,805,517 shares

The Grounds convertible bond: 6.00% (2021/2024; ISIN DE000A3H3FH2)

Development of The Grounds convertible bond from 1 January 2022 to 31 December 2022 (Frankfurt prices)



The Grounds convertible bond performs well in early 2022 before coming under pressure from negative market developments

The Grounds convertible bond (2021/2024), which has been listed on the Quotation Board since 18 February 2021, traded at just below its issue price until May 2022. In the same way as The Grounds shares, it then saw a downward trend that lasted until the autumn. The bond rapidly recovered from its low in late September 2022 (82.50%) to peak at 94%. Despite repeated attempts to maintain this level, the bond ultimately closed the year at 88.3%, corresponding to a decrease of just over 10%. In the case of the convertible bond, too, the majority of the total volume for the year (around 56%) was already traded in the first four months of 2022. All in all, the trading volume declined from EUR 1.7 million in the issue year of 2021 to EUR 0.7 million.

The EUR 16.8 million convertible bond matures on 18 February 2024 and has a coupon of 6.00% p.a. The conversion price is EUR 3.20 per share.

The Grounds convertible bond at a glance

ISIN / WKN	DE000A3H3FH2 / A3H3FH
Market segment	Quotation Board, Frankfurt Stock Exchange
Term	18 Feb. 2021–18 Feb. 2024
Volume/denomination	EUR 16.8 million/16,800 at EUR 1,000 EUR par value
Interest coupon	6.00% p.a.
Conversion price	EUR 3.20
Conversion as at	Immediately

GROUP MANAGEMENT REPORT 2022

1 Basic Information on the Group

1.1 Overview

The Grounds Real Estate Development AG (hereinafter referred to as "The Grounds") is listed in the Düsseldorf Stock Exchange's OTC segment of the primary market, on the OTC market of the Frankfurt Stock Exchange where the shares are traded on Xetra and on the Tradegate Exchange.

The Grounds Group carries out housing projects in German metropolitan regions and urban areas. Its business activities cover three core areas: establishing its own property portfolio, developing and selling existing flats and developing new housing construction projects with the aim of selling to institutional investors, capital backers and owner occupiers.

1.2 Group structure and management system

The Grounds Real Estate Development AG is the parent company. The Grounds operates as a management holding company. Central areas such as legal, accounting, taxes, controlling, staff, sales, financing, risk management, transaction management and commercial and technical asset management are located at the company.

The Group is structurally divided into additional subgroups and property companies, each of which own property portfolios and are included in the consolidated financial statements of The Grounds. Please see the notes to the consolidated financial statements for a complete overview of the individual Group and associated companies of The Grounds.

The Grounds has several strategic investments in project development companies, which are not included in the consolidated financial statements as subsidiaries. Where the interest exceeds 20%, pro-rata net earnings are included in at-equity earnings in the income statement. For all other equity interests, earnings contributions are recognised as investment income.

Given the size of the company, The Grounds Group does not divide its reporting into segments.

Consolidated profits before interest and taxes (EBIT) are the financial performance indicator used to manage the company. Depending on the value chain, the management system includes material management parameters such as net earnings from the sale of properties and net operating income. In addition, other factors are included in the management system to individually manage each property depending on its strategic focus. Factors such as rent performance and vacancy rates play a role for existing portfolios. When it comes to retail sales, reservations and viewings are leading indicators for company performance. Sales revenues and EBIT are used for the management report.

1.3 Business model

The Grounds carries out housing projects in German metropolitan regions and cities experiencing population growth and good economic prospects. Core business comprises generating value from sustainable cash flows from managing existing properties and attractive sales income from developing and selling residential properties in Germany.

The land development area covers the development – up to turnkey construction – of housing with the aim of selling these properties to retail investors on an individual basis and to institutional investors as a block.

Accordingly, The Grounds benefits from high returns in land development and stable earnings from managing its own portfolio. In the medium term, The Grounds is aiming for a stronger positioning on the capital market.

As at the end of the reporting period, the portfolio of The Grounds included the following projects:

Project development

Location	Project	Usable space/ gross floor space	Type	Status
		m²		
Magdeburg	Residential	5,100	Development / retail sale	Under construction, sold[2]
Magdeburg	Commercial	17,140[1]	Development / forward sale	In planning
Magdeburg	Residential	3,637	Development / retail sale	Under construction, sold[3]
Magdeburg	Primarily residential	67,857[1,4]	Development	In planning
Erkner	Residential	4,279	Development / forward sale	Under construction, sold[5]
Blankenfelde-Mahlow	Primarily residential	32,099[1]	Development	In planning
Berlin-Lichtenberg	Residential	1,859	Development / retail sale	Under construction, sales launch 10/2022[6]
Königs Wusterhausen	Residential	6,640	Development / forward sale	In planning

[1] Gross floor space.
[2] 100% of the properties had been sold by Q1 2021.
[3] 100% of the properties had been sold by Q2 2022.
[4] A majority interest in the project company was acquired in 2022.
[5] Sold to an institutional investor in Q1 2022.
[6] 15% of the properties had been sold by Q1 2023.

In addition, a purchase agreement was concluded for a development in Bad Zwischenahn with planned usable space of 30,628 m² and two existing buildings with usable space of 1,450 m². The purchase price will be paid in full after the development plan is complete. In 2021, rights of withdrawal that can be exercised after the building right comes into effect were agreed for both parties in an addendum to the purchase agreement.

The Grounds is also a joint venture partner in two land development projects with planned gross floor space of 42,421 m². These are included in the consolidated financial statements using the equity method.

Fixed assets

Location	Project	Units	Usable space in m²	Rental income p.a. (31 December 2022)
			m²	TEUR
Stendal and surrounding area*	Residential	240	15,607	761
Schorfheide (Eberswalde)	Residential	38	2,066	151
Rauen (Fürstenwalde)	Residential	27	1,554	93
Bernau	Residential	59	4,070	373
Kremmen	Residential	24	1,430	115
Fehrbellin	Residential	24	1,503	95
Margarethenstr. (Berlin)	Residential	22	1,089	125
Total		**434**	**27,319**	**1,713**

*including the units from non-current assets held for sale

Portfolio development

Location	Project	Units (31 Dec. 2022)	Usable space in m²	Rental income p.a. (31 Dec. 2022)	Sale completion status*	Type
			m²	TEUR		
Meppen	Residential	9	629	30	84%	Retail sale
Dallgow-Döberitz	Residential	17	2,395	178	50%	Retail sale
Total		**26**	**3,024**	**208**		

* Notarised as at Q1-2023

1.4 Executive bodies and employees

As previously, the members of the Management Board of The Grounds in the reporting year were Arndt Krienen and Jacopo Mingazzini.

Similarly, there were no changes in the composition of the Supervisory Board, which was composed of Timo Tschammler (Chairman), Armin Hofmann (Vice Chairman) and Eric Mozanowski at the reporting date.

The Grounds Group’s workforce was expanded further in the reporting year. The Grounds Group employed a total of 15 people on average in the 2022 financial year (previous year: 13).

2 Economic Report

2.1 Macroeconomic development[1]

In 2022, German economic output saw stronger growth than economic researchers had forecast during the year in light of the numerous disruptive factors. All in all, the German economy performed well in spite of the Ukraine war and the resulting dramatic energy price rises, which propelled inflation to new record levels, as well as the intensification of material and supply bottlenecks and the continued impact of the coronavirus pandemic. German gross domestic product (GDP) increased by 1.9% in 2022 (previous year: +2.6%).

There was considerable variation across the individual areas of the economy. While the creative/entertainment and hospitality sectors benefited from the lifting of almost all of the protective measures imposed in response to the coronavirus pandemic, construction suffered from the high level of construction costs, the materials and skills shortage and the deterioration in financing conditions. In the reporting year, this negative backdrop was reflected in falling gross value added in the construction industry (–2.3%) and falling construction investment (–1.6%). As the year progressed, the negative trend in construction investment was exacerbated by a growing number of cancellations of commercial and private construction orders.

Consumer prices in Germany increased by 7.9% in 2022 (previous year: +3.1%). This historically high level of inflation was driven by dramatic increases in the price of energy products (+34.7%) and food (+13.4%) due to the Ukraine war, as well as extraordinary crisis-related effects such as supply bottlenecks and substantial price rises at upstream stages in the economic process. On a monthly basis, inflation even exceeded the 10% mark in September and October 2022.

The central banks responded to high inflation by bringing their zero interest rate policy to an end, raising their key interest rates swiftly and on several occasions. In 2022, the US Federal Reserve implemented seven interest rate rises for a final rate of 4.5%, while the European Central Bank raised its key interest rate to 2.5%.[2]

[1] See https://www.destatis.de/EN/Press/2023/01/PE23_020_811.html and https://www.destatis.de/EN/Press/2023/01/PE23_022_611.html
[2] See https://asset-concepts.de/rueckblick-auf-ein-schwieriges-boersenjahr-sowie-ausblick-kzv-januar-2023/ (German only)

2.2 Sector situation

German construction industry

Sales revenues in the main German construction industry amounted to EUR 160.4 billion in 2022, corresponding to a decline of 5.1% in real terms.[3] The war in Ukraine and the sanctions imposed on Russia interrupted the normalisation of supply chains, while the energy crisis also led to increased construction costs. All in all, the price of construction services rose by 16.4% in 2022, the highest annual growth rate ever recorded. Almost all construction materials became significantly more expensive than in the previous year, especially steel and wood products, glass and bitumen.[4]

As 2022 progressed, demand for construction services was increasingly curbed by rising construction, financing and living costs. As of October 2022, incoming orders saw a double-digit downturn for the third month in succession, with the figure for 2022 as a while coming in at –9.6% (in real terms). The number of permits also declined for several months in the second half of 2022. The construction of around 354,400 homes was approved in 2022, down 6.9% on the previous year.[5]

Accordingly, sales revenues in residential construction, which had been the pillar of the construction industry in previous years, fell by 4.5% in real terms in 2022 (nominal growth of 10.9% due to price inflation) and amounted to EUR 61.4 billion.[6] The central construction associations expect 280,000 residential units to be completed in 2022, with this figure set to decline considerably in 2023 and 2024.[7]

Commercial construction saw a downturn in sales revenues of 4.4% in real terms in 2022 (nominal growth of 11.7% due to price inflation).[8] In commercial building construction, demand for warehouses (maintaining inventory levels as a buffer against supply bottlenecks) and retail properties (post-pandemic catch-up effects) continued to rise, whereas the propensity to invest in office and factories declined. Commercial civil engineering benefited from investments by Deutsche Bahn and the conversion of the energy infrastructure.[9]

[3] See https://www.zdb.de/meldungen/order-im-wohnungsbau-weiter-im-freien-fall (German only)
[4] See https://www.destatis.de/EN/Press/2023/02/PE23_N006_61.html
[5] See https://www.zdb.de/meldungen/talfahrt-im-wohnungsbau-beschleunigt-sich (German only), https://www.destatis.de/EN/Press/2023/02/PE23_072_441.html and https://www.destatis.de/EN/Press/2023/03/PE23_095_3111.html
[6] See https://www.zdb.de/meldungen/order-im-wohnungsbau-weiter-im-freien-fall (German only)
[7] See https://www.zdb.de/fileadmin/user_upload/101-2022_Konjunktur_22-23.pdf, p. 3 (German only)
[8] See https://www.zdb.de/meldungen/order-im-wohnungsbau-weiter-im-freien-fall (German only)
[9] See https://www.zdb.de/fileadmin/user_upload/101-2022_Konjunktur_22-23.pdf, p. 4+5 (German only)

Public-sector construction saw an even more pronounced downturn in sales revenues (–6.2% in real terms).[10] Public-sector orders for building construction increased tangibly over the course of 2022, including as a result of catch-up effects, whereas the German federal government clearly failed to meet its own targets for investments in infrastructure.[11]

Residential properties

In 2022, demand on the investment market for residential properties suffered from the turnaround in interest rate policy, the weakening economy and the high level of inflation. The slowdown in transaction activity persisted across all four quarters of 2022. The transaction volume amounted to just EUR 12.3 billion in 2022, with around 67,000 units changing hands (Savills, transactions involving at least 50 units). This is lower than a quarter of the record transaction volume reported in the previous year. However, the prior-year figure included the acquisition of Deutsche Wohnen in autumn 2021. Adjusted for this, the transaction volume decreased by just over half compared with 2021.[12] The long-term average was also missed by around a third.[13]

BNP Paribas calculates a transaction volume of around EUR 13.1 billion for all deals involving 30 or more residential units in 2022. The shortage of large-volume portfolio transactions is reflected in the fact that existing portfolios account for just EUR 3.5 billion of the investment volume (or around 27%), the lowest figure in the past ten years. Transactions involving single (portfolio) properties accounted for almost the same volume, climbing to a new record thanks to around 150 individual transactions.

Around 310 transactions were registered in 2022, a figure that is roughly in line with the long-term average. At just EUR 42 million, however, the average volume per deal was well below the long-term average. In 2022, only around EUR 5.2 billion was invested in portfolios with a volume in the nine-digit range, which was also the lowest figure in the past ten years. In terms of buyer groups, real estate companies/REITs exercised restraint, accounting for just EUR 1.22 billion of the total volume – with a considerable share being attributable to the majority acquisition of S Immo by CPI Property. Half the transaction volume was generated by special-purpose funds and investment managers, which shows that investments in residential real estate remain extremely attractive for institutional investors in spite of the deterioration in the economic environment.

[10] See https://www.zdb.de/meldungen/order-im-wohnungsbau-weiter-im-freien-fall (German only)
[11] See ibid., p. 6
[12] See https://www.savills.co.uk/research_articles/229130/337925-0
[13] See https://www.realestate.bnpparibas.de/en/market-reports/residential-market/germany-at-a-glance

At EUR 6.2 billion, the top seven cities (Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Cologne, Munich and Stuttgart) again accounted for most investments (47%). Although Berlin was responsible for EUR 3 billion of this volume alone, this was the lowest figure since 2014. The only top location to record growth in the transaction volume was Hamburg (EUR 1.4 billion).

Due to the further increase in financing costs, net prime yields increased by between 15 and 25 basis points from the first half of 2022 until the end of the year. The most expensive location in this respect was Munich (2.8%), followed by Berlin, Frankfurt/Main and Stuttgart (each 2.85%).[14]

Having lost momentum in 2021, rents in the major German cities increased significantly in the reporting year. Prime rents rose by 13% across the 79 cities examined by Immowelt, with 95% of the locations analysed seeing rental growth. A growth rate of at least 5% was recorded in more than 40% of the locations. This development is attributable to the Russian war on Ukraine and the many refugees fleeing the crisis, as well as the increase in financing costs. Many private households are currently unable to afford their own home and are continuing to rent instead, which is pushing up demand for rental properties. Among the cities with over a million inhabitants, Munich leads the way with average asking rents of EUR 18.70/m² (+4% compared with 2021), followed by Stuttgart at EUR 13.90/m² (+3% compared with 2021). This represents the first time that Stuttgart has overtaken Frankfurt/Main, where rents declined very slightly. Average asking rents in Berlin amounted to EUR 10.90/m². The most pronounced rental growth was recorded in Lübeck (+13% to EUR 9.80/m²) and Potsdam (+11% to EUR 10.90/m²), where rents have now reached the same level as Berlin.[15] Magdeburg saw rental growth of 3% to an average of EUR 6.20/m².[16]

Only certain segments of the residential real estate investment market saw positive development in 2022. A total of EUR 1.2 billion was invested in micro apartments and student housing. This is the second-highest figure ever recorded and is 16% higher than the five-year average. The segment is benefiting from the continued tightening of the rental market for housing. Flexible, hassle-free rental concepts, whose above-average fluctuation rates enable regular rent adjustments, are proving to be extremely popular among investors in times of high inflation in particular.[17]

[14] See https://www.realestate.bnpparibas.de/en/market-reports/residential-market/germany-at-a-glance
[15] See https://www.asscompact.de/nachrichten/mietanstieg-gro%C3%9Fst%C3%A4dten-hat-sich-2022-beschleunigt (German only)
[16] See https://finanzmarktwelt.de/wohnungsmiete-in-deutschland-deutlich-verteuert-in-2022-257634/ (German only)
[17] See https://www.haufe.de/immobilien/investment/wohninvestmentmarkt-knappes-angebot-dafuer-viel-regulierung_256_493300.html (German only)

Commercial properties

According to Savills, commercial property with a volume of EUR 50.6 billion was traded in 2022, down around 17% on the previous year. Just over 40% of the full-year volume was generated in the first quarter of 2022, whereas the figure for December 2022 came in at just under EUR 3 billion. The last year to end with such a weak transaction volume was 2011. This was due to the price correction that is in full swing.

Despite a drop in volume of more than a quarter to EUR 19.9 billion, office properties remained the strongest usage type, followed by industrial/logistics properties (EUR 9.3 billion) and retail properties (EUR 8.3 billion). Only mixed-use properties (+9%) and industrial/logistics properties (+2%) recorded increases in transaction volumes compared with the previous year, whereas the largest decline in volume was recorded by development sites (–43%).[18]

According to an analysis by German Property Partners, a total of EUR 24.9 billion was invested in the top seven cities. As well as being considerably lower than the ten-year average (–15%), this was down more than a quarter on the prior-year figure. With the exception of Hamburg (+41%) and Düsseldorf (+4%), all the top seven cities saw considerable downturns ranging from 26% (Berlin, Frankfurt/Main) to 68% (Cologne). The usual year-end rally also failed to materialise. The final quarter of 2022 actually proved to be particularly weak compared with the previous quarters[19], with the transaction volume falling by 9% as against the third quarter of 2022.[20]

Prime yields increased across all segments at year-end 2022. Compared with the third quarter of 2022, the average prime yield was 3.5% for office properties (+28 basis points), 3.6% for commercial buildings (+12 basis points) and 4.0% for logistics properties (+39 basis points).

This means the average prime yield for office properties is at its highest level since mid-2017. Munich leads the way in terms of the most expensive office markets with a prime yield of 3.3%, followed by Frankfurt/Main and Hamburg (each 3.35%), Düsseldorf (3.5%) and Berlin (3.6%).[21]

[18] See https://www.savills.co.uk/research_articles/229130/337940-0
[19] See https://www.dasinvestment.com/gewerbeimmobilien-2022-verlief-enttaeuschend/ (German only)
[20] See https://www.dpn-online.com/immobilien/schlechtes-jahr-2022-fuer-gewerbeimmobilien-transaktionsvolumen-auf-8-jahrestief-106735/ (German only)
[21] See https://www.dpn-online.com/immobilien/schlechtes-jahr-2022-fuer-gewerbeimmobilien-transaktionsvolumen-auf-8-jahrestief-106735/ (German only)

The top six office rental markets saw growth in take-up (+3%), vacancy rates (+0.5% to 4.8%) and prime rents (+7% on average) in 2022. Meanwhile, qualitative requirements increased at the expense of quantitative requirements. Given the uncertain economic environment, many companies have become more reluctant when it comes to renting new office space. When they do decide to relocate, however, they tend to have more stringent demands in respect of the new property or location.[22]

3 Business Performance

The Grounds closed the 2022 financial year with consolidated sales revenues of EUR 36.8 million, thereby exceeding both the prior-year figure (EUR 31.6 million) and the forecast for the year. However, consolidated EBIT fell below the prior-year level (EUR 9.2 million) and the forecast for the year at EUR 3.4 million.

Successful sales in the area of land and portfolio development were one of the factors behind the growth in sales revenues and the earnings generated. The forward sale of the Terra Homes project development in Erkner near Berlin and the complete sale of all the residential units at the Property Garden and LennéQuartier projects in Magdeburg, which reflected the fact that construction work progressed in line with expectations, made a particularly pronounced contribution to the growth in sales revenues. In the area of portfolio development, the projects in Dallgow-Döberitz generated sales revenues of EUR 6.1 million, while the sale of all units at the project in Berlin-Pankow resulted in sales revenues of EUR 4.5 million. The Grounds also increased its rental income to EUR 1.9 million (previous year: EUR 1.6 million) thanks to the further expansion of its existing portfolio.

