

RISK UNIVERSE OF CA IMMO

Development risks

Cost risk
Quality risk
Permit risk
Partner risk
Time risk

Investment Property Risks

Vacancy risk
Portfolio risk
Valuation risk
Tenant default risk

Financial risks

Currency risk
Capital market risk
Transaction risk
Liquidity risk
Tax risk

ESG Risks

Climate risk
Governance risk
Social risk

Other risks

Operating risk
Legal risk
IT risk
HR risk
Insurance risk



CA IMMO

URBAN
BENCHMARKS.

RISK MANAGEMENT AT CA IMMO

To ensure the success of CA Immo as a business in the long term and enable the company to meet its strategic objectives, effective management of new and existing risks is essential. A commensurate measure of risk must be accepted if we are to utilise market opportunities and exploit the potential for success they hold. For this reason, risk management and the internal monitoring system (IMS) deliver an important contribution to the Group's corporate governance (defined as the principle of responsible management).

CA Immo's risk management system is based on the following elements:

- Risk culture: CA Immo's reputation is central to our identity and business success. Therefore, compliance with established principles of corporate governance and value management (Code of Ethics, Code of Conduct) is a matter of course. For CA Immo, risk culture implies raising of risk awareness and consciously addressing risks in day-to-day business both for managers and individual employees.
- Risk strategy: The risk strategy describes how risks arising from CA Immo's business strategy or business model are managed. It sets out the framework for the nature, extent and appropriateness of risks, thus reflecting the company's own definition of a "sensible" approach to risks and describing these risks in terms of their impact on the economic situation of the company and the guidelines for managing risks that are to be derived from this.

Strategic alignment and tolerance of risk

The Management Board, with the involvement of the Supervisory Board, determines the strategic direction of the CA Immo Group as well as the nature and extent of those risks which the Group is prepared to assume in order to achieve its strategic objectives. The Management Board is supported by the Risk Management department in assessing the risk landscape and developing potential strategies to increase long-term stakeholder value. In addition, an internal risk committee with representatives from all divisions as well as the Chief Financial Officer has been established, which meets on a quarterly basis or in special meetings if necessary. The aim of this committee is to establish a regular, cross-functional assessment of the Group's risk situation, including the initiation of any necessary measures. This is to ensure that the

company's direction is optimally chosen against the background of available alternatives.

Identification of risks and assessment

At CA Immo, the opportunity/risk situation is assessed on a quarterly basis within the framework of reports which are drawn up on the basis of the results of the risk committee, among other things. Risks are evaluated both at individual property and project level and at (sub-)portfolio level. Early warning indicators such as rent forecasts, vacancy analyses, continuous monitoring of lease terms and termination options as well as continuous monitoring of construction costs for project realisations are included. Scenario presentations regarding the development of the value of the property portfolio, exit strategies and liquidity planning supplement risk reporting and increase planning certainty. CA Immo takes account of the precautionary principle in that multi-year planning and investment decisions cover the entire time horizon of investments.

In addition, CA Immo now carries out an annual inventory and evaluation of individual risks according to content, impact and probability of occurrence. An annual update is also carried out with regard to the estimated impact on the result, assets and liquidity of CA Immo ("extent of damage") and the probability of occurrence within one year. Measures and controls already implemented are taken into account to determine the net risk. This data serves as the basis for the Management Board to determine the level and type of risks it deems acceptable in pursuing the strategic objectives. Once the board has approved the strategy, it is incorporated into the group's 3-year planning and helps to communicate the group's risk appetite and expectations both internally and externally.

CA Immo's risk policy is specified by a series of guidelines. Compliance with them is continuously monitored and documented through controlling processes. Risk management is implemented in a binding manner at all levels of the company. The Management Board is involved in all risk-relevant decisions and bears overall responsibility. Decisions are made at all levels according to the principle of dual control. As an independent department, the internal audit department examines the operational and business processes; if necessary, external experts are consulted. In reporting and evaluating the audit results, it is not bound by instructions.

Evaluating the functionality of risk management

The proper functioning of the risk management system is evaluated annually by the Group auditor in line with the requirements of C Rule no. 83 of the Austrian Corporate Governance Code. The results are reported to the Management Board and the Audit Committee.

KEY FEATURES OF THE INTERNAL MONITORING SYSTEM (IMS)

CA Immo's internal control system encompasses all principles, procedures and measures to ensure the effectiveness, efficiency and regularity of accounting as well as compliance with the relevant legal regulations and corporate guidelines. Taking management processes into account, the ICS is integrated into the individual business processes. The aim is to prevent or detect errors in accounting and financial reporting and thus ensure early correction. Transparent documentation enables the processes for accounting, financial reporting and auditing activities to be presented. All operational areas are integrated into the accounting process. The responsibility for the implementation and monitoring of the ICS lies with the respective local management. The managing directors of the subsidiaries are required to evaluate and document compliance with the controls through self-audits. The effectiveness of the ICS is reviewed on a random basis by the Group's internal audit department and the efficiency of the business processes is continuously evaluated. The results of the audit are reported to the respective management, the entire Management Board of CA Immo and at least once a year to the Audit Committee.

INVESTMENT PROPERTY RISKS**Risks arising from the market environment and portfolio composition (portfolio risk)**

The economic success of CA Immo depends, among other things, on the development of the property markets relevant to the Group. The main factors influencing economic development include the global economic situation as a whole, rental price trends, the rate of inflation, the level of government debt and interest rates. In the office property segment, factors such as economic growth, industrial activity, unemployment rate, consumer confidence and other elements that are decisive for economic development also play a significant role. All these factors are beyond the company's control. They could have negative effects on the entire European economy and thus also on economically strong nations such as Germany and Austria, for example, or have a negative impact on the financial and real estate sector as a whole. Any negative change in the economic situation could result in a decline in demand for real estate, which in turn could affect the occupancy rate, property values or even the liquidity of properties. Economic instability and limited access to debt and equity financing may lead to possible defaults by counterparties and a general slowdown in market activity. If there is a lack of liquidity in the property investment market, there is a risk that it may not be possible to sell individual properties or only at unattractive conditions.

The value of real estate depends not only on the development of the general economic conditions and in particular on rental prices, but also on the initial yields in the real estate economy. Due to the current market environment, there is still a risk that initial yields for commercial properties will correct further upwards. The historically exceptionally high price level for property investments and the low level of property yields therefore harbour risks for the **property values** of the CA Immo portfolio. As was already apparent in the fourth quarter of 2022, it cannot be ruled out that a rise in general interest rates will lead to a further increase in property yields and a subsequent decline in property values.

In view of the risks outlined above, CA Immo regularly reviews its own **property valuations**. Following an almost complete external valuation of the Group's portfolio in the fourth quarter of 2022, the values for the property assets as at the reporting date of 31 December 2022 were adjusted on the basis of binding purchase agreements or on the basis of the external valuations. Taking into account the current exceptional market conditions (see chapter "Economic environment") as well as the currently low level of transactions, a higher degree of caution must continue to be applied to the property valuations than is otherwise the case. Further information on changes in market values can be found in the chapter "Property valuation".

CA Immo counteracts **market risk** through broad diversification across different countries. CA Immo counters **country risk** by concentrating on strategic core markets with local branches and its own local staff, and by adjusting regional allocation within the core markets. The focus here is on markets with long-term structural trends such as increasing urbanisation, positive demographic change and structural supply shortages, as well as high investment liquidity. Market knowledge, ongoing evaluation of the strategy, continuous monitoring of the portfolio as well as targeted portfolio management within the framework of strategic decisions (e.g. determination of exit strategies, medium-term planning for sales) enable a timely response to economic and political events.