Earnings before interest and taxes (EBIT) in 2022 were lower than forecast at EUR 3.4 million. Contrary to expectations, this was mainly because the value development of investment property was less positive than originally anticipated. This was due in particular to the lower percentage increase in the value of the total portfolio of fixed assets, which amounted to just 2.4% at the end of 2022 (previous year: 7.2%). The expansion of the portfolio through acquisitions was also less pronounced than had been forecast. Furthermore, earnings were adversely affected by the increase in construction costs as a result of inflation.

[22] See https://www.savills.co.uk/research_articles/229130/337947-0

Despite the sale of properties from the Stendal/Prignitz portfolio, the existing portfolio expanded by 15.2% to EUR 35.8 million in 2022, while properties in inventories increased by 118.6% to EUR 81.8 million. 46 residential units were acquired for the portfolio in the reporting year, comprising a housing complex in Fehrbellin (24 units) and in Berlin-Lichtenberg (22 units). The project in Berlin-Lichtenberg also offers additional densification potential in the form of attic apartments and a new build project on the site, which was allocated to inventories as marketing is already taking place. By contrast, 22 units were removed from the portfolio following the sale of four properties from the Stendal/Prignitz portfolio at their fair value. The disposal of a further 13 units from the portfolio will be realised in the first half of 2023.

The Grounds also acquired a 51% interest in a project development in Blankenfelde-Mahlow, which involves the construction of 186 three-storey residential units with over 23,800 m² of lettable space across a site of more than 50,000 m². The planning application was submitted in 2022 and is expected to be approved in 2023. Furthermore, The Grounds acquired a 5,560 m² site in Königs Wusterhausen, where it intends to realise a residential construction project with approx. 6,600 m² of usable space once the necessary conditions under building law have been put in place. The decision to draw up a building plan is scheduled for 2023.

The announcement by Intel of its new site in Magdeburg prompted The Grounds to strategically reassess the Börde Bogen project. The plan is to successively develop the individual construction sites together with the joint venture partner. The resolution on the development plan in June 2022 represented another milestone in the project development process. Over the coming years, the approx. 32,310 m² building plot will see the construction of more than 800 apartments across seven construction sites and in several phases. The planning application for construction site 7, which will be home to 72 residential units with gross floor space of around 6,000 m², has been submitted and approval is expected to be granted in the second quarter of 2023. Once the building permit is in place, the marketing of the planned owner-occupied apartments on the construction site can begin. The Grounds acquired additional shares in the project during the reporting year as part of the strategic reorientation of the successive development of the construction sites in response to the Intel announcement. This made a significant contribution to the expansion of the portfolio of properties held for sale, as did the acquisition of an interest in a project development in Blankenfelde-Mahlow.

In the area of portfolio development, all the owner-occupied apartments at the project in Berlin-Pankow were sold in the 2022 financial year. Sales of the terraced houses in Dallgow-Döberitz exceeded expectations. Almost 50% of the units were sold in the first year after marketing began. The planned sale in full of the owner-occupied apartments in Meppen was not yet realised in the 2022 financial year. 9 of the 44 units were still unsold at the reporting date.

Planning and construction work on the other project developments is also proceeding in line with expectations and will lead to the realisation of a volume in excess of EUR 500 million over the coming years.

- Central Offices, Magdeburg: The Central Offices commercial project in Magdeburg is scheduled for completion in 2025. It will involve the construction of a centrally located office and commercial building that meets the highest sustainability standards and that will offer around 14,500 m² of usable space as well as 110 underground parking spaces. The building permit was issued in the fourth quarter of 2022. The Grounds is currently conducting letting discussions and sales discussions with owner-occupiers. The construction phase could begin in the second half of 2023 once a defined pre-letting rate has been achieved or a forward sale has been concluded.
- LennéQuartier, Magdeburg: At the LennéQuartier construction project in Magdeburg, which has been sold in full, the building shell was completed in the first quarter of 2022. Completion is scheduled for the second quarter of 2023.
- Property Garden, Magdeburg: All of the residential units for the Property Garden project in Halberstädter Str. 153/155, Magdeburg, were sold by the end of April 2022. The building shell was completed in December 2022.
- Terra Homes, Erkner: The Grounds found an institutional investor for the development project in Erkner, which was sold as part of a forward deal. Site development for the 34 semi-detached houses began in April 2022. Shell construction work started in the third quarter.
- Maggie, Berlin: The economic transfer of the project to The Grounds took place in November. The marketing of the owner-occupied apartments, the attic apartments and the new building began in 2022. The shell of the new building was completed in the first quarter of 2023.

3.1 Earnings

The most important sales revenues and earnings figures for The Grounds Group in the 2022 financial year developed as follows:

	2022	2021
	EUR million	EUR million
Sales revenues	36.8	31.6
EBIT	3.4	9.2
Consolidated profits	**1.2**	**4.9**

Consolidated sales revenues increased from EUR 31.6 million in the previous year to EUR 36.8 million.

The majority of consolidated sales revenues (EUR 34.6 million) were generated from the sale of property projects recognised as inventories in the amount of EUR 33.3 million and the sale of investment property in the amount of EUR 1.3 million. In addition, rental income increased by 35% to EUR 1.9 million (previous year: EUR 1.6 million).

	2022	2021
	TEUR	TEUR
Rental income from portfolio properties	1,588	1,011
Rental income from properties held for sale	297	582
Total rental income	**1,885**	**1,593**

Additional earnings contributions resulted from fair value adjustments of investment property in the amount of EUR 0.9 million (previous year: EUR 2.2 million) and other operating income of EUR 0.9 million (previous year: EUR 0.8 million).

The cost of materials increased significantly year-on-year to EUR 31.9 million (previous year: EUR 21.5 million). This was mainly due to the increased expenses for the disposal of properties held for sale and portfolio properties in line with the sales revenues generated.

The higher number of employees meant that staff costs rose slightly to EUR 2.1 million (previous year: EUR 2.0 million). By contrast, other operating expenses, which primarily comprise third-party services, legal and consulting costs and capital market costs, declined by EUR 0.6 million to EUR 1.9 million. This was due to lower commissions and losses on receivables, as well as general savings on overheads. Depreciation and amortisation was unchanged year-on-year at EUR 0.2 million.

Due to the lower measurement result from fair value adjustments of portfolio properties and lower margins on the sale of properties held for sale and portfolio properties, the higher level of consolidated sales revenues was not reflected in improved earnings. Accordingly, consolidated EBIT declined to EUR 3.4 million (previous year: EUR 9.2 million).

The improved financial result of EUR –1.8 million (previous year: EUR –2.3 million) primarily included interest expenses for the convertible bond that was issued and increased in 2021. Interest expenses of EUR 2.5 million (previous year: EUR 2.4 million) were offset by higher interest income of EUR 0.6 million (previous year: EUR 0.1 million) from loans to shareholders in joint venture projects. Furthermore, interest from equity investments amounted to EUR 0.1 million.

Consolidated profits before taxes declined to EUR 1.7 million (previous year: EUR 6.9 million), while consolidated profits after taxes fell to EUR 1.2 million (previous year: EUR 4.9 million). Accordingly, earnings per share decreased to EUR 0.07 (previous year: EUR 0.28).

3.2 Financial and asset position

The acquisitions in the reporting year were reflected in a significant increase in total consolidated assets of EUR 35.4 million to EUR 138.3 million as at 31 December 2022.

On the assets side, current assets rose substantially from EUR 61.8 million to EUR 95.0 million on the back of strong growth in inventories, which climbed to EUR 82.8 million despite steady disposals of properties held for sale (previous year: EUR 38.0 million). This development was due in particular to the acquisition of an interest in a project development in Blankenfelde-Mahlow and additional shares in the Börde Bogen project. The other items reported in current assets decreased. For example, contract assets for current construction projects fell from EUR 4.6 million to EUR 1.0 million. Trade receivables declined to EUR 1.8 million (previous year: EUR 2.7 million), largely as a result of the settlement of the remaining purchase price receivable for the Börde Bogen project. Other receivables saw a more pronounced decrease to EUR 6.5 million (previous year: EUR 14.1 million). This was mainly due to the consolidation of the Börde Bogen project and the resulting elimination of the shareholder loan in the consolidation of receivables and payables, as well as the lower level of costs to obtain contracts. The Grounds had cash of EUR 2.3 million at the reporting date 31 December 2022 (previous year: EUR 2.4 million). The Grounds also reported non-current assets held for sale in the amount of EUR 0.7 million. This relates to the sale of two properties from the existing portfolio in Stendal and the surrounding area for which the economic transfer to the buyer will take place only in the first half of 2023.

Non-current assets increased from EUR 41.1 million to EUR 43.2 million. Investment property saw the biggest change, climbing to EUR 35.8 million (previous year: EUR 31.1 million) following the acquisition of a residential property in Berlin-Lichtenberg comprising 22 units and a residential complex in Fehrbellin comprising 24 units. By contrast, interests in companies accounted for using the equity method fell by EUR 3.1 million to EUR 2.3 million due to the consolidation of the Börde Bogen project.

Under equity and liabilities, The Grounds increased consolidated equity to EUR 32.6 million (previous year: EUR 25.3 million). In addition to the consolidated net profit of EUR 1.2 million, this was due in particular to the share of earnings attributable to non-controlling shareholders, which rose to EUR 6.4 million (previous year: EUR 0.6 million). With total consolidated assets increasing to a larger extent than consolidated equity, the equity ratio declined to 23.6% at the reporting date (previous year: 24.6%).

Non-current liabilities climbed to EUR 50.9 million (previous year: EUR 46.2 million). This was primarily due to the EUR 3.3 million increase in non-current financial liabilities to EUR 27.7 million. Non-current liabilities also include the convertible bond (EUR 16.4 million) and deferred tax liabilities (EUR 6.7 million; previous year: EUR 5.5 million). The EUR 1.2 million increase in the latter item is mainly due to the recognition over time of sales from project developments under construction.

Current liabilities rose substantially by EUR 23.3 million to EUR 54.7 million, largely as a result of the higher level of current financial liabilities (up EUR 15.7 million to EUR 35.7 million) in connection with the expansion of the property portfolio. Advance payments received also increased from EUR 0.7 million to EUR 4.5 million, while other liabilities climbed from EUR 4.5 million to EUR 6.6 million.

At EUR 2.3 million (previous year: EUR 2.4 million), cash funds were essentially unchanged year-on-year. This development was due to the negative cash flow from operating activities of EUR –12.5 million (previous year: positive cash flow of EUR 7.0 million) as a result of the increase in inventories, trade receivables, contract assets and other assets not related to investing or financing activities (EUR –32.0 million) on the one hand, and the increase in trade payables and other liabilities not related to investing or financing activities (EUR +6.4 million) and other non-cash changes (EUR +10.2 million) on the other. Cash flow from investing activities, which mainly reflects additions and disposals of investment property, was also negative at EUR –4.4 million (previous year: EUR –14.7 million). Cash flow from financing activities amounted to EUR 16.7 million (previous year: EUR 9.5 million). This was largely attributable to financial liabilities, which increased in line with the company's continued growth.

3.3 Financial and non-financial performance indicators

The Grounds uses several **financial performance indicators** to manage the Group. The main management parameters are sales revenues and EBIT. The objective of the corporate strategy is to establish a significant portfolio with a balanced risk/return profile that generates sustainable cash flow and allows for future dividend payments to be made to shareholders. Cash flows are not generated only from the portfolio properties. Sales of property developments and the privatisation of portfolio properties should also make sustainable contributions to earnings.

The individual operating areas use specific financial and non-financial performance indicators. For example, letting/vacancy rates and new rental contracts are used for long term portfolio properties as a key measure of the development of the properties.

In the area of project developments, the key financial performance indicator is the developer yield. Investments in new projects depend primarily on the opportunity to acquire suitable plots of land. The investment decision is made mainly on the basis of the potential for construction on the plot, the asset class to be built and the acquisition price for the land. Depending on the expected project risk and asset class, The Grounds aims for a developer yield of at least 15% in land development. Another material management parameter used for portfolio properties is the factors that affect sales performance, such as the number of reservations for condominiums and the rate of turnover. Actual sales figures are also reported in terms of the number of sales and the sales volume.

On account of the current size of the Group, **non-financial performance indicators** have so far not been used directly to manage the company. Instead, they are important building blocks for the success of The Grounds Group on the real estate and capital markets.

Environmental social governance (ESG)

Sustainability in the construction sector and the integration of ESG targets and criteria (environmental social governance) in the business model is an important and increasingly relevant issue. The Grounds does not currently use ESG targets or criteria specifically to manage the company, but it does describe the importance and integration of ESG aspects in operating activities and corporate governance. It also intends to prepare a comprehensive ESG report to accompany the publication of the Annual Report for 2023 in order to provide transparency with regard to its challenges, performance and objectives in this area.

Environmental targets

The Grounds' project developments focus on the construction of energy-efficient and sustainable properties. Buildings, homes and housing complexes are currently built on the basis of the "Effizienzhaus 55" (EH55) standard or planned or developed in accordance with the "Effizienzhaus 40" (EH40) standard. A comprehensive and innovative energy concept was developed for the Terra Homes project in Erkner that ensures particularly low energy consumption and carbon neutral heating. This includes an electric brine/water heat pump and hybrid collectors (PVT collectors) so that solar electricity and heating energy can be generated at the same time. The two new construction projects, LennéQuartier and Property Garden, are also built according to the "Effizienzhaus 55" standard and add additional value to the investment for the final purchasers of the flats. The office building in Magdeburg (Central Offices project) is being constructed in accordance with the highest sustainability standards (DGNB Gold). Going forward, The Grounds also intends to realise the projects that are currently still in the planning phase in accordance with high efficiency and sustainability standards.

Where not already carried out, energy efficiency upgrades in the portfolio are to help reduce CO_2 in the long term in the years ahead. This primarily comprises insulation, installing low CO_2 heating systems and integrating renewable energy. The Grounds is assessing medium-term investments in the portfolio to improve energy efficiency. A photovoltaic system with a nominal output of 50.40 kWp is already installed on the roof of the housing complex in Rauen. The properties in the company's portfolio will also be analysed with a view to taking action to reduce resource consumption and waste volumes in the medium term.

Social criteria

When developing projects in urban areas, The Grounds aims to create liveable neighbourhoods by realising a diverse usage mix for different needs and a healthy environment. Housing has a direct impact on residents' quality of life, health and social well-being. The Grounds believes that public spaces and green areas should be accessible to everyone. All its portfolio properties include public green spaces for tenants. With the construction of a large playground and open-air communal areas, the Maggie project in Berlin is an example of how densification can also benefit existing residents.

Treating employees, customers and business partners responsibly and fairly at all times is a fundamental principle of company policy at The Grounds.

A positive corporate culture, a safe and pleasant working environment, encouraging employee development and a suitable and fair remuneration structure are essential to maintaining and increasing employee satisfaction and retaining them at the company in the long term. The Grounds' company success is thanks primarily to the commitment, expertise and skills of its employees.

Corporate Governance

Responsible, long-term corporate governance secures the existence of The Grounds Group and ensures sustainable value creation. The reputation of The Grounds as a reliable partner is also a key foundation of the company's success.

All members of the Management Board and the Supervisory Board (dual management structure) have extensive knowledge and contacts, both in the property sector and on the capital market. The Management Board is solely responsible for managing the company, while the Supervisory Board monitors its management as a governance body.

All strategic and management functions are represented within the company and primarily include the areas of transaction management, asset management, financing and accounting. The staff headcount has been consistently expanded in recent years and experienced employees and managers recruited for the most important areas.

Additional administrative functions, essentially property management, are currently outsourced to external service providers who can take a flexible approach to portfolio growth and varying capacities.

3.4 Forecast variance analysis

Given the sales already confirmed as part of land development and the units already sold as part of portfolio development, the Management Board expected sales revenues to increase further and EBIT to be slightly lower in the 2022 financial year compared with the previous year. Consolidated sales revenues for 2022 were forecast at between EUR 35.0 million and EUR 38.0 million, with EBIT within a range of EUR 8.0 million to EUR 9.0 million. The EBIT forecast did not include the additional earnings potential from the debtor warrant for the logistics property sold in late 2020 in the amount of up to EUR 9.75 million. If the development plan had been completed, which was a precondition for realising the warrant, sales revenues and EBIT would have been considerably higher.

As announced in an ad hoc disclosure on 26 January 2023, The Grounds recorded consolidated sales revenues of EUR 36.8 million, thereby achieving its forecast range. However, The Grounds did not achieve its earnings forecast. The valuation gain on the change in the value of investment property in the existing portfolio was considerably lower than expected, as were the measurement results from unrealised acquisitions in this area. Earnings were also adversely affected by increased construction costs on the back of higher inflation. Consolidated EBIT amounted to EUR 3.4 million. The development plan for the logistics property sold in late 2020 was not completed in 2022, meaning that corresponding cash inflows are expected in 2023.

4 Opportunity and Risk Report

4.1 Risk management

The Grounds Group has established a suitable risk management and internal monitoring system to maintain the company as a going concern and identify and assess developments that could jeopardise this at an early stage. All components of the risk management system serve both to systematically identify and assess risks and as measures to avoid, mitigate and limit risks. In particular, risks that could harm the company's development or present a risk to the company as a going concern are to be identified at an early stage. Risks are evaluated by their probability of occurrence and potential loss and collated at Group level. The Grounds Group identifies any need for action on the basis of this. The impact of risks is mitigated by way of operating measures and, where necessary, by recognising provisions.

With the help of capital management, The Grounds aims to safeguard the company's liquidity and equity base in the long term and generate an appropriate return on capital employed.

Financial risk management comprises managing and mitigating financial risks from operating activities. Liquidity risk (avoiding disruptions to solvency) and credit risk (risk of a loss if a contractual party does not meet its contractual obligations) are particularly relevant here. To reduce credit risks, the Group forms sales business relationships only with contracting parties that have good credit ratings.

The risks described below are evaluated by preparing and reviewing/adjusting the company and Group planning throughout the year in consultation with the Supervisory Board and by way of financial and liquidity planning. Monthly target/actual comparisons and economic assessments of the Group companies in terms of key financial figures in the income statement (chiefly sales revenues, EBITDA and EBT) and statement of financial position items (chiefly the development of equity and debt) are used to assess the risks in the medium term. Short-term tools include ongoing monitoring of the property portfolio and liquidity management.

4.2 Individual risks

4.2.1 Macroeconomic risks

As discussed in "2. Economic Report", the macroeconomic environment deteriorated significantly in 2022 as a result of the Ukraine war and various disruptive factors. Due to rising interest rates and construction costs as well as material and supply bottlenecks, the German construction industry finds itself looking back on a weak 2022, while the worsening conditions mean the outlook for 2023 is similarly muted (see "5. Report on Expected Developments"). The turnaround in interest rate policy significantly curbed transaction activity on the property investment market in 2022, and this is expected to remain the case in the first half of 2023. Demand for residential properties had been the pillar of the construction industry in recent years, even during the coronavirus pandemic, delivering a figure in excess of EUR 100 billion on the German investment market for the first time in 2021[23]. In 2022, however, it suffered from the deterioration in financing conditions accompanied by rising inflation.

However, the downturn in transactions on the investment market for residential property is accompanied by a robust letting market. Demand for housing is on the rise, with many households currently unable to afford their own home and continuing to rent instead. At the same time, the number of completions is falling and is well below the German federal government's target of 400,000 new homes every year. As such, the already low vacancy rates are set to decline further and rents are expected to continue to rise. Average asking rents in many major cities increased by between at least 5% and 13% in 2022. For portfolio holders, the strained situation on the rental markets offers secure and stable income as well as opportunities for rent increases.

In the second half of 2022, the commercial property market saw falling prices for the first time since 2009 (with the exception of retail properties). Because this market correlates with the overall economy to a greater extent than the residential property market, the German Federal Financial Supervisory Authority is warning of the risk of a "structural downturn in demand for office and retail properties".[24]

[23] See https://www.savills.co.uk/research_articles/229130/323504-0
[24] See https://www.fondsprofessionell.de/sachwerte/news/headline/bafin-warnt-vor-korrekturen-am-immobilienmarkt-221719/ (German only)

Thanks to its focus on residential property in Germany, The Grounds is impacted by the weaker performance of the commercial property market only to a limited extent. The office and commercial building that The Grounds is constructing in Magdeburg enjoys an exclusive central location next to the main railway station, is being constructed in accordance with the highest sustainability standards (DGNB Gold), and will benefit from the positive development of the market due to the new Intel site. The building permit was issued in the fourth quarter of 2022 and letting discussions with various interested parties are currently taking place.

At the same time, rising interest rates and the pronounced economic slowdown mean there is a risk of write-downs having to be recognised on fixed assets, resulting in book losses. The Grounds focuses on residential properties in popular metropolitan regions and urban areas with high growth rates, especially the area surrounding Berlin.

A report commissioned by The Grounds in 2022 shows that the outskirts of Berlin are enjoying a stronger upturn than the city itself, especially the area defined as the second ring. The wider economic slowdown may curb this development slightly, but it will not change the overall trend.[25] Berlin's affluent commuter belt has recently benefited from the arrival of Tesla and the opening of Berlin Brandenburg Airport. In addition, certificates of self-containment have been obtained for all the portfolio properties in the area surrounding Berlin, meaning that a declaration of division into condominiums can be realised in accordance with the Wohneigentumsgesetz (German Act on the Ownership of Apartments and the Permanent Residential Right). This means The Grounds has the strategic option of realising the properties by selling them as owner-occupied apartments. Demand on the Magdeburg housing market is expected to increase considerably following the announcement in early 2022 that Intel would open a new site in the city. This is expected to lead to the arrival of up to 10,000 new residents.[26]

Construction costs for new apartments increased by an average of 16.4% in 2022, the highest level ever recorded.[27] The cost of maintenance work on residential buildings (excluding cosmetic repairs) also increased by 16.8% year-on-year as at November 2022.[28] The dramatic rise in construction costs entails the risk that The Grounds could exceed the budgets for its project developments or renovation and maintenance work on its existing

[25] See https://www.thegroundsag.com/229/the-grounds-umlandreport-berlin-2022-umland-w%C3%A4chst-st%C3%A4rker-als-berlin (German only)
[26] See https://www.mdr.de/nachrichten/sachsen-anhalt/magdeburg/magdeburg/intel-wohnungsmarkt-haus-immobilien-veraenderung-100.html (German only)
[27] See https://www.destatis.de/EN/Press/2023/02/PE23_N006_61.html
[28] See https://www.destatis.de/EN/Press/2023/01/PE23_011_61261.html

properties. Although the construction costs for The Grounds' projects in Magdeburg are within budget, the tender situation in Berlin is more problematic and The Grounds has had to award some contracts at prices in excess of the respective individual budgets. However, the large number of cancellations of new construction projects is expected to ease the pressure on its budgets when it comes to future tender negotiations.

The company has no control over these constantly changing factors and must continue to observe and re-evaluate them and make business decisions accordingly. With its consistent focus on the housing sector, The Grounds Group operates on a growth market that is in high demand even during the current uncertain and economically challenging times and does not expect any material macroeconomic risks with a negative impact on its financial position and performance in 2023.

4.2.2 Market risks

4.2.2.1 Dependency on developments on the German property market

The Grounds Group focuses on residential properties in Germany – primarily in emerging German metropolitan regions – and so is dependent on national and regional market developments.

As described in "4.2.1 Macroeconomic risks", the boom on the property markets was brought to a halt by the Ukraine war and the resulting rise in energy prices, which propelled inflation to new record levels, as well as the rapid and dramatic rise in interest rates and the resulting deterioration in the macroeconomic situation. The German construction industry is reporting lower sales revenues across all sectors in 2022 and 2023 as investors and developers adopt a wait-and-see approach and orders are cancelled. Transaction volumes and the level of transaction activity on the investment markets for residential and commercial property also slumped.

Market analysts expect momentum to return to the investment markets from the second half of 2023 once price levels have settled and the phase of interest rate hikes comes to an end, although a return to the levels seen before the turnaround in interest rate policy is not anticipated (see "5.2 Sector situation").

In this market environment, there is a risk that The Grounds will be unable to find buyers for its properties held for sale and project developments and/or that it will be unable to achieve the desired selling prices, making it unable to reach its annual forecasts in terms of sales revenues and EBIT.

To date, The Grounds Group has been able to sell properties as planned (see “3. Business Performance”) and has not had to negotiate any purchase price adjustments. The Grounds is also benefiting from retail sales to owner-occupiers.

The fundamental data for portfolio management has generally improved thanks to the clear excess of demand over supply on the rental market, which led to significant rental growth in 2022. The opportunities in this business area currently outweigh the risks.

Despite the deterioration in the economic environment and the recent reluctance to invest, the fundamental data for the German property market remains positive. Globally, a large amount of liquidity is available for investment. The energy efficiency upgrades in the portfolio that will be required in the coming years in order to meet the EU climate protection targets will generate considerable potential, especially if the conditions change in a way that makes renovation more profitable for owners.

The Grounds Group monitors developments on the German property market on an ongoing basis and does not expect these market risks to have any substantial negative impact on the financial position and performance in 2023.

4.2.2.2 Competition

As part of its business activities, The Grounds Group has various competitors in the areas of land development, portfolio management, portfolio development and the privatisation of residential properties in Germany and is exposed to stiff competition.

The Grounds Group’s main direct competitors when acquiring residential properties and selling developed land and property portfolios are small and medium-sized property companies. If the acquisition profile and market focus are similar, the competition could win the contract to buy or sell property assets.

In particular, The Grounds Group is aware that there is currently high competition when it comes to purchasing attractive properties and it cannot exclude the possibility of prices continuing to rise.

The Grounds Group focuses on setting itself apart from similar property companies by offering unique selling points and individual use concepts to avoid the negative repercussions of a direct competitive situation as far as possible by ensuring the companies are not directly comparable.

In addition, The Grounds Group competes for tenants, sellers and investors. In particular, competition or a surplus of available properties on the market when The Grounds Group is selling can result in unexpectedly low sales prices or a saturation in demand or prevent The Grounds Group from selling properties in the first place. There is a risk that The Grounds Group may be unable to hold its own in the competition or adequately set itself apart from its competitors.

The company restructured itself entirely in 2020. With the two Management Board members Arndt Krienen and Jacopo Mingazzini, the newly staffed Supervisory Board and the increase in staff headcount at the Group, the team works together excellently and brings together years of extensive experience in the areas of project development, portfolio management and privatisation. Thanks to its many years of experience in the property sector, The Grounds Group has an extensive and established network. This allows The Grounds Group to secure properties through off-market transactions and so it does not have to publicly compete with other competitors.

In addition, the company currently purchases residential portfolios/properties at an investment volume that is too small for larger competitors and simultaneously at the upper end of the investment volume for smaller investors. The company is of the opinion that, among listed companies in the property sector, there are no competitors with a comparable business model comprising portfolio management, land development and portfolio development with a similar strategy and geographical focus. Among unlisted companies on the property market, there are a handful of competitors that operate on a purely regional basis, and so the company’s main competitors are regional.

4.2.2.3 Regulatory risks

The Grounds Group's business activities depend to a considerable degree on the current regulatory framework for residential property. In particular, this includes statutory regulations governing tenancy law. In addition, recent years have seen major changes to legislation, for instance in environmental law. Examples of this include the regulations on energy certificates, the German federal government's energy concept in relation to energy efficiency upgrades for all homes in Germany in accordance with the "zero emission" standard and other provisions in the 2009 Energieeinsparverordnung (Energy Saving Regulation) and other environmental regulations. In addition, the legal and tax environment for property investments in Germany has frequently worsened in the past.

Legal conditions may also change or become stricter in the future, for example regarding tenant protection (such as reducing tenants' notice period or imposing restrictions on rent increases). The Mietendeckel-Gesetz, Berlin's rent cap that came into effect for a five year period on 22 February 2020, was overturned by the German Federal Constitutional Court on 15 April 2021 on the grounds that it is not compatible with the German Basic Constitutional Law.[29] In light of the dynamic rental growth in 2022 (see "2.2 Sector situation"), the high level of inflation and the resulting increase in the cost of living, the political discussion around affordable housing has picked up pace again. In addition to amendments to legislation concerning index-linked rent, the debate is focused on instruments such as lowering the cap up to which rent may be increased during a defined period, extending rent control legislation (Mietpreisbremse) and/or requiring the mandatory preparation of qualified market rent indexes for municipalities with over 100,000 inhabitants.[30]

The Grounds deliberately concentrated on Berlin's affluent commuter belt to avoid being subject to legal regulations in urban areas. Nevertheless, fundamentals in the metropolitan regions and especially in Berlin remain positive and so The Grounds Group remains open to investment opportunities there.

Legal changes to fire safety regulations, environmental protection rules (e.g. energy saving), laws on harmful substances (e.g. asbestos) and the resulting renovation requirements, as well to general conditions for property investments, can put considerable strain on the profitability of investments and The Grounds Group's earnings. Legislative changes can also require action on the part of The Grounds Group, entailing high additional costs that

[29] See https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/DE/2021/bvg21-028.html (German only)
[30] See https://www.merkur.de/wirtschaft/spd-pocht-auf-tempo-beim-mieterschutz-zr-91801787.html and https://www.merkur.de/politik/miete-wohnen-mietenwahnsinn-indexmiete-staffelmiete-wohnungsmarkt-zr-92047535.html (both German only)

– for legal or practical reasons – can be passed on to tenants only to a limited extent or not at all.

Most recently, the new Gebäudeenergiegesetz (German Buildings Energy Act – GEG) came into force on 1 November 2020, which sets out requirements regarding buildings' energy performance, the preparation and use of energy certificates and the use of renewable energy in buildings.[31] Amendments to the GEG came into force on 1 January 2023. All new buildings are now required to meet energy standard 55, meaning that the permitted annual primary energy demand for new buildings is now 55% of the reference building level, rather than 75% as previously. A more extensive amendment to the GEG that has been announced for 2023 will implement measures that have already been resolved, such as 65% renewables and mandatory solar installations.[32] From 2024, new or replaced heating systems will have to operate on at least 65% renewable energy. The maximum permitted life of a heating system will be gradually reduced from 30 to 20 years starting from 2026.[33]

Sustainability aspects play an increasingly important role in the property sector. The new EU taxonomy will further drive up demand for ESG-compliant properties. Investors will increasingly look for properties that comply with the taxonomy. On the one hand, this poses risks for The Grounds, as price discounts may have to be accepted in the future when selling non-sustainable properties on account of lower demand. On the other hand, the housing stock needs renovating and this requirement is increasing. The European Commission presented its new Energy Performance of Buildings Directive (EPBD) on 15 December 2021, which states that all buildings in the EU must be climate neutral by 2050.[34] In October 2022, the European Council agreed on a proposal for the revision of the EPBD that will require all new buildings to be climate neutral by 2030 at the latest and the transformation of existing buildings into zero-emission buildings by 2050.[35]

In mid-March 2023, the European Parliament resolved that residential buildings with especially poor energy efficiency will have to achieve at least energy performance class E by 2030 and energy performance class D by 2033. This would affect around 35 million buildings in the EU. Only houses that emit no additional greenhouse gases may be built from 2028. KfW-Bank estimates the cost of conversion in Germany alone at around EUR 254 billion. The plans have been heavily criticised because the funds will mostly have to

[31] See https://www.bmi.bund.de/EN/topics/building-housing/building/energy-efficient-construction-renovation/buildings-energy-act/buildings-energy-act-node.html
[32] See https://www.haufe.de/immobilien/wirtschaft-politik/neues-gebaeudeenergiegesetz_84342_491404.html (German only)
[33] See https://www.finanzen.net/nachricht/geld-karriere-lifestyle/gebaeudeenergiegesetz-diese-heizungen-muessen-2023-ausgetauscht-werden-12051243 (German only)
[34] See https://www.haufe.de/immobilien/wirtschaft-politik/green-deal-eu-liefert-investitionsplan-fuer-gebaeudesektor_84342_507868.html (German only)
[35] See https://www.haufe.de/immobilien/wirtschaft-politik/green-deal-eu-liefert-investitionsplan-fuer-gebaeudesektor_84342_507868.html (German only)

be raised by tenants and owners in the absence of subsidy programmes and because the general shortage of tradespeople has not been taken into account. Following the vote in the European Parliament, agreement with the EU member states will be required in order for the plans to become legally binding.[36]

Energy efficiency upgrades have already been carried out for some residential units in The Grounds' portfolio. In the medium term, The Grounds is looking into investing in additional insulation, installing state-of-the-art low CO_2 heating systems and integrating renewable energy to improve the energy efficiency of its buildings (see "3.3. Financial and non-financial performance indicators") so that it is in a position to comply with any new EU requirements on or ahead of schedule. The Grounds' project developments are mainly planned and developed on the basis of the EH55 standard or in accordance with the EH40 standard already.

The subsidy for new "Effizienzhaus 55" buildings was suspended as at 31 January 2022 and stopped earlier than planned on 24 January 2022 on account of the large number of applications received.[37] In late January 2023, the German federal government presented the new subsidy programme aimed at supporting builders and first-time buyers of climate-friendly residential and non-residential buildings that meet the EH40 standard. Applications are limited to a maximum of EUR 150,000 per new building. Private individuals and investors will be able to access low-interest loans for the construction and purchase of extremely climate-friendly houses, but no further subsidies will be available.[38]

The Grounds' new construction projects are not affected by the end of the subsidies, as all applications for ongoing projects and the planned commercial development in Magdeburg have already been approved.

Another risk is posed by the change to the Grunderwerbsteuergesetz ("German Land Transfer Tax Act"). The German Bundesrat approved the law on 7 May 2021, which essentially imposes stricter rules for share deals. The threshold from which the land tax applies was reduced from 95% to 90% for acquisitions of shares from 1 July 2021 onwards and the observation period was also extended from five to ten years. In accordance with Section 1 (2b) of the German Land Transfer Tax Act, the land transfer tax applies if at least 90% of the shares in a landowning incorporated entity are transferred to new shareholders

[36] See https://www.topagrar.com/energie/news/eu-plant-pflicht-zur-waermedaemmung-fuer-alte-wohngebaeude-13335455.html (German only)
[37] See https://www.tagesschau.de/wirtschaft/verbraucher/kfw-foerderung-fuer-energieeffiziente-gebaeude-gestoppt-101.html (German only)
[38] See https://www.wiwo.de/unternehmen/wohnungspoltik-regierung-legt-neue-baufoerderung-vor/28943384.html (German only)

within ten years. The "stock exchange clause" exempts listed companies on the regulated market from these new rules but not companies that are listed on the OTC market such as The Grounds. Subsequent amendments to the law are expected here as the stock exchange clause as it currently stands puts companies on the OTC market – and thus the vast majority of property companies – at a massive disadvantage.[39]

The German Bundestag also passed the Baulandmobilisierungsgesetz (German Building Land Mobilisation Act) on 7 May 2021. This includes stricter regulations on converting rental properties into owner-occupied buildings. The "conversion ban" will be binding for all areas in Germany where the housing market is considered strained, which the state governments are allowed to determine by law. Approval will be required until no later than 31 December 2025 and applies if the residential building contains more than five flats.[40] The states may also increase the approval requirement to cover buildings with up to 15 flats. Despite criticism and considerable resistance by some, the law was approved by the Bundesrat on 28 May 2021.[41]

Portfolio development projects for retail sales at The Grounds and the portfolio properties in Berlin are already legally divided, so the impact on the properties currently held for sale by the company and its investment property is very low. However, the "conversion ban" could generally affect The Grounds' business model, which is why it carefully analyses investments in privatisation projects in individual sub-markets before making an investment decision.

4.2.3 Company-specific and operating risks

4.2.3.1 Purchase and sale of properties

The economic success of The Grounds Group hinges on the selection and purchase of suitable properties/property portfolios or interests in property companies. This is subject to the risk of The Grounds Group incorrectly assessing or otherwise evaluating the construction, legal, economic or other circumstances in relation to the properties or portfolios to be purchased. Moreover, assumptions made regarding the earnings potential of the properties or portfolios may subsequently prove partially or fully inaccurate. This would mean, for example, that properties acquired for the area of portfolio management would not generate the expected cash flow and thus would not operate at a profit.

[39] See https://www.noerr.com/de/newsroom/news/reform-der-grunderwerbsteuer-auf-der-zielgeraden and https://www.stb-web.de/news/article.php/id/24871 (German only)
[40] See https://www.bmi.bund.de/SharedDocs/pressemitteilungen/DE/2021/05/baulandmobilisierung.html (German only)
[41] See https://www.haufe.de/immobilien/entwicklung-vermarktung/marktanalysen/umwandlungsverbot-von-miet-in-eigentumswohnungen_84324_511416.html (German only)

The Grounds Group addresses this risk by conducting a detailed assessment of the acquisition before it is purchased with the help of external assessors or building experts. Appreciation potential of the properties is also reviewed in detail. The existing property portfolio is regularly revalued by approved experts.

4.2.3.2 Disposing of contaminated sites, soil contamination and compliance with requirements of construction law and preservation legislation

There is a possibility that land owned by The Grounds Group may feature contaminated sites, other harmful soil contamination or relics from the war such as bombs. In connection with this soil contamination, the authorities responsible may order The Grounds Group to remove the hazards, which typically incurs high costs. Even if The Grounds Group has already sold this land and properties to third parties, there is a risk of the purchasers claiming damages or other making warranty claims against The Grounds Group. The Grounds Group is responsible for these obligations and claims, regardless of the cause of the contamination. It is possible that it will have no right of recourse against third parties even if they caused the contamination. Addressing any contamination in this context and other related measures may result in a loss of rental income, significantly delay construction work or make it impossible or economically unviable and involve considerable additional costs.

Numerous other factors, including the age of the structure, pollutants in construction materials, the soil condition or non-compliance with the requirements of construction law and preservation legislation at properties held by The Grounds Group, may result in costs for expensive renovation, maintenance and modernisation work. If the construction work required cannot be carried out, this could have a negative impact on the sales and rental income of the properties affected. It may also lead to restrictions in the use of these properties and land and, in turn, to rent losses.

4.2.3.3 Staff

Members of the company's Management Board and Supervisory Board and other managers at The Grounds Group have extensive knowledge and contacts, both in the property sector and on the capital market. If members of the Management Board or other key employees were no longer to be available, these contacts and knowledge would be lost and it is uncertain whether The Grounds Group would be able to make up for this at short notice by hiring new employees. The company currently believes the risk of losing these key personnel is low, as the central management team have worked together successfully and with confidence for many years in the past at other property companies and so the team members complement each other well. The company aims to retain qualified specialists at the Group in the long term by providing appropriate incentives. As one way of encouraging long-term staff retention, The Grounds established a stock option programme in the 2020 financial year for members of the Management Board and employees with a maximum volume of 1,750,000 share options.

4.2.3.4 Financing and interest rate risks

The Grounds Group requires substantial financing for its business model and the planned increase in business operations, both for the purchase of properties and, potentially, for equity interests, which must be raised either in the form of equity or debt. Accordingly, The Grounds Group's business performance is dependent on receiving additional financing on time at appropriate conditions and, where necessary, refinancing existing financing at maturity. If The Grounds Group were unable to find financing to purchase properties at adequate conditions, it would not be able to establish and expand its business to the extent desired.