CA Immo prevents any **transfer risk** through the targeted repatriation of liquid funds from investment markets with weaker credit ratings. Active portfolio management is designed to prevent **concentration risks** and maintain a balanced portfolio structure. CA Immo is currently active in Germany, Austria and selected CEE markets. With a share of around 66% of the total portfolio, Germany is currently CA Immo's largest single market. CA Immo is part of the EPRA Developed Europe Index, which supports capital market positioning and the overall rating. The aim is to achieve an aggregate EBITDA contribution of more than 50% from Germany, Austria and Poland. In terms of asset classes, CA Immo concentrates on modern, high-quality office properties with a focus on prime inner-city locations. The Development business area primarily develops high-quality office properties for the company's own portfolio. In addition, property developments and, to a lesser extent, construction projects with other types of use such as residential properties are realised, which are generally sold after successful development or completion.

Individual investments should not exceed 5% of total property assets in the long term. Exceptions are possible after approval (e.g. ONE). As at the balance sheet date, only the Skygarden investment property in Munich and ONE in Frankfurt fell into this category. Overall, the portfolio shows a high degree of diversification: the top 10 portfolio properties of the Group represent around 40% of the total portfolio. The concentration risk in relation to individual tenants is also manageable: as at 31 December 2022, around 22% of rental income was generated by the ten top tenants. With a share of around 3% of total rental income, PricewaterhouseCoopers, followed by Intercity Hotel GmbH, were the largest single tenants in the portfolio as at the reporting date. In general, single tenants should not account for more than 5% of total annual rental income over a longer period of time, although tenants with excellent credit ratings (AAA/AA) may be an exception. For **single-tenant buildings**, such scenarios should be avoided unless the tenant's credit rating is considered excellent (AAA/AA). A single-tenant scenario is defined as cases in which more than 75% of the annual rental income (single property level) is attributable to a single tenant. In principle, rental income from single-tenant buildings should not exceed 20% of the total annual rental income. In addition, the average lease term for single-tenant properties should be more than ten years.

Other risk concentrations resulting from factors such as the holding of several properties with a market value of more than €100 m in the same city, the industry mix of tenants, the identity of contractual partners or suppliers or lenders, etc., which cannot be effectively measured or limited quantitatively, are subject to appropriate regular review.

The economic success of CA Immo depends, among other things, on the development of real estate markets of relevance to the Group. Key factors influencing the economic trend include the overall global economy, the trend in rental prices, the inflation rate, levels of national debt and interest rates. In the office properties segment, factors such as economic growth, industrial activity, the unemployment rate and consumer confidence play a major role alongside other factors critical to the economic trend. These circumstances – all of which are beyond the company's control – may have a negative impact on the broad economic picture in Europe and thus adversely affect economically powerful countries like Germany and Austria; they may also impair the finance and real estate sector generally. Any downturn in the economic situation has the potential to reduce demand for real estate,

which in turn can adversely affect occupancy rates, property values and even the liquidity of real estate. Economic instability and limited access to loan capital and equity-based financing can lead to business partners opting out. Where the liquidity of the real estate investment market is insufficient, there is a risk that sales of individual properties with a view to strategic adjustment of the real estate portfolio may prove impossible or only possible under unacceptable conditions.

Political and economic developments in countries in which CA Immo operates also have a significant impact on **occupancy rates** and rent defaults. If the Group is unable to extend expiring leases on favourable terms and find or retain suitable creditworthy tenants, this affects the earnings power and market value of the properties concerned. The creditworthiness of a tenant, especially during an economic downturn, may decline in the short or medium term, which may affect rental income. In critical situations, the Group may decide to reduce rents in order to maintain an acceptable occupancy rate.