As well as strengthening the equity base, The Grounds Group regularly assesses affordable bank financing and other forms, such as mezzanine financing. The portfolio can also be increased in the short term by way of non-cash capital increases. With the size of the portfolio and of the Group increasing and the intention to switch to a more regulated stock market segment in the medium term such as the regulated market on the Frankfurt Stock Exchange, The Grounds Group will increasingly attract the attention of investors. This should make it easier to raise debt and equity. The EUR 12 million convertible bond successfully placed in February 2021 and the EUR 4.8 million increase in October 2021 was a key milestone in establishing the company on the capital market.

4.2.3.5 Liquidity and financing risks

The Grounds Group requires sufficient liquidity to maintain its business operations. Liquidity management is a key focus of Group management as it helps identify and absorb adverse developments from individual business areas on a timely basis. To this end, Management Board members receive regular reports on current liquidity and a liquidity forecast. These employ short-term and medium-term liquidity planning tools that compare current business transactions to projected figures Group level.

Business activities and growth at The Grounds Group depend in part on the extent to which financing options are available. For example, more restrictive lending could impair business performance at The Grounds. To minimise the risk, The Grounds works with a large number of banks and can also use the capital market for additional financing.

The change in the interest rate environment has led to significantly higher financing costs as well as more restrictive lending practices on the part of banks. In addition to raising debt, The Grounds is therefore also increasingly examining the options for financing projects using own funds, especially in the form of joint ventures.

4.2.3.6 Taxes

Tax law is in a constant state of flux. The company has no control over whether current tax rules and regulations remain as they are at present. Future changes to the law or differences in how laws are interpreted by tax authorities and course cannot be ruled out.

There is thus the risk of tax-related circumstances that disadvantage Group companies. During current and future tax audits, tax authorities may take a different view of tax regulations and circumstances to The Grounds Group. If the tax authorities are of a different opinion, this may result in additional tax claims and thus have a negative impact on the companies' financial position and performance.

4.2.3.7 Insufficient credit rating, insolvency or termination by contractual partners

Portfolio properties require constant modernisation and maintenance to meet legal requirements and be of interest to tenants. In addition, The Grounds has significantly stepped up its project developments in the housing sector. This exposes the company to the risk that contracting partners involved in new construction or modernisation work may not or not fully meet their legal and contractual obligations. A potential default on the part of contracting partners can also result in higher costs or unexpected delays in the new construction and modernisation work.

In addition, there is the risk that key contracting partners might (prematurely) terminate contracts for good cause. In this case, new contracting partners would have to be found, which can also lead to delays and higher costs. There is also the risk of not being able to enforce any damages claims against the parties because of their credit rating.

To counter this risk, where possible The Grounds Group chooses external partners for its projects that it has already worked with successfully in the past. The contracting partners' solvency and operating performance are also regularly reviewed as part of risk management. Although the company cannot exclude the possibility that individual partners may default, even those with excellent credit ratings, it considers this risk low.

4.2.3.8 Rental income

In the future, the economic success of The Grounds Group is also highly dependent on maintaining or increasing income from renting out residential properties in the portfolio at the planned level. The amount of contractual rent that can be generated by The Grounds Group and the possibility of increasing this amount depend on numerous factors, including the solvency of current and future tenants and the ability to find or retain suitable tenants who are prepared to conclude long-term leases at conditions that are attractive for The Grounds Group.

If tenants are unable to meet their rent payment obligations or are unable to do so in full, for example because of a deterioration in their financial circumstances, or if an increased number of tenants terminate their rental agreements and the rental properties in question cannot be immediately re-let at, at a minimum, comparable economic conditions, this would lead to a loss of rental income and thus have a negative impact on the financial position and performance of The Grounds Group. There may also be a loss of rental income, rent reductions or higher vacancy rates, for example because the properties are located in a difficult location in terms of social or economic circumstances or because demand for rental properties is low on account of the market situation. A change of tenants can also involve significant conversion and renovation work, which may prompt a temporary loss of rental income and incur considerable costs. For example, greater demands made by tenants may mean that the properties can no longer be let in their current state or only for far lower rent. In the event of vacancies or reduced rent levels, it cannot be ruled out that, alongside lower income, the fair value of the properties may also decline, which would have a corresponding impact on the financial position and performance of The Grounds Group.

Before entering into contracts with new tenants, The Grounds Group assesses their credit rating. The rental default risk is kept low by way of targeted monitoring and proactive measures. The focus is on properties with tenants who have good or very good credit ratings.

Properties with a short remaining lease term and/or a high vacancy rate are considered only if – on the basis of The Grounds Group's asset management approach – reductions in the vacancy rate or lease renewals can be contractually assured at the due diligence stage prior to the acquisition or immediately after concluding the transaction.

4.2.4 Other risks

In addition to the risks described above, there are other factors that affect business performance that the company cannot predict or control. If they occur, these could have a negative impact on The Grounds Group's performance. These include natural disasters, epidemics, wars and terrorist attacks.

4.2.5 Overall assessment of risks

The focus of The Grounds Group is to establish a large, high-quality property portfolio that allows it to generate stable income and to carry out project developments and privatise portfolio properties with the intention of earning sustainable sales income. In 2022, The Grounds Group expanded its property portfolio by 46 units (with additional densification potential) and acquired a 51% interest in a large-scale project development in Blankenfelde-Mahlow, a 5,560 m² site for a residential construction project in Königs Wusterhausen, and a majority interest in the Börde Bogen project. We intend to remain on this growth path in the future.

Raising capital through debt and equity at favourable financing conditions and acquiring/implementing additional projects are central to achieving this goal. In the areas of land development and portfolio development, further progress was made with selling units and projects in the 2022 financial year and in 2023 to date (see under 1.3 and 5.), and a continual inflow of liquidity is expected here. Although the deterioration in the macroeconomic environment meant that conditions for property investments were less favourable in 2022, we do not currently believe there are any individual or collective risks that could jeopardise the company as a going concern.

German properties remain a highly sought-after asset class. Institutional investors are still extremely interested in property investments and special AIFs. According to the most recent survey of insurance companies, banks, pension funds and superannuation schemes conducted by Lagrange Financial Advisory for its Fund Monitor, there has been a significant upturn in demand for core investments (chosen by 35% of respondents, with core-plus investments leading the way). Office property is the most popular asset class, followed by residential property. Germany remains the leading target location. One-fifth of respondents now consider financing to be the biggest challenge.[42] Meanwhile, 52% of the private investors participating in a representative survey commissioned by the Association of German Banks intend to invest more in property in 2023 as a secure investment.[43]

4.3 Opportunity report

Despite the economic and market risks described above, especially the change in the interest rate environment and increased construction costs, our view is that the conditions for the German housing market are still good. Tenders for construction services in recent months have already seen a downturn in construction prices. We expect the wait-and-see attitude to come to an end and price levels on the property markets to settle in the second half of 2023, leading to a return to more dynamic demand. At the same time, the supply side of the market will be weak, exacerbated by the reduction in the number of new construction projects and extensive order cancellations in recent months. Germany currently has a shortage of more than 700,000 homes. This is particularly pronounced in urban areas, where pressure on rents is rising. Even if the new construction volume were to increase, the housing shortage is unlikely to ease before 2025 at the earliest.[44] The Grounds' portfolio is largely situated in urban areas and in close proximity to major cities with growth potential that it can continue to realise. The high level of demand for residential property in the regions at present combined with the shortage of supply means that rents will continue to rise in future.

Despite the various uncertainties, The Grounds is cautiously optimistic with regard to the future. It is forecasting growth in sales revenues of at least 10% to EUR 40–45 million accompanied by an increase in consolidated EBIT to EUR 4–5 million in 2023. The consolidated EBIT forecast contains no remeasurement effects from investment property and only a small net earnings contribution from the debtor warrant for the logistics property in Hangelsberg that was sold in late 2020. The Grounds currently anticipates a cash inflow from the debtor warrant in the second half of 2023.

[42] See https://www.portfolio-institutionell.de/finanzierung-von-immobilien-wird-zur-herausforderung/ (German only)
[43] See https://www.tagesspiegel.de/wirtschaft/umfrage-zu-geldanlagen-anleger-suchen-im-neuen-jahr-sichere-investments-9122146.html (German only)
[44] See https://www.boerse-frankfurt.de/nachrichten/dje-ausblick-wohnimmobilien-licht-am-ende-des-tunnels (German only)

With regard to sales planning, The Grounds expects to make tangible progress with the marketing of project development sites that are not yet on sale. The company also expects to complete the LennéQuartier project in the first half of 2023 and to make substantial progress with the construction of the Property Garden project by the end of the year. The construction project in Erkner is also advancing and we expect to receive further purchase price instalments from the forward sale by the end of the year.

In the area of portfolio development, the company also expects to sell 50% of the units remaining at the Dallgow-Döberitz project as at 31 December 2022 and all of the units in Meppen. Although demand-side momentum has slowed slightly, sales are largely progressing according to plan. The Grounds has not had to negotiate any purchase price adjustments and the planned sales prices have been achieved.

The Grounds' business model, which centres around residential properties, is based on the three pillars of portfolio management, portfolio development and project development. In the 2022 financial year, it primarily acquired project development sites for which building permits are currently being obtained for individual phases. The marketing phase will begin once the respective building permits have been granted. Accordingly, the focus in 2023 will be on realising the project development sites that are currently in the planning phase.

The portfolio currently comprises around 434 residential units. The portfolio properties in the area surrounding Berlin will be divided up in accordance with the Wohneigentumsgesetz (German Act on the Ownership of Apartments and the Permanent Residential Right) and the company is considering the strategic option of realising individual projects through the sale of owner-occupied apartments in the medium term.

The arrival of industry giants like Tesla and Intel will deliver important momentum to the housing markets in eastern Germany. Thousands of new jobs will be created, including at the suppliers that will move to the region. This will drive demand for housing in Magdeburg, Berlin and the surrounding area. We also expect to see further beneficial effects on value for our existing project developments as well as opportunities for rent increases. The properties acquired in the area surrounding Berlin in 2021 and 2022 have upside potential for letting in excess of 35%, which The Grounds has already partially realised with the new leases concluded in the reporting year. The development will also have a positive effect on the sale of owner-occupied apartments that is planned in the medium term.

5 Forecast Report

5.1 Macroeconomic development[45]

Having originally forecast a recession, the German federal government now expects to see slight economic growth in 2023, with GDP set to rise by 0.2%. This means the German economy successfully resisted and adapted to the supply bottlenecks that persisted until late in the year, record levels of inflation, trade and economic sanctions against Russia, uncertainty concerning potential gas shortages in the 2022/23 winter half-year, and the suspension of Russian gas deliveries in late August 2022. However, this forecast is subject to a high degree of uncertainty. The main risks to the outlook include another sharp rise in the price of gas or other commodities, the intensification of monetary policy tightening on the part of the central banks, the continued development of the war in Ukraine, and a renewed outbreak of the coronavirus pandemic with negative consequences for global demand and production chains.

The German federal government expects inflation to remain high but to decline over the course of 2023. All in all, consumer prices are expected to increase by 6.0% in 2023. Government support such as the electricity and gas price brake will have a dampening effect. Despite these support measures, private consumer spending is expected to decline significantly in 2023, while particularly energy-intensive industries could restrict capacity further in response to high energy prices.

The German federal government expects construction prices to rise by 7.1%. Investment in construction is likely to drop by 2.8% on the back of price development, the materials and skills shortage and the recent downturn in new orders.

The ECB raised its key interest rate to 2.5% in 2022 and announced that it intended to continue with further hikes at the same pace. The key interest rate was subsequently increased to 3.0% in early February 2023 and by a further 0.5 percentage points to 3.5% in March 2023.

[45] See https://www.bmwk.de/Redaktion/EN/Publikationen/Wirtschaft/annual-economic-report-2023.pdf?__blob=publicationFile&v=4, p. 131 et seq.

5.2 Sector situation

German construction industry[46]

The central construction associations are forecasting another drop in sales revenues in 2023. The outlook for 2023 has become more muted in light of the significant deterioration in the conditions for the construction industry. With construction, financing and living costs increasing, sales revenues in the main German construction industry are expected to decline by 2% to EUR 155 billion in nominal terms and by 7% in real terms.

Residential construction is a particular cause for concern. Sales revenues are set to fall by 5% in nominal terms, corresponding to 10% in real terms. Demand for renovation is preventing an even more substantial downturn.

In terms of completions, the high level of orders from 2022 will continue to provide a degree of support in 2023, with the number of completed residential units forecast at 245,000 (–12.5% compared with 2022). However, completions will see a more pronounced downturn in 2024 in response to the reluctance to invest. This means the German federal government's target of 400,000 new homes a year will continue to be missed.

The central construction associations welcome the general increase in the depreciation rate for the construction of rental apartments from 2% to 3% and the "reintroduction" of the special allowance with effect from 1 January 2023. However, they are critical of the low volume of the new construction subsidy, which will amount to EUR 1.1 billion and be tied to high standards for energy-efficient construction. Of this figure, EUR 350 million will be allocated to subsidies for climate-friendly private homes while the remaining EUR 750 million will be spread across all other applicants, such as housing companies and cooperatives. From the perspective of the central construction associations, the administrative expense alone would not be justifiable in light of the low subsidy volume.

The downturn in the number of orders indicates that sales revenues in commercial construction will also decline in 2023. With the widespread economic uncertainty and the development of construction costs curbing demand for commercial buildings, the central construction associations expect sales revenues in this segment to fall by 6% in real terms in 2023.

[46] See https://www.zdb.de/fileadmin/user_upload/101-2022_Konjunktur_22-23.pdf and https://www.handelsblatt.com/politik/deutschland/wohnungsbau-neubaufoerderung-startet-im-maerz-2023-/28939026.html (both German only)

In public-sector construction, the central construction associations fear that municipalities – the biggest public clients – may be unable to increase their level of investment in 2023 because their tax revenue is not sufficient to cover the rise in ongoing non-staff and staff costs and social security contributions. Sales revenues in this segment are forecast to decrease by 4.5% in real terms in 2023.

Residential properties

Savills and BNP Paribas expect the investment market for residential property to regain momentum over the course of 2023 without returning to the levels seen before the turnaround in interest rate policy. The fundamental data for investments in the German housing market remains extremely good. Prices are likely to keep adjusting until mid-2023, while a further slight increase in prime yields is also forecast. Rising key interest rates and financing costs mean that investor demand is likely to remain muted for the time being (the transaction volume for residential property in February 2023 was less than EUR 100 million, something that has only happened twice since 2009[47]), although the situation should improve a little if the phase of interest rate rises comes to an end in the second quarter of 2023 as is anticipated.

Further segmentation of the residential property market based on building energy performance is also forecast, with energy-efficient buildings in the urban core and the areas surrounding the major cities enjoying strong demand. Subsidised housebuilding will also become more important in light of the German federal government's plans to expand social housing.[48]

For 2023, CBRE is forecasting a transaction volume of up to EUR 55 billion on the German property investment market, with institutional housing potentially accounting for around a quarter of this figure.[49]

The micro apartments and student housing segment is likely to remain extremely attractive for investors in 2023. In addition to renewed growth in student numbers, this is because weekly commuters and career entrants in the big cities are struggling to find housing on the traditional market due to the shortage of rental properties.[50]

[47] See https://www.savills.co.uk/research_articles/229130/295306-0
[48] See https://www.haufe.de/immobilien/investment/wohninvestmentmarkt-knappes-angebot-dafuer-viel-regulierung_256_493300.html and https://www.realestate.bnpparibas.de/marktberichte/wohnungsmarkt/deutschland-at-a-glance (both German only)
[49] See https://arcgiscenter.cbre.eu/portal/apps/storymaps/collections/ddaa2f8aeb274794bae6fe38b415d392?item=1
[50] See https://news.cbre.de/investmentmarkt-fuer-studentisches-wohnen-und-mikroapartments-trotzt-der-geopolitischen-lage/ (German only)

Commercial properties

Savills expects the transaction volume in commercial real estate to be below EUR 50 billion in 2023. With the exception of the project development segment, which was already particularly hard hit by the changing market conditions in 2022, only a small number of forced sales are forecast. Overall, Savills considers “the financing situation of landlords to be comfortable”, although the steep rise in interest rates will lead to greater pressure or incentive to sell sooner or later. A significant increase in transaction activity is not expected before spring 2023, by which time yields are also likely to rise.[51]

In the area of commercial property, investors in 2023 will continue to focus primarily on office properties (especially high-end office space with a view to rental growth) and logistics properties. In addition to traditional core investments, alternative investments with potential for value appreciation are increasingly in demand.[52]

The office letting market is expected to see a moderate decline in take-up in 2023. With the volume of completed space reaching 2 million m² and vacancies continuing to rise, downward pressure on rents will continue.[53]

5.3 Company

For 2023, The Grounds is forecasting growth in sales revenues of at least 10% to EUR 40–45 million accompanied by an increase in consolidated EBIT to EUR 4–5 million. The consolidated EBIT forecast contains no remeasurement effects from investment property and only a small net earnings contribution from the debtor warrant for the logistics property in Hangelsberg that was sold in late 2020. The Grounds currently anticipates a cash inflow from the debtor warrant in the second half of 2023.

[51] See https://www.savills.co.uk/research_articles/229130/337940-0
[52] See https://arcgiscenter.cbre.eu/portal/apps/storymaps/collections/ddaa2f8aeb274794bae6fe38b415d392?item=1
[53] See https://www.savills.co.uk/research_articles/229130/337947-0

6 Remuneration Report

The new employment contracts signed with the Management Board members Arndt Krienen and Jacopo Mingazzini in the 2020 financial year expire in December 2024.

Employment cannot be terminated during the term of the contracts. However, the contracts do include a special right of termination in the event of a change of control.

Remuneration for members of the Management Board comprises a fixed, non-performance related annual base salary and variable bonus that is to be determined between the Management Board and the Supervisory Board.

The base salary for both Management Board members has been EUR 240,000 since 1 March 2021. The variable remuneration component is linked to the company's earnings after taxes in the IFRS consolidated financial statements. Valuation gains are included in the measurement base only on a pro rata basis. In addition, the bonus is capped at EUR 480,000.

The Management Board members are provided with a company car and The Grounds has taken out D&O insurance.

In addition, both members of the Management Board also receive share option rights for 700,000 shares as long-term remuneration components. The stock option programme includes a four-year vesting period from the issue date, during which time the stock options cannot be exercised. Please see the notes for information on the expenses incurred in the reporting period in connection with these share-based payments and the measurement parameters.

Members of the Management Board were not granted pension commitments or other retirement benefits. No agreements were made with the Management Board members regarding benefits in the event of premature resignation, with the exception of the company's entitlement to release the members of the Management Board from their duties for the duration of a notice period and to discharge them while continuing to pay their salary, and the right of Management Board members to demand immediate payment for the remaining contractual period in this case. In addition, the employment contracts include a post-contractual non-compete clause.

As well as reimbursement of expenses, members of the Supervisory Board receive fixed annual remuneration for each full financial year for which they are a member of the Supervisory Board.

Berlin, 24 April 2023

The Management Board
Arndt Krienen Jacopo Mingazzini

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

The Grounds Real Estate Development AG, Berlin, as at 31 December 2022

	Note	31 Dec. 2022	31 Dec. 2021
		TEUR	TEUR*
Assets			
Non-current assets			
Intangible assets	**8.1**	16	15
Goodwill	**8.1**	1,942	1,941
Property, plant and equipment	**8.1**	231	266
Right-of-use assets	**8.2**	315	433
Investment property	**8.6**	35,769	31,050
Equity investments	**8.4**	152	152
Interests in companies accounted for using the equity method	**8.5**	2,316	5,441
Other financial assets	**8.7**	23	15
Deferred tax assets	**8.23**	2,465	1,768
Total non-current assets		**43,230**	**41,082**
Current assets			
Inventories	**8.8**	82,838	37,994
Contract assets	**8.9**	979	4,571
Trade receivables	**8.10**	1,821	2,723
Other receivables	**8.11**	6,479	14,146
Cash	**8.12**	2,273	2,385
Non-current assets held for sale	**8.13**	660	0
Total current assets		**95,050**	**61,820**
Total assets		**138,279**	**102,902**

*see comments in section 2 of the notes to the consolidated financial statements

	Note	31 Dec. 2022	31 Dec. 2021
		TEUR	TEUR*
Equity			
Issued capital	**8.14**	17,806	17,806
Adjustment item from business acquisition	**8.14**	–12,453	–12,453
Capital reserves	**8.14**	3,111	2,837
Retained earnings	**8.14**	155	155
Net income	**8.14**	17,563	16,393
Attributable to shareholders of the parent company		26,182	24,738
Attributable to non-controlling shareholders		6,387	599
Total equity		**32,569**	**25,337**
Liabilities			
Non-current liabilities			
Financial liabilities	**8.15**	27,658	24,344
Bonds	**8.16**	16,351	15,971
Lease liabilities	**8.17**	207	330
Other liabilities	**8.21**	19	26
Deferred tax liabilities	**8.23**	6,683	5,506
Total non-current liabilities		**50,918**	**46,178**
Current liabilities			
Provisions	**8.18**	1,399	866
Financial liabilities	**8.15**	35,719	20,056
Bonds	**8.16**	376	376
Lease liabilities	**8.17**	142	132
Advance payments received	**8.20**	4,489	678
Current income tax liabilities	**8.22**	4,393	3,599
Trade payables	**8.19**	1,660	1,202
Other liabilities	**8.21**	6,616	4,480
Total current liabilities		**54,793**	**31,387**
Total assets		**138,279**	**102,902**

*see comments in section 2 of the notes to the consolidated financial statements

CONSOLIDATED INCOME STATEMENT

The Grounds Real Estate Development AG, Berlin, 1 January to 31 December 2022

	Note	1 Jan. 2022 – 31 Dec. 2022	1 Jan. 2021 – 31 Dec. 2021
		TEUR	TEUR*
Sales revenue	**8.24**	36,751	31,588
Changes in value of investment property	**8.6**	865	2,243
Other operating income	**8.28**	875	824
Change in inventories	**8.25**	932	564
Cost of materials	**8.26**	−31,864	−21,477
Staff costs	**8.27**	−2,143	−1,968
Depreciation of property, plant and equipment and amortisation of intangible assets	**8.1**	−198	−169
Other operating expenses	**8.29**	−1,869	−2,496
EBIT before income from associates		**3,349**	**9,109**
Income from associates	**8.5**	9	61
EBIT		**3,359**	**9,170**
Income from equity investments	**8.30**	104	0
Interest income	**8.30**	609	148
Interest expenses	**8.30**	−2,488	−2,445
Financial result		**−1,775**	**−2,297**
Earnings before income taxes		**1,584**	**6,873**
Income taxes	**8.31**	−398	−1,969
Consolidated net earnings		**1,186**	**4,904**
of which attributable to non-controlling shareholders		16	−24
of which attributable to shareholders of the parent company		1,170	4,928
Earnings per share (in EUR)	**8.32**	**0.07**	**0.28**

*see comments in section 2 of the notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Grounds Real Estate Development AG, Berlin, 1 January to 31 December 2022

	Issued capital	Adjustment item from business acquisition	Capital reserves	Retained earnings	Net income/ loss	Attributable to non-controlling shareholders	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As at 1 Jan. 2022	**17,806**	**–12,453**	**2,837**	**155**	**16,393**	**599**	**25,337**
Share-based remuneration			274				**274**
Acquisition of non-controlling interests						5,773	**5,773**
Consolidated comprehensive income					1,170	16	**1,186**
As at 31 Dec. 2022	**17,806**	**–12,453**	**3,111**	**155**	**17,563**	**6,387**	**32,569**

The Grounds Real Estate Development AG, Berlin, 1 January to 31 December 2021

	Issued capital	Adjustment item from business acquisition	Capital reserves	Retained earnings	Net income/ loss	Attributable to non-controlling shareholders	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As at 1 Jan. 2021	**17,806**	**−12,453**	**1,996**	**155**	**10,980**	**1,870**	**20,354**
Recognition of equity component of the convertible bond			568				**568**
Share-based remuneration			274				**274**
Acquisition of non-controlling interests						109	**109**
Disposal of non-controlling interests					485	−1,357	**−872**
Consolidated comprehensive income					4,928	−24	**4,904**
As at 31 Dec. 2021	**17,806**	**−12,453**	**2,837**	**155**	**16,393**	**599**	**25,337**

CONSOLIDATED STATEMENT OF CASH FLOWS

The Grounds Real Estate Development AG, Berlin, 1 January to 31 December 2022

		1 Jan. 2022 – 31 Dec. 2022	1 Jan. 2021 – 31 Dec. 2021
		TEUR	TEUR*
	Consolidated net earnings	1,186	4,904
+	Write-downs on fixed assets	56	47
+	Depreciation of right-of-use assets	142	122
−/+	Net income from associates accounted for using the equity method/ investment income	−113	−61
+/−	Increase/decrease in provisions	533	−1,576
+	Other non-cash changes	10,167	−3,199
−/+	Changes in value of investment property	−865	−2,243
−/+	Gains/losses on the disposal of fixed asset	4	0
−/+	Gains/losses on the disposal of investment property	−24	0
−/+	Increase/decrease in inventories, trade receivables, contract assets and other assets not related to investing or financing activities	−32,073	5,448
+/−	Increase/decrease in trade payables and other liabilities not related to investing or financing activities	6,398	−331
+/−	Interest expenses/income	1,879	2,297
+/−	Income tax expense/income	398	1,969
−/+	Income taxes paid	−140	−350
=	**Cash flow from operating activities**	**−12,453**	**7,028**

*see comments in section 2 of the notes to the consolidated financial statements

Continued on page 85

Continued from page 84

		1 Jan. 2022 – 31 Dec. 2022	1 Jan. 2021 – 31 Dec. 2021
		TEUR	TEUR*
+	Proceeds from disposals of property, plant and equipment	21	0
+	Proceeds from disposals of financial assets	0	218
+	Proceeds from the disposal of investment property	1,324	0
–	Payments for investments in intangible fixed assets	–3	–3
–	Payments for investments in property, plant and equipment	–44	–172
–	Payments for investments in financial assets	–8	–5
–	Payments for investment property	–5,815	–14,807
+	Interest received	0	46
+	Dividends received	104	0
=	**Cash flow from investing activities**	**–4,421**	**–14,723**
+	Proceeds from issuing bonds and (financial) borrowing	35,225	39,378
–	Payments from repaying bonds and (financial) loans	–15,868	–27,362
–	Repayment of lease liabilities	–137	–114
–	Interest paid	–2,488	–2,445
=	**Cash flow from financing activities**	**16,732**	**9,457**
	Cash changes in cash funds	–141	1,762
+	Changes in the consolidated group	29	0
+	Cash funds at the beginning of the period	2,385	623
=	**Cash funds at the end of the period**	**2,273**	**2,385**

*see comments in section 2 of the notes to the consolidated financial statements
Additional explanations in the notes to the consolidated financial statements, section 8.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2021

1 Fundamental Information

The Grounds Real Estate Development AG (hereinafter referred to as "The Grounds AG") is based in Berlin, Germany. It is entered in the commercial register of the Berlin Charlottenburg District Court under HRB 191556 B.

The company's shared are listed on the Düsseldorf Stock Exchange's open market under ISIN DE000A2GSVV5.

The company's operating activities relate to residential real estate projects in German metropolitan regions and cities and its business operations cover three core areas. These include establishing its own property portfolio, selling existing flats to investors or owner occupiers, and developing new housing construction projects with the aim of selling to institutional investors, capital backers and owner occupiers. The Grounds AG operates primarily as an operating holding company for its property companies.

2 Reporting Principles

In accordance with Section 293 of the Handelsgesetzbuch (German Commercial Code – HGB), The Grounds AG is not required to prepare group accounting for the 2022 financial year. Accordingly, these consolidated financial statements – like the Group management report – were prepared voluntarily.

The Grounds AG applied the regulations in Section 315e (3) HGB accordingly for its consolidated financial statements for the 2022 financial year. Accordingly, the consolidated financial statements were prepared on the basis of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) that are mandatory in the European Union (EU) for publicly traded companies, as well as in compliance with the provisions of German commercial law in accordance with Section 315e (1) HGB.

The requirements of the IFRS, as applicable in the EU, were met in full and provide a fair presentation of the financial position and performance of The Grounds AG Group (hereinafter referred to as “The Grounds Group”). Individual items of the consolidated statement of comprehensive income and the consolidated balance sheet have been combined to improve readability. These items are broken down and explained in the notes to the financial statements.

The consolidated statement of comprehensive income was prepared in accordance with the nature of expense method. It comprises only one income statement as there are no components to be recognised directly in equity and so no other comprehensive income needs to be reported.

The Grounds AG has not yet divided its business activities into reportable segments within the meaning of IFRS 8, including in terms of company size and structure, and so there is no segment reporting.

The accounting policies applied in the consolidated financial statements are the same in all material respects as those used for the consolidated financial statements as at 31 December 2021, except for the changes subsequently explained.

In preparing the consolidated interim financial statements for the period ended 30 June 2022, it was established that the amount of the equity component of the convertible bond issued in the first half of 2021 was overstated in the prior-year financial statements due to an error in the calculation table. In accordance with IAS 8, the comparative prior-year figures have therefore been restated. The following table shows the individual adjustments to the consolidated balance sheet and consolidated income statement items affected.

	31 Dec. 2021 (reported)	Adjustments	31 Dec. 2021 (restated)
	TEUR	TEUR	TEUR
Balance sheet items			
Capital reserves	5,815	−2,977	2,838
Bonds (non-current liabilities)	12,850	3,121	15,971
Deferred tax liabilities	5,480	25	5,505
Income statement items			
Interest expenses	−2,272	−173	−2,445
Income taxes	−1,973	4	−1,969

The immaterial effects on the consolidated statement of cash flows are reflected in the prior-year column accordingly.

Following adoption by the EU, the following new or amended accounting standards and interpretations were mandatory for the IFRS consolidated financial statements for the 2022 financial year for the first time:

Standard/interpretation	First time mandatory application in the EU
Amendments to IFRS 3 “Business Combinations”: Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 “Property, Plant and Equipment”: Proceeds before Intended Use	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022

The resulting amendments to IFRS reporting requirements did not have a material effect on The Grounds AG’s consolidated financial statements.

The following accounting standards newly issued or amended by the IASB and – where indicated – not yet endorsed by the EU in some cases are mandatory for future financial statements only if they are endorsed by the EU (potentially after amendments are made) and The Grounds AG did not apply these early:

Standard/interpretation	First time mandatory application according to IASB	First time mandatory application in the EU
IFRS 17 "Insurance Contracts" including amendments to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 January 2023	1 January 2023
Amendments to IAS 1 "Presentation of Financial Statements" and to IFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023	1 January 2023
Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors": Definition of Accounting Estimates	1 January 2023	1 January 2023
Amendments to IAS 12 "Income Taxes": Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	1 January 2023
Amendments to IAS 1 "Presentation of Financial State-ments": Classification of Liabilities as Current or Non-Current	1 January 2024	Still unknown
Amendments to IFRS 16 "Leases": Lease Liability in a Sale and Leaseback	1 January 2024	Still unknown
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	No EU endorsement

The company does not expect the application of the new accounting policies in the future to have any significant effects on the consolidated financial statements.

The amounts in the explanatory notes and tables in the notes to the consolidated financial statements are presented in thousands of euros (EUR thousand) unless stated otherwise. Single and total figures are rounded to the nearest figure. Additions to the individual figures shown may therefore result in minor discrepancies from the reported totals.

These consolidated financial statements for The Grounds AG were prepared voluntarily and approved authorised for issue by the Management Board on 24 April 2023.

3 Reporting Currency and Foreign Currency Translation

The Grounds AG prepares its consolidated financial statements in euro (EUR).

Transactions in foreign currencies are not to be reported and all consolidated companies also prepare their accounts in EUR.

4 Consolidation Methods

4.1 Financial year and reporting dates for the financial statements included

The Group's financial year is the calendar year. The reporting date for all separate financial statements of Group companies included in the consolidated financial statements is the same as the Group reporting date.

4.2 Inclusion of subsidiaries

Subsidiaries are companies whose financial and business policy can be directly or indirectly controlled by the Group. A list of the subsidiaries included in The Grounds AG's consolidated financial statements for the reporting period can be found in section 4.4.1.

Subsidiaries are included in the consolidated financial statements from the date on which control was transferred to the Group. They are deconsolidated as at the date on which the control ends.

Acquired subsidiaries are accounted for using the acquisition method. The cost of the acquisition represents the fair value of the assets surrendered and equity instruments issued plus any liabilities arising or assumed as at the date of exchange. For first-time consolidation, the assets, liabilities and contingent liabilities identified as part of a business combination are measured at fair value as at the acquisition date, regardless of the extent of minority interests. Any excess of the cost of the acquisition over the Group's share in net assets measured at fair value is recognised as goodwill. If the cost is lower than the (pro rata) net assets of the acquired subsidiary as measured at fair value, the difference is recognised directly through profit or loss in the statement of comprehensive income. Acquisitions of interests in subsidiaries after obtaining control are accounted for as equity transactions. The difference between the purchase price for the shares and the non-controlling interest disposed of is offset directly in equity against retained earnings.

Non-controlling interests in the subsidiary's equity are recognised as non-controlling interests within Group equity. The non-controlling interest is the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned directly by the parent or another subsidiary.

The sale of property companies by way of share deals is presented in the deconsolidation in the same way as a comparable direct sale of properties (asset deal), because these transactions are an integral component of The Grounds Group's core business. This takes account of the economic nature of the transactions with a view to ensuring a faithful depiction of financial position and performance. It follows that the selling price of the shares plus the liabilities sold less receivables from the property company sold is recognised as sales revenues, while the carrying amount of property sold is reported as cost of materials. For any remaining residual interests, the balance of the pro-rata consolidated carrying amounts of the assets and liabilities to be disposed of as a result of the sale is deemed as the cost. If properties are acquired through the acquisition of a property company, this is shown accordingly in the initial consolidation as the acquisition of a property.

Cost is the purchase price of the interests in the property company plus the liabilities assumed less other assets of the property company.

Intragroup transactions, balances and unrealised profits on transactions between Group companies are eliminated. The same applies to unrealised losses, unless the transaction indicates that the transferred asset is impaired. The accounting policies used by subsidiaries are adjusted where necessary to ensure uniform accounting throughout the Group in accordance with IFRS..

4.3 Accounting for associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity in which the equity interests are held. It is not control nor joint control of these policies. Significant influence is essentially exerted if The Grounds AG directly or indirectly (through subsidiaries) holds 20% or more of the voting rights.

Investments in associates that are relevant to the Group's financial position and performance are included in the consolidated financial statements using the equity method. Under the equity method, investments in associates are included in the consolidated balance sheet at cost, adjusted for changes in the Group's share of the profit or loss and other comprehensive income of the associate after the acquisition date. Losses of an associate that exceed the Group's interest in that associate are not recognised. They are recognised only if the Group has entered into a legal or constructive loss absorption obligation or makes payments instead of the associate.

Investments in associates are accounted for using the equity method from the time at which the associate requirements are met. Any excess of the cost of the acquisition over the acquired share of the fair value of the associate's identifiable assets, liabilities and contingent liabilities is recognised as goodwill. Goodwill is a component of the carrying amount of the investments and is not tested for impairment separately. Any amount by which the acquired share of the fair value of the associate's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition is recognised through profit or loss in the acquisition period when calculating the associate's share or profit or loss.

4.4 Consolidated group

4.4.1 Companies included

The consolidated financial statements of The Grounds AG as at 31 December 2022 include the parent company and all of the subsidiaries listed below.

List of subsidiaries

Company	Registered office	Equity interest
TGA Immobilien Erwerb 11 GmbH	Berlin	100.0%
TGA Immobilien Erwerb 4 GmbH	Berlin	75.0%
TGA Immobilien Erwerb 5 GmbH	Berlin	100.0%
TGA Immobilien Erwerb 7 GmbH	Berlin	100.0%
Silent Living Grundbesitz GmbH	Berlin	100.0%
TGA Immobilien Erwerb 12 GmbH	Berlin	100.0%
TGA Immobilien Erwerb 13 GmbH	Berlin	100.0%
TGA Immobilien Erwerb 14 GmbH	Berlin	100.0%
TGA Immobilien Erwerb 15 GmbH	Berlin	100.0%
Grundstücksentwicklung Halberstädter Straße 153 GmbH	Berlin	94.9%
The Grounds App 1 GmbH & Co. KG	Berlin	100.0%
BORBICO GmbH[4]	Zossen	100.0%
Gesellschaft für Dienstleistungen Logistikzentrum Hangelsberg mbH	Berlin	100.0%
Capstone Opportunities AG	Berlin	89.9%
CS1 GmbH[2]	Berlin	100.0%
CSO Verwaltung GmbH[2]	Berlin	100.0%
TGA Immobilien Erwerb 8 GmbH[2]	Berlin	100.0%
Wohnen am Haseknie GmbH & Co. KG[2]	Berlin	100.0%
WMKG GmbH[2]	Berlin	100.0%
Grundstücksgesellschaft LennéQuartier mbH & Co. KG[5]	Berlin	94.9%
The Grounds Dallgow-Döberitz GmbH	Berlin	100.0%
The Grounds Bernau GmbH	Berlin	100.0%
The Grounds App 2 GmbH & Co. KG[1]	Berlin	51.0%
Börde Bogen Management GmbH[1]	Berlin	51.0%
HIM 5 GmbH[1]	Berlin	51.0%
TG Margaretenstraße GmbH & Co.KG[1]	Berlin	100.0%

[1] Added in the financial year.
[2] Held indirectly via Capstone Opportunities AG.
[3] Held indirectly via TGA Immobilien Erwerb 8 GmbH.
[4] Held indirectly via TGA Immobilien Erwerb 12 GmbH.
[5] Held partly directly, partly indirectly via Capstone Opportunities AG.

In addition, the consolidated financial statements also include the following associates:

List of associates

Company	Registered office	Equity interest
HAT 3 Projektentwicklungsgesellschaft mbH (formerly: Zeppelin One GmbH)[3]	Berlin	50.0%
CS2 GmbH[2]	Berlin	49.0%

[2] Held indirectly via Capstone Opportunities AG.
[3] Held indirectly via TGA Immobilien Erwerb 8 GmbH.

The Grounds AG had the following equity interests as at the end of the reporting date:

List of investments

Company	Registered office	Equity interest	Net profit/loss for the year (EUR thousand)	Equity (EUR thousand)
ZuHause in Heubach GmbH & Co. KG[6]	Stuttgart	10.1%	7,045	3,380
PropTech1 Fund I Carry GmbH & Co.KG[7]	Berlin	5.5%	−3,009	30,337
ERIC Group GmbH[8]	Berlin	1.2%	−356	3,295

All equity interests were held directly.
[6] Data as per provisional annual financial statements as at 31 December 2022.
[7] Data as per annual financial statements as at 31 December 2022.
[8] Data as per annual financial statements as at 31 December 2021

4.4.2 Changes in the reporting period

The consolidated group changed as follows in the reporting period compared to 31 December 2021:

- The acquisition of an additional 2% of shares in Börde Bogen Management GmbH and 2% of the limited partner’s shares in The Grounds App 2 GmbH & Co. KG mean that these two associates became subsidiaries.
- In addition, 51% of the shares in HIM 5 GmbH and 100% of the shares in TG Margaretenstraße GmbH & Co. KG were acquired in the reporting period.