All of CA Immo's core cities experienced a challenging operating environment due to the current prevailing economic conditions and the effects of the Russia/Ukraine conflict, which is characterised in particular by a significant slowdown in transaction activity. Should letting activity also weaken significantly, longer marketing and vacancy periods for unlet units are to be expected in the future as well. Since the demand for office space depends primarily on the overall economic development, it remains to be seen how the partially declining office space turnover in the course of 2022 will develop in the 2023 financial year. Furthermore, it remains to be seen how the crisis-related expansion of digital work processes and the trend towards flexible or hybrid working ("work-from-home") will affect the demand for office properties in the medium term. It cannot be ruled out that the trends towards flexible office space rentals and co-working could shape the office market even more in the future.

CA Immo counters the risk of rent defaults by analysing the property portfolio, the tenant structure and the cash flow, among other things, and carries out various analysis scenarios to assess the risks. In principle, a case-by-case assessment is always necessary here. Through targeted monitoring and proactive measures (e.g. requesting security deposits, checking tenants for creditworthiness and reputation), the **rent default risk** in the Group has remained at a low level despite the recent negative effects

of the pandemic on individual tenants. All outstanding receivables are evaluated on a quarterly basis and value adjusted according to their risk content. A default risk was sufficiently taken into account in the valuation of the property. Many of the Group's leases (around 95%) contain value protection clauses, mostly with reference to the country-specific consumer price index. Therefore, the amount of income from such leases and from new leases is highly dependent on the development of inflation (**value hedging risk**).

In the rental market, **competition** for reputable tenants is intense; in many markets, rents are under pressure. In order to remain attractive to tenants, CA Immo could be forced to accept lower rents. In addition, misjudgements about the attractiveness of a location or its potential use can make letting more difficult or severely compromise the desired rental conditions.

The Group's portfolio also includes, to a lesser extent, **other asset classes** such as shopping centres and hotels, whose operation is associated with its own risks. Poor management of the building or the tenants, falling visitor numbers and the increasing competitive situation can lead to falling rents or the loss of important tenants and thus to rent losses and problems with new lettings. Although CA Immo does not operate any hotels itself, the Group's earnings situation is influenced by the quality of external hotel management and the development of the hotel markets. Last but not least, there are pandemic measures ordered by the authorities, such as lockdowns, which have a particularly severe impact on hotel operators and the retail sector.

RISKS ASSOCIATED WITH THE PROJECT DEVELOPMENT FIELD

In real estate development projects, only costs are typically incurred in the initial phase. Revenues are only generated in later phases of the project. Development projects can often be associated with **cost overruns** and **delays** in completion, which are frequently caused by factors outside CA Immo's control. This can impair the economic success of individual projects and lead to contractual penalties or claims for damages. If no suitable tenants can be found, this can lead to vacancies after completion.

CA Immo has taken a number of measures to manage these risks to a large extent (cost controls, deviation anal-

yses, multi-year liquidity planning, etc.). With few exceptions, projects are only started once a corresponding pre-letting rate has been achieved that can cover future debt service through rental income. An exception is only made in special constellations of the project and/or market situation (e.g. extreme regional shortage of lettable space with foreseeable rising rents and low letting risk during the project phase). Such exceptions require explicit examination when obtaining project approval.

In view of the recent high level of capacity utilisation in the construction industry, CA Immo is exposed to risks with regard to the (timely) availability of construction services as well as construction prices and quality. This has recently been noticeable not only in Germany - the core market for project developments - but in all core regions of CA Immo. Despite the fact that project reserves have been priced in, it cannot be ruled out that a further rise in construction costs could pose risks to budget compliance and overall project success. In addition, despite defensive project costing, there is a risk that current property yields could change and reduce the targeted project profit (developer profit). CA Immo is therefore increasingly focusing on appropriate market and cost analyses in the development sector. Particularly under the current market conditions, which have been tested by high inflation, rising interest rates, supply bottlenecks and a general increase in market uncertainty and volatility, a higher uncertainty factor is unavoidable in project developments with rising construction costs, supply and time problems, fluctuating financing rates, uncertain marketing periods and a lack of current comparative values. Land values could therefore fluctuate much more than would be the case under normal circumstances. The projects upbeat and Hochhaus am Europaplatz in Berlin, which are currently being implemented, show 100% pre-letting and are continuously evaluated with regard to the cost risk.

CA Immo creates sustainable value through a comprehensive value chain ranging from letting and management to the construction, planning and development of investment properties with strong competences within the company. This reduces functional (performance) risks and maximises opportunities along this value chain (developer profit). However, due to their high capital commitment without ongoing inflows, **land reserves** and **projects to create building rights** entail specific risks (e.g. approval risk), but at the same time offer considerable potential for value appreciation by obtaining or improving building rights. Risks are regularly reduced through the

sale of non-strategic land reserves. On the remaining sites, the creation of building rights is being rapidly pursued with the company's own capacities. Overall, CA Immo aims for a balanced portfolio; on the basis of balance sheet values, this means around 85% investment properties and around 15% developments under construction, including land reserves.

CA Immo also realises project developments in **joint ventures** and is partly dependent on partners and their ability to pay and perform (**partner risk**). The Group is also exposed to the credit risk of its counterparties. Depending on the agreement in question, CA Immo could also be jointly and severally liable with its co-investors for costs, taxes or other third-party claims and, in the event of a default by its co-investors, have to bear their credit risk or their share of costs, taxes or other liabilities.

FINANCIAL RISKS

Capital market, liquidity, investment and refinancing risk

(Re)financing on the financial and capital markets is one of the most important factors for property companies. CA Immo requires debt capital in particular to re-finance existing financial liabilities and to finance project developments and acquisitions. As a result, it is dependent on the willingness of banks and capital markets to provide additional capital or to prolong existing financing at reasonable conditions. The market conditions for property financing are constantly changing. The attractiveness of financing options depends on a number of factors, not all of which can be influenced by the Group (market interest rates, required collateral, etc.). This can have a significant impact on the Group's ability to increase the percentage of completion of its development portfolio, to invest in suitable acquisition projects or to meet its obligations under financing agreements.

From today's perspective, the CA Immo Group has sufficient liquidity. Nevertheless, restrictions at the level of individual subsidiaries must be taken into account, as access to liquid funds is limited due to commitments for ongoing projects or there is a need for liquidity in individual cases for the required stabilisation of loans. In addition, there is a risk that planned sales activities cannot be realised, or can only be realised with delays or below the price expectations. Other risks include unforeseen obligations to make **additional funding obligations** in the case of project financing and covenant violations in

the area of property financing or the corporate bonds issued by CA Immo. If these covenants are breached or in the event of default, the respective contractual partners would be entitled to call in financing and demand immediate repayment. This could force the Group to sell properties or conclude refinancing agreements at unfavourable conditions.

CA Immo has fluctuating holdings of liquid funds, which it invests according to the respective operational and strategic requirements and objectives. In order to maintain or improve the long-term issuer **investment grade** rating from Moody's (currently Baa3 with a negative outlook) in the long term, it is also necessary to have adequate capital resources, solid interest cover and a sufficiently large pool of unencumbered properties.

CA Immo counters any risk with continuous monitoring of the covenant agreements as well as with a well-developed liquidity planning and safeguarding system. The financial effects of the strategic objectives are also taken into account. In addition, the Group has a revolving current account line at the level of the parent company with a volume of €300 m to manage liquidity peaks. This ensures that unforeseen liquidity needs can be met throughout the Group. In line with the investment horizon for real estate, loans are generally concluded on a long-term basis. As a basic rule, appropriate financing (e.g. loan, bond) must be guaranteed before binding contracts are concluded in connection with property purchases. In the past, capital partnerships (joint ventures) were also entered into at project level as an alternative and supplement to the previous (equity) capital procurement sources.