5 Significant Accounting Policies

The subsidiaries' financial statements were included in the consolidated financial statements on a uniform basis using the following accounting policies. Where any material differences in the Group's accounting methods were identified in the associates' separate financial statements, an adjustment has been made accordingly.

5.1 Intangible assets

5.1.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share in the fair value of the acquired company's net assets at the acquisition date and is recognised as an intangible asset. Goodwill resulting from the acquisition of an associate is included in the carrying amount of the interest in the associate.

The goodwill is tested for impairment annually as well on an ad hoc basis in the event of value-decreasing events (impairment only approach) and measured at original cost less cumulative impairment losses. It is not written down.

For the purposes of Group accounting for the 2022 reporting period, no impairment of the reported goodwill was assumed as a result of contributing shares to The Grounds Real Estate AG in 2017, which was presented as a reverse acquisition. The goodwill from the acquisition of Capstone Opportunities AG also did not result in any impairment.

5.1.2 Other intangible assets

Other intangible assets include purchased software. It is capitalised at cost at the time of acquisition and recognised in subsequent periods at cost less accumulated amortisation (amortised cost) and any accumulated impairment. It is amortised using the straight line method, starting from the time at which the software can be used as intended. The amortisation period is the expected useful life, which is between two and six years.

5.2. Property, plant and equipment

Property, plant and equipment include the company's tools and equipment. It is recognised at cost less accumulated depreciation (depreciated cost) and any accumulated impairment. It is depreciated using the straight-line method, taking account of the residual value and respective useful life.

Depreciation begins as soon as the asset can be used as intended.

5.3 Leases

Company contracts are assessed at inception as to whether they are, or contain, a lease. A contract is, or contains, a lease if the contractual agreements grant the right to control the use of an identified asset for a period of time in exchange for consideration.

5.3.1. Contractual relationships as a lessee

The Grounds Group is a lessee in the following asset categories, although these leases are of minor significance overall:

- Business and office space
- Motor vehicles
- (Other) operating and office equipment

With the exception of current leases, The Grounds Group recognises an asset for the right-of use asset for the leased asset in question and a liability for the payment obligations incurred for all identified leases where it is the lessee.

The right-of-use asset is measured at cost at the time of acquisition. This results from the value of the lease liability on initial recognition and any ancillary costs (payments made before the start of the term, directly attributable costs to obtain contracts, agreed restoration obligations) and reductions (incentive payments received). Lease and non-lease components in the leases are separated and the non-lease components are recognised immediately as an expense.

The lease liability is measured at the present value of the lease payments payable over the lease term. The payment obligations are generally discounted using the incremental borrowing rate, as the implied interest rates for the leases cannot be reliably calculated. The incremental borrowing rate is based on the interest rate that the company would have to pay for borrowing under comparable economic conditions. A uniform discount rate is used for portfolios of leases with similar characteristics (e.g. similar assets, similar maturities etc.).

The lease payments included in the measurement of the lease liability comprise:

- Fixed payments including in-substance fixed payments and less incentives granted by the lessor
- Variable payments that depend on an index or benchmark rate (initially measured using the index or rate as at the commencement date)
- Amounts expected to be payable under residual value guarantees
- Exercise prices for purchase or extension options if it is reasonably certain that the option will be exercised
- Penalties for early termination of the lease if it is reasonably certain that it will be terminated.

As well as the fixed period, when determining the term of the lease periods are also taken into account that are expected as a result of exercising renewal options and not exercising termination options.

For the purposes of subsequent measurement, the right-of-use asset is written down on a straight-line basis over the lease term. The lease liability is adjusted using the effective interest method and taking lease payments into account. In addition, the right-of-use asset is written down for impairment losses, if necessary, and adjusted on an ongoing basis for certain remeasurements of the lease liability.

Lease liabilities are remeasured if the future lease payments change as a result of an index or interest rate change, estimates of expected payments are to be adjusted due to a residual value guarantee, a new estimate is made regarding the exercise of a purchase, extension or termination option, or in-substance fixed lease payments change. In the event of remeasurement of the lease liability, the carrying amount of the right-of-use asset is adjusted accordingly. If this adjustment would reduce the carrying amount of the right-of use asset to below zero, the adjustment amount is recognised through profit or loss in the consolidated statement of comprehensive income.

The right-of-use assets to be recognised from leases are reported separately in the consolidated balance sheet under non-current assets. The corresponding lease liabilities are also reported separately in the consolidated balance sheet under non-current and current liabilities.

In deviation from the principles described above, no right-of-use asset or lease liability is recognised for current leases with a remaining term of up to twelve months. Instead, the lease payments made are recognised as an expense in accordance with the contractual arrangements, unless straight-line expense allocation over the term of the contract appears more appropriate.

5.3.2 Contractual relationships as a lessor

The Grounds Group is a real estate lessor. A distinction is drawn for these leases as to whether they are finance leases or operating leases. This is determined mainly by which contractual partner bears the material opportunities and risks associated with ownership of the asset in the lease. For the purpose of this assessment, certain factors are considered such as whether the lease covers the major part of the economic life of the asset. If, after conducting an overall assessment of the contractual arrangements, it is found that the lessee bears the material opportunities and risks, the lease is a finance lease. If not, it is an operating lease.

The Grounds Group's leases with tenants are generally considered operating leases. They relate primarily to the Group's privatisation projects, although some also relate to investment property. The resulting monthly rental payments received are recognised through profit or loss under sales revenues in accordance with the provisions of the lease, unless straight-line income allocation over the term of the lease appears more appropriate. If an agreement contains both lease and non-lease components, the consideration agreed in the contract is allocated in accordance with IFRS 15.

5.4 Investment property

Investment properties are properties that are held to earn rentals and/or for capital appreciation in the long term. This also includes properties that are (still) at the construction stage and that are intended for the purpose outlined above. Unlike properties held as inventories, investment properties are not generally actively resold until after a longer holding period, and then as part of portfolio restructuring.

Investment property is initially measured at cost, including transaction costs, and then at fair value. Gains and losses resulting from changes to the fair value are recognised through profit or loss in the consolidated statement of comprehensive income for the period in which they arise.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses resulting from the disposal are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised through profit or loss in the consolidated statement of comprehensive income.

If properties are initially purchased for trading and thus allocated to inventories, they are reclassified to investment property at the time it becomes apparent that direct utilisation by way of sale is no longer possible and, instead, a longer phase of property developing (renovation, new rental) in the company's own portfolio is expected.

5.5 Impairment of assets

Assets that are subject to amortisation or depreciation are tested for impairment as soon as events or indicators suggest that their carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the carrying amount of an asset exceeds its recoverable amount. The latter is the higher of the asset's fair value less costs to sell and the discounted net cash flow from further use (value in use). To assess whether the assets are impaired, they are combined at the lowest level into cash-generating units for which cash flows can be identified largely independently of the rest of the company.

In the event of recovery, however, the write-downs are reversed up to a maximum of amortised or depreciated cost.

5.6 Financial instruments

5.6.1 Financial assets

Acquisitions and sales of financial assets are reported as at the settlement date. They are recognised at fair value at the time of acquisition. Directly attributable transaction costs increase the value on initial recognition, unless they are measured at fair value through profit or loss.

The financial assets are divided into the following measurement categories based on the company's business model for managing these assets and the contractual cash flow characteristics:

- at amortised cost (AC)
- at fair value through other comprehensive income (FVTOCI)
- at fair value through profit or loss (FVTPL)

In both the reporting year and the comparative previous year period, The Grounds Group recognised only loans and receivable that were measured at (amortised) cost in accordance with IAS 39, as well as equity investments. The investments accounted for are assets in the "FVTPL" category.

The investments recognised as at the end of the reporting period are accounted for conceptually at fair value, which is calculated on the basis of the estimated present value of future earnings as at the end of the reporting period in question. For immaterial investments, it was in some cases assumed that the amortised cost is equal to fair value. Deferred income taxes are recognised on any differences as at the end of the reporting period between the carrying amount of the investment under IFRS and the relevant tax base, where the gains on disposal are not tax-exempt in the future and the amounts are material.

Impairment losses on financial assets measured at amortised cost is recognised through profit or loss and calculated using the simplified approach in accordance with IFRS 9.5.5.15. This model calculates impairment, taking account of existing collateral in the amount of the expected credit losses over the lifetime of the assets. If the reasons for the impairment cease to exist, in part or in full, the impairment losses on the receivables are reversed up to a maximum of amortised cost and recognised through profit or loss. Once it is clear that a receivable is uncollectible, the full amount is derecognised through profit or loss.

Changes in the fair value of equity investments in the "FVTOCI" category are recognised through other comprehensive income. Gains and losses recognised in other comprehensive income are not classified through profit or loss upon disposal of these financial assets. However, dividends are recognised through profit or loss.

5.6.2 Financial liabilities

Non-derivative financial liabilities are initially recognised at fair value after deducting transaction costs. They are measured at amortised cost in subsequent periods. Any difference between the amount paid out (after deducting transaction costs) and the repayment amount is recognised through profit or loss in the consolidated statement of comprehensive income over the term of the liability using the effective interest method.

Financial liabilities are classified as current if the Group does not have the unconditional right to defer settlement until at least twelve months after the end of the reporting period.

When determining the fair value, the expected future cash flows are discounted on the basis of a market interest rate with matching maturity. Individual features of the financial instruments to be measured are taken into account by applying standard market credit rating or liquidity spreads.

5.7 Fair value

The fair value of The Grounds Group's financial assets and liabilities is calculated on the basis of Level 1, 2 and 3 inputs.

According to IFRS 13, fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction under current market conditions at the measurement date in the context of an orderly transaction. The fair value can be calculated using the market approach, the cost approach or the income approach. In doing so, the use of relevant, observable inputs is maximised and that of unobservable inputs is minimised.

The inputs are divided into the following hierarchical measurement categories:

- **Level 1:** Unadjusted prices quoted in active markets for identical assets and liabilities. The reporting entity must have access to these active markets at the measurement date (IFRS 13 – Appendix A, IFRS 13.76)
- **Level 2:** Directly or indirectly observable inputs that are not to be allocated to Level 1 (IFRS 13 – Appendix A, IFRS 13.81)
- **Level 3:** Unobservable inputs (IFRS 13 – Appendix A, IFRS 13.86)

If the individual inputs are to be allocated to different levels of the fair value hierarchy, a distinction is initially drawn between significant and insignificant inputs.

The fair value measurement as a whole is categorised in the same level as the lowest level significant input (IFRS 13.73).

5.8 Inventories

The Grounds Group's inventories comprise the properties acquired for sale or development. They are recognised at the lower of cost and net realisable value. Cost comprises the purchase price of the properties plus directly attributable ancillary costs such as estate agent fees, land transfer tax, notary costs and the costs of land registration. Cost is also incurred if renovation or development work is carried out on the properties prior to disposal. Cost includes directly attributable production materials costs and salaries, as well as the costs of attributable third-party services. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the costs necessary to make the sale still to be incurred.

5.9 Cash and cash equivalents

Cash and cash equivalents are recognised at cost in the consolidated balance sheet. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash, demand deposits at banks and other short-term, highly liquid financial investments with an original duration not exceeding three months.

5.10 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if it is highly likely that they will be realised predominantly through a sale transaction rather than through continuing use. These assets or disposal groups are reported at the lower of carrying amount and fair value less costs to sell.

5.11 Share-based remuneration

Share-based remuneration commitments (option rights) granted by The Grounds AG for the first time in the reporting period are to be settled in equity instruments, although the company also has the option to settle in cash. Fair value is determined at the time the options are issued and recognised as an expense on a pro rata basis over the beneficiaries' vesting period, with a corresponding increase in equity. With regard to performance conditions for the remuneration commitments that are dependent on the capital market, the fair value of the options granted at the issue date is calculated using a recognised mathematical measurement model (Black-Scholes model), taking into account these conditions, and carried forward unchanged. Accordingly, no adjustment is made between expected and actual results for these performance conditions that are dependent on the capital market. However, the amount recognised as an expense is adjusted if there are any changes to the number of options granted. These changes can also be due to the fulfilment of service and/or capital market-independent performance conditions as expected.

5.12 Costs of raising equity

In line with IAS 32, the expenses directly attributable to raising equity are offset against capital reserves through other comprehensive income, net of any related income tax benefits, provided they relate to the issue of new equity instruments. Expenses that cannot be attributed in full to the raising of equity are divided into components that are to be offset directly against equity and components to be recognised through profit or loss as expenses in the reporting period using a meaningful basis of allocation.

5.13 Provisions

Provisions are recognised if the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be necessary to settle the obligation and a reliable estimate can be made of the amount. If the company expects a provision to be reimbursed (for example because of an insurance policy), it accounts for the right to reimbursement as a separate asset, provided it is virtually certain that reimbursement will be received if a claim is asserted for the obligation.

A provision is recognised for loss-making transactions if the expected benefit from the contractual claims is lower than the unavoidable costs of meeting the obligations under the contract.

The provisions are measured with the probable outflow of resources. The measurement of non-current provisions takes account of discounting at the risk-adjusted interest rate.

5.14 Deferred income taxes

Deferred income taxes are accounted for using the liability method for temporary differences between the tax base and the IFRS carrying amount of assets and liabilities and for unused tax loss carryforwards. The effective tax rate at the end of the reporting period for the time of the reversal is used to determine deferred income taxes.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be generated against which the deductible temporary differences or loss carryforwards can be utilised.

Changes in deferred tax items are recognised through profit or loss. Exceptions to this include the addition of deferred tax items through other comprehensive income in the context of purchase price allocation for business acquisitions and deferred tax items in connection with changes in value to be recognised directly against reserves, which are also recognised directly against reserves.

5.15 Borrowing costs

Borrowing costs that relate to the production of a qualifying asset are capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This requirement is fulfilled in particular by the project developments carried out by The Grounds Group. Other borrowing costs are recognised as an expense through profit or loss in the consolidated statement of comprehensive income in the period in which they are incurred.

5.16 Revenue recognition

Sales revenues from contracts with customers are recognised in the consolidated statement of comprehensive income through profit or loss as soon as control of the good to be supplied or service to be provided is transferred to the customer. They are recognised at the amount of the consideration to which the Group is entitled after meeting its performance obligation for a point in time or over a period of time as expected in accordance with the contractual arrangements.

The Grounds Group's sales revenues are generated primarily from developing and selling apartments and project properties, as well as from rental income and operating costs.

Sales revenues from property sales primarily include a single performance obligation in accordance with IFRS 15. Property sales without an economically relevant construction obligation usually have a performance obligation over a period of time. Control of the property is transferred to the buyer when ownership, benefits, encumbrances and risk is transferred. An enforceable right to payment arises at this time. If property companies are sold, this point in time is the same as the transfer of shares is completed in rem. The sales revenues correspond to the amount charged for the transaction. As the consideration is essentially due when the title is transferred, this does not include any material financing components. If obligations to provide subsequent repair or renovation work are assumed together with the sale, resulting revenue is not recognised until these are met as they are considered a separable performance obligation.

If implementing property purchase contracts with customers involves considerable construction obligations, revenue is generally recognised for a period of time using the stage of completion for the construction project from the time of entering into the contract with the customer. The stage of completion is determined by comparing construction costs already incurred to the expected total costs of the project (cost-to-cost method). The resulting sales revenues are determined on the basis of the consideration set out in the contract with the customer. If contractual progress payments are agreed that are calculated or collected according to performance milestones relating to construction completion, a contract asset is capitalised for all work performed until a milestone is achieved and recognised separately in the consolidated balance sheet. If the milestone payment exceeds the sales revenues reported by this time in accordance with the cost-to-cost method, a contract liability equal to the difference is recognised. The purchase agreements do not generally contain any material financing components because the period between revenue recognition and the respective milestone payment is less than one year.

Property projects for which there are not yet any purchase agreements with customers are recognised as properties held for sale pursuant to IAS 2 until an agreement is concluded.

Rental income is reported on an accrual basis over the term of the lease in line with the underlying contractual provisions and recognised in sales revenues. The ancillary/operating costs billed to the tenants are recognised as revenue because the Group acts as the primary responsible party (principal) in relation to the tenants for the services owed and bears the inventory risk.

Interest income is recognised on a time proportion basis and deferred in line with the outstanding nominal amount and the effective interest rate. The effective interest rate is the interest rate by which the expected future cash receipts are discounted over the term of the financial asset such that the net carrying amount of this asset is reached exactly at first-time recognition.

5.17 Brokerage remuneration

Remuneration for brokering specific business transactions with customers is essentially to be capitalised as an asset and written down. In view of their short-term nature, The Grounds Group's brokerage fees are recognised as an expense at the time the brokered transaction is performed. Until this time, brokerage fees that have already been paid are recognised as costs to obtain contracts under other receivables.

6 Capital and Financial Risk Management

With the help of capital management, The Grounds AG aims to strengthen the Group's liquidity and equity base in the long term, provide funds for equity-financed growth at the Group and generate an appropriate return on capital employed.

Financial risk management comprises managing and mitigating financial risks from operating activities. Liquidity risk (avoiding disruptions to solvency) and credit risk (risk of a loss if a contractual party does not meet its contractual obligations) are particularly relevant here.

Responsibility for liquidity risk management lies with the Management Board, which has established a system for managing short-term, medium-term and long-term financing and liquidity requirements that is appropriate given the size of the company. The Group manages liquidity risks by holding suitable cash, credit facilities at banks and other facilities as well as by continually monitoring projected and actual cash flows as part of rolling liquidity controlling and reconciling maturity profiles of financial assets and liabilities.

To reduce credit risks, The Grounds Group forms sales business relationships only with contracting parties that have good credit ratings.

7 Critical Accounting Estimates and Assumptions

Preparing the IFRS consolidated financial statements also requires assumptions and estimates to be made about expected future developments that (may) affect the presentation of assets and liabilities, income and expenses and contingent assets and liabilities for the respective reporting period. To the best of management's knowledge, these assumptions and estimates are made on the basis of the latest available, reliable information, but they will nonetheless only very rarely correspond precisely to actual future developments.

Estimates and assumptions must be made in particular for the following:

- Measurement of bad debts.
- Recognition of current and deferred tax items, especially regarding the ability to realise deferred tax assets.
  There are uncertainties as to the interpretation of complex tax regulations. Accordingly, differences between actual outcomes and our assumptions or future changes in these assumptions may result in changes in the tax result in future periods.
- Recognition and measurement of provisions based on existing estimate ranges of potential future negative impact on the Group.
- Estimate of the (higher) interest rate in line with the market for a bond without conversion rights comparable to the convertible bond issued.
- Estimate of hidden reserves to be identified as part of purchase price allocation for business acquisitions.
- Measurement of goodwill
- Estimate of expected total costs for measuring process in connection with the recognition of revenue over a period of time for construction services using the cost-to cost method.

Changes to estimates and assumptions are taken into account through profit or loss when new information is available.

8 Additional Explanations on Individual Items of the Financial Statements

8.1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment were as follows:

	Goodwill		Other intangible assets		Property, plant and equipment	
	2022	2021	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost	1,941	1,939	21	32	333	199
Accumulated depreciation/ amortisation	0	0	6	17	67	60
Carrying amount as at 1 Jan.	**1,941**	**1,939**	**15**	**15**	**266**	**139**
Additions (+)	1	2	0	3	44	172
Additions from initial consolidation (+)	0	0	5	0	0	0
Disposals (–)	0	0	–6	0	–31	0
Depreciation/amortisation (–)	0	0	–1	–3	–55	–45
Additions from depreciation/ amortisation from initial con-solidation (–)	0	0	–2	0	0	0
Disposals – depreciation (–)	0	0	–5	0	–7	0
Carrying amount as at 31 Dec.	**1,942**	**1,941**	**16**	**15**	**231**	**266**
Cost	1,942	1,941	20	21	346	333
Accumulated depreciation/ amortisation	0	0	4	6	115	67

8.2 Right-of-use assets

The right-of-use assets from leases, broken down by asset category, developed as follows in the reporting period:

	Business and office space		Motor vehicles		Other operating and office equipment*	
	2022	2021	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost	447	447	124	51	12	12
Accumulated depreciation/ amortisation	112	22	32	3	6	3
Carrying amount as at 1 Jan.	**335**	**425**	**92**	**48**	**6**	**9**
Additions (+)	0	0	23	73	0	0
Additions from initial consolida-tion (+)	0	0	0	0	0	0
Disposals (–)	0	0	0	0	0	0
Depreciation/amortisation (–)	–89	–90	–49	–29	–3	–3
Additions from deprecia-tion/amortisation from initial consolidation (–)	0	0	0	0	0	0
Carrying amount as at 31 Dec.	**246**	**335**	**66**	**92**	**3**	**6**
Cost	447	447	147	124	12	12
Accumulated depreciation/ amortisation	201	112	81	32	9	6

* Business and office equipment

There were no short-term leases for which the exemption provided by IFRS 16.6 was applied as at the end of the reporting period.

8.3 Lessor relationships

Leases classified as operating leases of The Grounds Group generated rental income of EUR 1,885 thousand (previous year: EUR 1,588 thousand) in the reporting period. EUR 297 thousand of this (previous year: EUR 582 thousand) is attributable to properties held for sale/project properties and EUR 1,588 thousand (previous year: EUR 1,011 thousand) to investment property.

The Grounds Group's operating leases in 2022 essentially related to the leasing of residential properties with a statutory notice period of three months. Existing leases for the current property portfolio are expected to generate minimum lease payments of approximately EUR 469 thousand in the 2023 financial year, EUR 52 thousand of which is attributable to properties held for sale that are to be sold as part of individual privatisation. Future minimum lease payments for the basic lease term from longer-term commercial property lets, which cannot be terminated, are of minor significance.

8.4 Equity investments

The equity investments reported comprise a 10.1% interest in ZuHause in Heubach GmbH & Co. KG, Stuttgart, a 5.5% interest in PropTech1 Fund I Carry GmbH & Co. KG, Berlin, and a 1.2% interest in ERIC Group GmbH, Berlin, which are recognised at cost. No deferred taxes were accrued because there were no differences between the carrying amounts of the investments under IFRS and the values for tax purposes.

8.5 Interests in companies accounted for using the equity method

Interests in companies accounted for using the equity method developed as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Beginning of the financial year	**5,441**	**2,673**
Additions to interests	0	3,195
Disposals of interests due to change to consolidation	–3,134	–488
Share in profit and loss	9	61
End of the financial year	**2,316**	**5,441**

8.6 Investment property

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Beginning of the financial year	**31,050**	**14,000**
Additions (+)	5,814	14,807
Reclassifications to non-current assets held for sale (–)	660	0
Disposals (–)	–1,300	0
Appreciation (+)	865	2,243
End of the financial year	**35,769**	**31,050**

The addition in 2022 was for two housing complexes comprising 46 flats, 20 car parking spaces and a total rental area of 2,592 m².

In addition, six housing complexes from the Stendal/Prignitz portfolio comprising 35 flats and a rental area of 2,396 m² were sold in the reporting year. The economic transfer of four housing complexes to the buyer took place at the reporting date.

Liabilities to banks in connection with investment property are secured by land charges in the amount of EUR 18,759 thousand (previous year: EUR 18,710 thousand).

Reports were obtained from independent experts to calculate the fair values of the investment properties as at the end of the reporting period. The calculations include estimates that cannot be observed on the market, in particular expected future rental income and operating costs. This resulted in a total fair value of EUR 35,769 thousand as at the end of the reporting period.

The following table provides an overview of the material assumptions and events used to calculate the fair value of the investment property in accordance with the German income approach:

Measurement parameter	Unit	Mean	Range
Property interest rate	in %	3.7%	0.8%–5.8%
Remaining useful life	Years	40	35–50
Market rent	EUR/m²	6.26	4.49–8.56
Operating costs	% of gross profit	23.7%	15.5%–30.6%

Measurement results	Unit	Mean	Range
Target rent multiplier	Factor	18.2	9.0–37.5
Market value per m²	EUR/m²	1,352	489–3,819

If the property interest rate used to calculate the fair values of these properties had been increased by 0.5 percentage points, the fair value would have been EUR 32,449 thousand. If, on the other hand, the property interest rate had been reduced by 0.5 percentage points, the total fair value would have been EUR 39,419 thousand. A 10% decrease in market rent would put the fair value of the properties at EUR 31,789 thousand. If market rent were increased by 10%, the total fair value would have been EUR 39,689 thousand. The fair value of the properties would have totalled EUR 36,179 thousand if the vacancy rate had been reduced by 1%. Conversely, the fair value would have fallen to EUR 35,339 thousand if the vacancy rate had been increased by 1%.

The consolidated statement of comprehensive income contains the following items relating to investment property:

	2022	2021
	TEUR	TEUR
Rental income (sales revenue)	1,588	1,011
Cost of materials	–382	–171
Maintenance expenses	–108	–67
Total	**1,098**	**773**

8.7 Other financial assets

Other financial assets break down as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Shares in cooperatives	23	15
Total	**23**	**15**

8.8 Inventories

The Grounds Group's inventories comprise work in progress, properties under construction, properties ready for sale and advance payments made. They break down as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Work in progress	994	548
Properties under construction	71,135	17,811
Properties ready for sale	8,243	17,887
Advance payments made	2,466	1,748
Total	**82,838**	**37,994**

Properties under construction include project developments in the planning and construction phase.

8.9 Contract assets

Contract assets of EUR 979 thousand (previous year: EUR 4,571 thousand) are considered current. They relate in full to construction work already performed for three housing construction projects in Magdeburg and Erkner. Work performed on the development as at 31 December 2022 came to EUR 31,360 thousand. Net advance payments received from customers at project level amounted to EUR 30,381 thousand as at 31 December 2022. The net amount of these items results in contract assets of EUR 979 thousand. Where the advance payments received at project level exceed the amount of the contract assets, the excess is reported in advance payments received.

8.10 Trade receivables

Trade receivables essentially result from services invoicing. Changes in trade receivables are shown in the table below:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Trade receivables (gross)	1,870	2,724
Write-downs	–49	–1
Trade receivables (net)	**1,821**	**2,723**

Trade receivables as at the end of the reporting period had the following maturity structure:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Trade receivables	**1,821**	**2,723**
of which not impaired and not past due as at the reporting date	803	2,356
of which not impaired but past due as at the reporting date up to 30 days	910	20
of which not impaired but past due as at the reporting date between 31 and 60 days	28	8
of which not impaired but past due as at the reporting date between 61 and 90 days	12	8
of which not impaired but past due as at the reporting date between 91 and 180 days	38	13
of which not impaired but past due as at the reporting date between 181 and 360 days	16	315
of which not impaired but past due as at the reporting date more than 360 days	14	4
Net value of impaired trade receivables	**49**	**1**

The default risk of receivables that were more than 30 days past due as at the end of the reporting period is considered immaterial.

8.11 Other receivables

As in the previous year, other receivables as at the end of the reporting period included only current items and were composed as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Receivables from investees	0	7
Receivables from loans to associates	0	7,214
Other receivables from associates	744	15
Receivables from loans to related parties	233	223
Other receivables from related parties	61	54
Receivables from loans to third parties	1,763	1,650
Costs to obtain contracts	2,535	4,434
Receivables from VAT	323	154
Tax refund claims	43	0
Deposits	36	41
Bank balances pledged as collateral	340	0
Miscellaneous other receivables	401	354
Total	**6,479**	**14,146**

As in the previous year, the loans to related parties of EUR 233 thousand (previous year: EUR 223 thousand) bear interest at 5% p.a.

The EUR 1,500 thousand loan to third parties (previous year: EUR 1,500 thousand) bears interest at 3% p.a. as in the previous year and is secured by a land charge.

No write-downs were recognised for other receivables.

8.12 Cash

Cash includes balances with banks due on demand.

8.13 Non-current assets held for sale

By way of an agreement dated 28 April 2022 and an addendum dated 24 November 2022, the site at Karlstr. 10 in Bindfelde was sold with effect from 1 January 2023.

By way of an agreement dated 10 November 2022, the site at Charlottenhof 5 a and b in Wittenberge was sold with effect from 17 February 2023.

The following table shows the carrying amounts before reclassification, the impairment losses recognised and the selling prices of the assets:

	Carrying amount before reclassifi-cation	Impairment losses /reversals	Selling price
	TEUR	TEUR	TEUR
Karlstraße	510	−60	450
Charlottenhof	200	10	210
	710	**−50**	**660**

8.14 Equity

The company's issued capital as at the end of the reporting period came to EUR 17,805,517 and is divided into 17,805,517 ordinary bearer shares. It developed as follows in the reporting period:

	31 Dec. 2022	31 Dec. 2021
	EUR	EUR
Beginning of the financial year	**17,805,517**	**17,805,517**
Non-cash capital increase	0	0
End of the financial year	**17,805,517**	**17,805,517**

The (non-cash) capital increase in the 2020 financial year was based on a resolution of the Management Board and the Supervisory Board on 15 July 2020 utilising the existing authorised capital. The subject of the capital increase was the contribution of 89.9% of the shares of Capstone Opportunities AG, Berlin, in exchange for granting 2.7 million new shares at an issue price of EUR 1.00 per share.

A resolution of the Annual General Meeting on 27 August 2021 authorised the Management Board, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions on or before 26 August 2026 by a total of up to EUR 8,902,758 in return for contributions in cash and/or in kind. Shareholder pre-emption rights can be disapplied (Authorised Capital 2021/I).

A resolution by the Annual General Meeting on 28 August 2020 to implement a stock option plan for members of the Management Board and other members contingently increased the company's share capital by up to EUR 1,750 thousand (Contingent Capital 2020). In addition, the Annual General Meeting resolution dated 2 August 2018 (as well as the amendment resolution dated 28 August 2020) contingently increased the share capital by up to EUR 7,152,758 to service convertible and/or warrant bonds and/or profit participation rights (Contingent Capital 2018).

The capital reserves include issue amounts for generated in past capital increases in excess of the amount of issued capital, as well as additions from the issue of share-based payment and the recognition of the equity component of the convertible bond issued. These amounts are reduced by the costs of raising equity (after deducting income taxes) and by withdrawals for loss compensation.

In the reporting year, a total of EUR 274 thousand was added to capital reserves as a result of issuing share-based remuneration (option rights) within the meaning of IFRS 2.

Retained earnings are the result of transactions recognised through other comprehensive income when preparing the IFRS consolidated financial statements for the first time.

The adjustment item from the business acquisition relates to the reverse acquisition between The Grounds AG and The Grounds Real Estate GmbH (previously: AG) in the 2017 financial year.

Net income reflects the Group's earnings up to the end of the reporting period that have not yet been distributed.

The composition of and changes in equity are shown in the statement of changes in equity.

8.15 Financial liabilities

The company's financial liabilities are as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Non-current financial liabilities		
Liabilities to banks and other lenders	27,658	24,344
Total non-current financial liabilities	**27,658**	**24,344**
Current financial liabilities		
Liabilities to banks and other lenders	35,719	20,056
Total current financial liabilities	**35,719**	**20,056**
Total financial liabilities	**63,377**	**44,400**

Liabilities to banks with a nominal amount of EUR 58,912 thousand (previous year: EUR 40,289 thousand) are secured by land charges. The liabilities are also secured by bank account pledges, the assignment of damages and the assignment of sale and rent receivables. The absolute guarantees from a member of the Supervisory Board and a former member of the Management Board that were reported in the previous year in the total amount of EUR 2,876 thousand expired due to the repayment of the loan. In addition, related parties issued guarantees for joint venture projects in the amount of EUR 2,000 thousand.

There are also contractual obligations regarding compliance with key financial indicators (financial covenants) amounting to EUR 21,215 thousand (previous year: EUR 17,322 thousand) for financial liabilities. The key financial indicators are essentially standard sector covenants relating to the loan-to-value ratio (ratio between the balance of debt and market value of the property used as collateral) and the debt service cover ratio/interest cover ratio, i.e. the ability to service the expected debt service through income.

The financial liabilities include subordinated loans of EUR 355 thousand granted by related companies and that bear interest at 5% p.a. Financial liabilities also include loans from co-shareholders in joint venture projects in the amount of EUR 1,492 thousand.

All loans are denominated in EUR.

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8.16 Bonds

In February 2021, The Grounds AG issued a convertible bond payable at maturity with a term of three years and a total nominal amount of EUR 12.0 million, which was increased by EUR 4.8 million to a total of EUR 16.8 million in October 2021. The bond was issued with a nominal denomination of EUR 1,000 each. This nominal amount of EUR 1,000 entitles the holder to conversion into registered no-par value shares of The Grounds AG in the amount determined by dividing the effective conversion price on the exercise date. The initial conversion price is EUR 3.20 per share. This puts the conversion ratio at 312 shares per bond at a nominal amount of EUR 1,000. The conversion right for the convertible bond can be exercised at any time during the term, with some restrictions. The bond bears interest at a nominal rate of 6.0% p a. Interest payments are made twice yearly on 18 August and 18 February.

Net issue proceeds were used primarily to acquire new property assets.

For accounting purposes, the convertible debt instrument is separated into an equity and a liability component. The equity component at the issue date was calculated at EUR 568 thousand, taking into account issue costs and an appropriate nominal interest discount for the conversion right from the payments to be made. This amount of recognised in the capital reserves. The carrying amount of the bond recognised includes the amortised performance obligation of the liability component at the end of the reporting period.

The current liabilities from bonds relate to outstanding interest obligations. Total interest expenses of EUR 1,387 thousand were recognised for the bond in the reporting period.

8.17 Lease liabilities

Lease liabilities break down as follows:

Maturity	Up to 1 year		> 1 year to 5 years		> 5 years	
	2022	2021	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Payments	156	155	218	356	0	0
Interest portion	15	23	10	26	0	0
Principal portion	142	132	207	330	0	0

There were no expenses from short-term leases for which the exemption provided by IFRS 16.6 was applied for the reporting period.

8.18 Provisions

Provisions developed as follows in the reporting period:

	Staff	Out-standing invoices	Financial state-ments and audit	Other	Total
		TEUR	TEUR	TEUR	TEUR
1 January 2022	**347**	**420**	**96**	**3**	**866**
Additions from changes in the consolidated group	0	6	2	0	8
Utilisation	347	540	83	0	970
Reversal	0	72	16	0	88
Addition	142	1,354	88	0	1,583
31 December 2022	**142**	**1,168**	**86**	**3**	**1,399**

Other provisions essentially include provisions for storage.

8.19 Trade payables

Trade payables developed as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Trade payables	**1,660**	**1,202**

8.20 Advance payments received

Advance payments received developed as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Advance payments received	**4,489**	**678**

8.21 Other liabilities

As at the end of the reporting period, other liabilities were as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Liabilities to related parties	29	332
Liabilities from loans to related parties	706	203
Liabilities to associates	0	12
Liabilities from loans to associates	3,277	3,473
Retention of collateral	72	26
Value-added tax	64	140
Land transfer tax	0	146
Purchase price liabilities	1,080	0
Miscellaneous liabilities	1,407	174
Other liabilities	**6,635**	**4,506**

Miscellaneous other liabilities include wage taxes.

8.22 Current income tax liabilities

Current income tax liabilities of EUR 4,393 thousand (previous year: EUR 3,599 thousand) include liabilities from corporation tax of EUR 1,641 thousand (previous year: EUR 1,845 thousand) and liabilities from trade tax of EUR 2,752 thousand (previous year: EUR 1,754 thousand).

8.23 Deferred tax

The change in deferred taxes is as follows:

	2022	2021
	TEUR	TEUR
Deferred tax assets	1,768	2,011
Deferred tax liabilities	−5,506	−2,602
Net deferred taxes at the beginning of the financial year	**−3,738**	**−591**
Deferred tax liabilities from business combination pursuant to IFRS 3	−18	−395
Disposals from deconsolidation of companies	0	56
Expense(−)/income (+) in the income statement	−462	−2,808
Net deferred taxes at the end of the financial year	**−4,218**	**−3,738**
Deferred tax assets	2,465	1,768
Deferred tax liabilities	−6,683	−5,506

The changes in deferred tax assets are as follows:

Cause	Differences in inventories	Costs of raising equity	Tax loss carry-forwards	Total
	TEUR	TEUR	TEUR	TEUR
As at 1 January 2022	**179**	**4**	**1,585**	**1,768**
Amounts recognised through profit or loss	155	0	292	447
Deferred taxes from business combination pursuant to IFRS 3	0	0	250	250
As at 31 December 2022	**334**	**4**	**2,127**	**2,465**

Deferred tax assets from loss carryforwards are recognised at the amount at which realisation of the associated tax benefits through future taxable profits is probable. The deferred tax assets recognised from loss carryforwards relate to various subsidiaries. Based on its planning, the company assumes that it will be able to use the resulting loss carryforwards in the next five financial years. No deferred taxes were reported for certain trade tax losses carried forward of EUR 828 thousand (previous year: EUR 79 thousand) and certain corporation tax losses carried forward of EUR 153 thousand (previous year: EUR 87 thousand) as it is not sufficiently certain that these will be realized.

The changes in deferred tax liabilities are as follows:

Cause	Differ-ences in financial assets	Differ-ences in financial liabilities and bonds	Differ-ences in inventories	Differ-ences in other re-ceivables	Differ-ences in contract assets	Differ-ences in invest-ment property	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As at 1 January 2022	**−681**	**−313**	**−2,335**	**−1,020**	**0**	**−1,157**	**−5,506**
Deferred taxes from business combination pursuant to IFRS 3	0	−204	−64	0	0	0	−268
Amounts recognised through profit or loss	403	62	−895	428	−746	−161	−909
As at 31 December 2022	**−278**	**−455**	**−3,294**	**−592**	**−746**	**−1,318**	**−6,683**

8.24 Sales revenues

The Grounds Group’s sales revenues, which relate exclusively to German companies, are broken down as follows:

	2022	2021
	TEUR	TEUR
Revenues from the sale of properties held for sale	33,277	29,266
Revenues from the sale of investment property	1,323	0
Rental income	1,885	1,593
Income from operating costs passed on	0	0
Revenues from the sale of equity investments	0	0
Services	257	720
Other	9	9
Total	**36,751**	**31,588**

The rental income relates to net rent excluding utilities from The Grounds Group's operating leases within the meaning of IFRS 16. Income from operating costs passed on includes apportionable ancillary costs and does not include a margin. It is considered a separate non-lease component and covered by the scope of IFRS 15.

Revenue from contracts with customers in accordance with IFRS 15 breaks down as follows as regards the timing of revenue recognition:

	Property sales		Operating income		Disposals of investments		Services	
	2022	2021	2022	2021	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Services for a point in time	13,921	22,367	0	0	0	0	0	0
Services over a period of time	20,679	6,899	0	0	0	0	257	720
Total revenue from contracts with customers	**34,600**	**29,266**	**0**	**0**	**0**	**0**	**257**	**720**

8.25 Changes in inventories

Changes in inventories in the 2022 financial year relate to the EUR 932 thousand increase in work in progress (previous year: EUR 564 thousand).

8.26 Cost of materials

The cost of materials for The Grounds Group breaks down as follows:

	2022	2021
	TEUR	TEUR
Cost of sold properties and construction costs for properties held for sale	26,071	18,909
Expenses from the sale of investment property	1,300	0
Expenses for raw materials and consumables used	1,297	924
Purchased services	3,196	1,644
Total	**31,864**	**21,477**

8.27 Staff costs

Staff costs break down as follows:

	2022	2021
	TEUR	TEUR
Salaries, other benefits	1,953	1,810
Social security, pensions and other employment benefits	190	158
Total	**2,143**	**1,968**

Social security, pensions and other employment benefits include pension expenses of EUR 1 thousand (previous year: EUR 1 thousand).

Expenses of EUR 274 thousand were recognised in the “Salaries, other benefits” item for share-based remuneration paid to managers in the 2022 financial year. Please see section 10.2 Share-based remuneration for further information on calculating the fair value of these remuneration components. As expenses from the share-based remuneration are not tax deductible, no deferred income taxes were recognised here.

8.28 Other operating income

Other operating income includes the following amounts:

	2022	2021
	TEUR	TEUR
Revaluation of former shares	554	650
Reversal of provisions	88	44
Miscellaneous operating income	233	130
Total	**875**	**824**

8.29 Other operating expenses

Other operating expenses include the following amounts:

	2022	2021
	TEUR	TEUR
Costs for premises	42	210
Insurance, contributions and levies	48	48
Repairs and maintenance	60	82
Motor vehicle costs	67	40
Advertising and travel expenses	325	239
Legal and consultancy fees	210	260
Financial statements and audit costs	135	289
Losses on the disposal of fixed assets	4	0
Non-deductible pre-tax	225	249
Third-party services	52	141
Commissions	0	300
Stock exchange costs	81	81
Supervisory Board remuneration	68	68
Losses on receivables	51	177
Miscellaneous operating expenses	501	312
Total	**1,869**	**2,496**

8.30 Financial result

Interest expense includes interest expenses from leases of EUR 25 thousand (previous year: EUR 28 thousand).

8.31 Income tax expense/income

The income tax expense/income recognised in the income statement comprises current and deferred taxes on income:

	2022	2021
	TEUR	TEUR
Current income tax expenses/income	64	839
Deferred income tax expense/income	–462	–2,808
Total	**–398**	**–1,969**

The tax expenses/income reported differ from the theoretical amount that results from using the average income tax rate of the company as the Group parent on earnings before tax:

Tax reconciliation	2022	2021
	TEUR	TEUR
Earnings before income taxes	1,584	6,873
Income taxes determined on the basis of the parent company's income tax rate	–478	–2,074
Effect of		
... tax-exempt income/non-deductible expenses	0	15
… non-recognition of deferred tax assets on loss carryforwards	–64	–35
... initial recognition of deferred tax assets on loss carryforwards	49	92
... consolidation entries through other comprehensive income	84	196
Other causes	11	–163
Income tax expenses/income	**–398**	**–1,969**

The tax reconciliation is based on a cumulative income tax rate for the parent company of 30.175%.

8.32 Earnings per share

Basic earnings per share are calculated as a ratio of the profit attributable to the parent company's shareholders and the weighted average number of shares issued during the financial year, excluding treasury shares held by the company.

	2022	2021
Profit attributable to the parent company's shareholders (TEUR)	1,170	4,928
Average number of shares issued	17,805,517	17,805,517
Basic earnings per share (EUR)	**0.07**	**0.28**

No dividends were paid for the preceding financial year in the 2022 financial year. No dividend payment is planned for the 2022 financial year either.

8.33 Statement of cash flows

The statement of cash flows differentiates between cash flows from operating, investment and financing activities.

Cash flows from (operating) activities are calculated using the indirect method. They amounted to EUR –12,453 thousand (previous year: EUR 7,028 thousand), including income tax payments of EUR 140 thousand (previous year: EUR 350 thousand).

Liabilities from financing activities comprise the Group's current and non-current financial liabilities and bonds. They developed as follows in the reporting period:

	2022	2021
	TEUR	TEUR
Opening balance	**60,747**	**49,298**
Cash changes	–8,398	16,060
Non–cash changes		
Changes in consolidated group	27,755	–4,611
Closing balance	**80,104**	**60,747**

The liquidity recognised in cash funds includes bank balances and breaks down as follows:

	31 Dec. 2022	31 Dec. 2021
	TEUR	TEUR
Cash	2,273	2,385
Cash funds at the end of the period	**2,273**	**2,385**

8.34 Contingent liabilities and other financial obligations

In July 2018, The Grounds App 1 GmbH & Co. KG concluded a purchase agreement for a project development site in Bad Zwischenahn with a planned usable space of 30,628 m². The purchase price payment is linked to a decision on the interpretation of the development plan and being ready to submit a planning application. As at 31 December 2022, this results in an obligation of EUR 18,804 thousand. In 2021, rights of withdrawal that can be exercised after the building right comes into effect were agreed for both parties in an addendum to the purchase agreement.

The Group's contingent liabilities are presented in section 8.14 Financial liabilities.

8.35 Additional disclosures on financial instruments

a) Classes and measurement categories

The following tables show the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. They do not contain information on the fair value for financial assets and financial liabilities not measured at fair value when the carrying amount is a reasonable approximation of fair value.

Carrying amount					**Fair value**
31 Dec. 2022	**FVTPL* Equity instruments**	**Financial assets at amortised cost**	**Other financial liabilities**	**Total**	**Total**
	TEUR	TEUR	TEUR	TEUR	TEUR
Equity investments	152	0	0	152	152
Trade receivables	0	1,821	0	1,821	1,821
Other receivables and assets	0	6,479	0	6,479	6,479
Total financial assets	**152**	**8,300**	**0**	**8,452**	**8,452**
Financial liabilities	0	0	63,377	63,377	63,377
Bonds	0	0	16,727	16,727	16,727
Advance payments received	0	0	4,489	4,489	4,489
Trade payables	0	0	1,660	1,660	1,660
Other liabilities	0	0	6,635	6,635	6,635
Total financial liabilities	**0**	**0**	**92,888**	**92,888**	**92,888**

* Fair value through profit or loss

Carrying amount					Fair value
31 Dec. 2021	FVTPL* Equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Equity investments	152	0	0	152	152
Trade receivables	0	2,723	0	2,723	2,723
Other receivables and assets	0	14,146	0	14,146	14,146
Total financial assets	**152**	**16,869**	**0**	**17,021**	**17,021**
Financial liabilities	0	0	44,400	44,400	44,400
Bonds	0	0	16,347	16,347	16,347
Advance payments received	0	0	678	678	678
Trade payables	0	0	1,202	1,202	1,202
Other liabilities	0	0	4,505	4,505	4,505
Total financial liabilities	**0**	**0**	**67,132**	**67,132**	**67,132**

* Fair value through profit or loss

Regarding the equity investments disclosed, cost represents an appropriate estimate of fair value as conditions since the acquisition have not changed significantly.

Trade receivables and other receivables mostly have short remaining terms. Accordingly, their carrying amount as at the end of the reporting period is similar to their fair value. This also applies to advance payments received, trade payables and other liabilities.

Financial liabilities were initially recognised at fair value less transaction costs, which frequently was the same as cost.

As a result, the carrying amount of the financial liabilities as at the end of the reporting date is the amount that results in amortised cost using the effective interest method. Taking account of the speed at which the loans are repaid, fair value is similar to amortised cost in subsequent periods.

The accrual of transaction costs using the effective interest method reduced financial liabilities by EUR 752 thousand (previous year: EUR 783 thousand).

Net earnings from financial instruments broken down by measurement categories as per IFRS 9 were as follows for the period from 1 January to 31 December 2022 and the previous year:

	Financial assets at amortised cost		Other financial liabilities	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
Interest income	609	148	0	0
Interest expenses	0	0	−2,488	−2,445
Net earnings	**609**	**148**	**−2,488**	**−2,445**

Interest income and interest expenses are recognised in the corresponding items of the consolidated statement of comprehensive income.

b) Financial risks

The Group is exposed to various risks as a result of its business activities, primarily liquidity risk, default risk and interest rate risk. Targeted financial risk management is designed to minimise the negative effects of these risks on the Group's financial position and performance and cash flows. Please see section 6 for a description of the risk management system.

Liquidity risk

The following tables include the contractually agreed undiscounted interest and principal payments for financial liabilities covered by the scope of IFRS 7:

31 December 2022	Carrying amount	Cash outflows in the next reporting period	Cash outflows in the subsequent reporting period	Later cash outflows
	TEUR	TEUR	TEUR	TEUR
Cash outflows for financial liabilities and bonds	**80,104**	**36,095**	**36,320**	**7,689**
Trade payables	1,660	1,660	0	0
Other liabilities	6,635	6,616	0	19
Cash outflows from trade and other payables	**8,295**	**8,276**	**0**	**19**
Cash outflows for liabilities within the scope of IFRS 7	**88,399**	**44,371**	**36,320**	**7,708**

31 December 2021	Carrying amount	Cash outflows in the next reporting period	Cash outflows in the subsequent reporting period	Later cash outflows
	TEUR	TEUR	TEUR	TEUR
Cash outflows for non-current financial liabilities	**60,747**	**20,431**	**6,124**	**34,192**
Trade payables	1,202	1,202	0	0
Other liabilities	4,506	4,480	0	26
Cash outflows from trade and other payables	**5,708**	**5,682**	**0**	**26**
Cash outflows for liabilities within the scope of IFRS 7	**66,455**	**26,113**	**6,124**	**34,218**

In the case of interest-bearing loans with variable interest rates, interest payments in future reporting periods were calculated on the basis of interest rates at the end of the reporting period in question.

The Grounds Group has cash of EUR 2,273 thousand (previous year: EUR 2,385 thousand) to cover the liquidity risk.

Default risk

The maximum default risk of The Grounds Group is determined by the carrying amounts of its financial assets. Risks arise from granting subordinated loans, which present an opportunity to obtain a risk-adjusted, relatively high interest rate. Project-related lending also represents a risk concentration at the end of the reporting period.

Interest rate risk

Interest rate risk arises in connection with variable-rate credit facilities, potential follow-up financing or in the event of a significant change in conditions on the capital market. Variable rate credit facilities at The Grounds Group relate exclusively to current financial liabilities and so can result in higher interest payments for the financial liabilities only to a limited extent.

A sensitivity analysis is conducted for the interest rate risk to assess the impact a change in interest rates would have on earnings at the end of the reporting period. This assumes that the financial instruments subject to an interest rate risk at the end of the reporting period are representative of the respective reporting period. In terms of outstanding financial liabilities as at 31 December 2022, a 0.5% higher/lower interest rate on loans would have resulted in a EUR 317 thousand increase/decrease in interest cost.

Taking account of these interest rate sensitivities, the interest rate risk is considered moderate given the minor impact on the carrying amount and earnings and the consistently favourable capital market conditions at present.

9 Events After the Reporting Period

There were no events of particular significance for The Grounds Group's financial position and performance after the end of the reporting period.

10 Other Disclosures

10.1 Composition and remuneration of executive bodies

The following persons were members of the Management Board of The Grounds AG in the reporting period and until the time of preparing the consolidated financial statements:

- Arndt Krienen, Remscheid, lawyer
- Jacopo Mingazzini, Berlin, business graduate (Dipl.-Kfm.) and real estate economist

The total remuneration granted for the work of the Management Board in the reporting period amounted to EUR 736 thousand (previous year: EUR 879 thousand). EUR 506 thousand (previous year: EUR 649 thousand) of this figure related to short-term fixed and variable remuneration for current Management Board work, while EUR 230 thousand (previous year: EUR 230 thousand) related to expenses from share-based remuneration granted in the reporting period. Provisions for bonuses of EUR 26 thousand were recognised as an expense in the financial statements. The bonus for the 2022 financial year and the share-based remuneration were not due for payment in the reporting year.

The following persons were members of the Supervisory Board of The Grounds AG in the reporting period and until the time of preparing the consolidated financial statements:

- Timo Tschammler, Berlin, business administration graduate and entrepreneur, Chairman
- Armin H. Hofmann, Frankfurt am Main, lawyer and entrepreneur, Vice Chairman
- Eric Mozanowski, Stuttgart, businessman

Total remuneration granted for the work of the Supervisory Board in the reporting period came to EUR 68 thousand (previous year: EUR 69 thousand). This is exclusively short-term remuneration for current Supervisory Board work.

10.2 Share-based remuneration

In October 2020, The Grounds AG established a stock option programme for members of the Management Board and employees with a maximum of 1,750,000 stock options, 1,400,000 of which are allocated to the Management Board and 350,000 to employees. The option rights issued free of charge entitle the employees to acquire one no-par value share in the company per option at an exercise price of EUR 2.00 per share. At the discretion of the executive bodies, the share-based commitments can be fulfilled by way of a capital increase, treasury shares or cash settlement. This assumes that all options are to be fulfilled by physically delivering shares.

The stock option programme includes a four-year vesting period from the issue date, during which time the stock options cannot be exercised. In addition, issued stock options can lapse under certain circumstances if the beneficiary's employment relationship with The Grounds Group companies ends within a period of three years since the date of issue.

The number of stock options issued is at the discretion of the executive bodies and is not determined by the achievement of certain performance targets set out in the stock option plan. Conversely, the option rights granted can be exercised after the end of the vesting period only once a capital market performance target has been achieved. This requires the The Grounds share price in Xetra trading or a comparable successor system to have risen by at least 20% compared to the exercise price since the issue date. The mean of the price of a The Grounds share calculated in the closing auction in Xetra trading or a comparable successor system on the Frankfurt Stock Exchange on the ten trading days prior to the first day after the end of the vesting period is used to determine whether the exercise threshold has been met.

The share options issued developed as follows in the reporting period:

Number of options	Outstanding as at 1 January	Issued in the reporting year	Outstanding as at 31 December	Remaining term until can be vested (months)
2020 tranche	1,400,000	0	1,400,000	21
2021 tranche	200,000	0	200,000	24
Total	**1,600,000**	**0**	**1,600,000**	

All stock options were issued on the same day. The fair value of the stock options issued was calculated using the Black-Scholes model on the basis of the following material measurement parameters as at the issue date:

Option measurement parameters	2020 tranche	2021 tranche
Fair value on issue date (in EUR)	0.66	1.11
Share price on issue date (in EUR)	2.04	2.85
Exercise price (in EUR)	2.00	2.00
Exercise threshold (in EUR)	2.40	2.40
Expected volatility (in %)	49.35	32.30
Expected term (in years)	4	4
Expected dividend (in EUR)	0.00	0.00
Risk-free interest rate (in %)	−0.045	−0.174

Expected volatility on the issue date for the stock options was estimated on the basis of past volatility. The risk-free interest rate was based on the return on a long-term German government bond, derived from the average figure calculated for a three-month reference period on the issue date.

For information on the expenses incurred in the reporting period in connection with this share-based remuneration, please see section 8.27 Staff costs. Please see section 6 of the Group management report for details on the remuneration report.

10.3 Related party transactions

Related parties include all subsidiaries and associates of The Grounds AG listed in section 4.4.1. Other related parties are the members of the Management Board and the Supervisory Board, who are to be considered key management personnel, and their close relatives. Related parties also include companies that can be significantly influenced by members of the Management Board or Supervisory Board or their close relatives and companies in which they hold a significant voting interest.

In addition to the activities listed in section 10.1 regarding work as a board member, there were also the following related party transactions:

	Value of the transactions		Outstanding balances as at 31 December	
	2022	2021	2022	2021
	TEUR	TEUR	TEUR	TEUR
From services and other services exchanged – receivables				
Key management personnel	0	0	0	0
Other related parties	0	300	12	376
From associates	0	120	0	15
From services and other services exchanged – liabilities				
Other related parties	48	434	29	364
From financing arrangements – liabilities				
Key management personnel	6	52	0	0
Other related parties	25	181	1,061	543
From associates	100	87	3,277	3,473
From financing arrangements – receivables				
Other related parties	10	36	233	223
From associates	503	37	744	7,214

All related party transactions were carried out on an arm's-length basis in the reporting period.

10.4 Average number of employees

Companies included in the consolidated financial statements had an average of 15 (previous year: 13) employees in the reporting period.

10.5 Auditor's fees

The total fee charged by the auditor (excluding VAT) for services provided to The Grounds AG and the companies included in the consolidated financial statements for the reporting period was EUR 25 thousand. They break down as follows:

	2022	2021
Type of service	TEUR	TEUR
Audits of financial statements	25	25
Other assurance services	0	0
Tax advisory services	0	0
Other services	0	0
Total	**25**	**25**

Berlin, 24 April 2023

Management Board of The Grounds Real Estate Development AG

Arndt Krienen Jacopo Mingazzini

INDEPENDENT AUDITOR'S REPORT

To The Grounds Real Estate Development AG, Berlin

Audit opinions

We audited the consolidated financial statements of The Grounds Real Estate Development AG, Berlin, and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2022, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2022 and the notes to the consolidated financial statements, including the section on accounting policies. We also audited the Group management report of The Grounds Real Estate Development AG, Berlin, for the financial year from 1 January to 31 December 2022. In accordance with German statutory provisions, we did not audit the content of the elements of the Group management report set out in the notes.

In our opinion, based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and, in accordance with the German principles of proper accounting, give a true and fair view of the asset and financial situation of the Group as at 31 December 2022 and its earnings situation for the financial year from 1 January to 31 December 2022, and

- as a whole, the attached Group management report presents an accurate view of the Group's position. The Group management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the content of the elements of the Group management report set out in the notes.

Pursuant to Section 322 (3) Sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and standards is described in further detail in the “Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Group Management Report” section of our auditor’s report. We are independent of the consolidated companies in compliance with the provisions of German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the Group management report.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group management report

The legal representatives are responsible for preparing the consolidated financial statements which comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting. Furthermore, the legal representatives are responsible for the internal controls that they have deemed necessary in accordance with the German principles of proper accounting to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (e.g. manipulation of accounts, misappropriation of assets) or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group’s status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, provided no actual or legal circumstances conflict therewith.

Moreover, the legal representatives are responsible for preparing the Group management report which, as a whole, provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a Group management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report

Our objective is to obtain reasonable assurance as to 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 accurate view of the Group's position and is consistent in all material respects with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from fraud or error and are deemed material if it could be reasonably expected that they would, individually or together, influence the financial decisions made by users on the basis of the consolidated financial statements and Group management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements in the consolidated financial statements and the Group management report, whether due to fraud or error, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting material misstatements resulting from fraud is higher than the risk of not detecting material misstatements resulting from error, as fraud may involve collusion, falsifications, deliberate omissions, misleading depictions or the override of internal controls.

- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the Group management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of the company’s systems.

- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group’s ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the Group management report in the auditor’s report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor’s report. However, future events or circumstances may mean that the Group is no longer a going concern.

- we 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 such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315a (1) HGB.

- we obtain sufficient appropriate audit evidence for the company’s accounting information or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and the Group management report. We are responsible for directing, supervising and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- we evaluate the consistency of the Group management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.

- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives’ forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any significant deficiencies in the internal control system that we find during our audit.

Berlin, 24 April 2023

Buschmann & Bretzel GmbH
Wirtschaftsprüfungsgesellschaft

Dipl.-Bw. (BA) Volker Bretzel
Wirtschaftsprüfer
[German Public Auditor]

FINANCIAL CALENDAR

2023

31 May	Quirin Champions Conference 2023
4 July	Annual General Meeting, Berlin
22 September	Publication of half-year report 2023

These dates are provisional. Please check all final confirmed dates and further IR activities on our website at www.thegroundsag.com/financial-calendar.html

Forward-looking statements
This annual report may contain forward-looking statements. These relate to assumptions, estimates and expected developments for individual events. The forward-looking statements made are based on current expectations and certain assumptions. Accordingly, they entail a series of risks and uncertainties and may change over time. Many factors, many of which are beyond the company's control, could cause actual results and events to deviate from expected results and events – both positively and negatively.

CREDITS

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