Despite careful planning, however, a liquidity risk cannot be ruled out, particularly in the case of joint venture partners, due to the impossibility of calling up funds. In addition, CA Immo Germany has a high level of capital commitment, which is typical for project developments. The financing of all projects already under construction is secured. There is a need for additional financing for new projects.

Interest rate risk

The current economic environment, characterised among other things by high inflation and the associated significant **rise in interest rates**, has recently had a negative effect on the real estate market and subsequently on the valuation of real estate and disinvestment projects. Raising equity and debt capital on capital markets has become considerably more difficult over the last few quarters, as a result of which growth aspects could not be implemented or could only be implemented in part.

Market-related fluctuations in interest rates affect both the level of the financing rate and the market value of the interest rate hedges concluded. CA Immo uses domestic and foreign banks and issues corporate bonds for financing purposes and ensures that the interest rate hedging ratio is as high as possible. Derivative financial instruments (interest rate caps, interest rate swaps and interest rate floors) are increasingly used to hedge against impending **changes in interest rates** and the associated fluctuations in financing costs. However, such hedging transactions could turn out to be inefficient or unsuitable for the achievement of objectives or lead to losses recognised in profit or loss. Furthermore, the valuation of derivatives could have a negative impact on the result or equity. The extent to which the Group makes use of derivative instruments depends on assumptions and market expectations regarding future interest rate levels, in particular the 3-month Euribor. If these assumptions prove to be incorrect, this can lead to a considerable increase in interest expenses.

Permanent monitoring of the interest rate risk is therefore essential. There are currently no risks that pose a significant and sustained threat to CA Immo. CA Immo's financing strategy is based on a balanced mix of secured bank financing and unsecured capital market financing. Currently, 92% of the total financing volume is accounted for by fixed-interest financing (including in the form of corporate bonds) or financing secured by derivatives. The continuous optimisation of the financing structure in recent years has led to a reduction in average borrowing costs, an improvement in the maturity profile and an increase in the share of interest-rate-hedged financial liabilities. The robustness of the financial profile has thus been further strengthened.

Tax risks

All companies are subject to income tax in the respective country with regard to both current income and capital gains. Significant discretionary decisions must be made in connection with the amount of tax provisions to be made. In addition, the extent to which deferred tax assets are to be recognised must be determined.

Income from the sale of participations may be fully or partially exempt from income tax if certain conditions are met. Even if the intention is to meet the conditions, deferred tax liabilities are nevertheless recognised in full for the property assets in accordance with IAS 12.

Significant assumptions must also be made about the extent to which deductible temporary differences and loss carryforwards can be offset against taxable profits in the future and thus deferred tax assets recognised. Uncertainties exist regarding the amount and timing of future income as well as the interpretation of complex tax regulations. In the case of uncertainties regarding the income tax treatment of transactions, an assessment is required as to whether the relevant tax authority is likely to accept the interpretation of the tax treatment of the transaction or not. Based on this assessment, the CA Immo Group recognises tax liabilities at the amount considered most probable in the event of uncertainty. Uncertainties and complexities can, however, result in future tax payments being significantly higher or lower than the obligations currently assessed as probable and recognised in the balance sheet.

The CA Immo Group holds a significant portion of its real estate portfolio in Germany, where numerous complex tax regulations must be observed. These include in particular (i) regulations on the transfer of hidden reserves to other assets, (ii) legal requirements on real estate transfer tax or the possible incurrence of real estate transfer tax in the case of indirect and direct changes of shareholders in German partnerships and corporations, (iii) the tax recognition of outsourcing of operating facilities, (iv) the distribution of trade income among several permanent establishments or (v) the deduction of input tax on construction costs in development projects. The CA Immo Group takes all steps to comply with all tax regulations. Nevertheless, there are circumstances - also outside the sphere of influence of the CA Immo Group - such as changes in the shareholding structure, changes in the law or changes in interpretation on the part of the tax authorities and courts, which can lead to the aforementioned tax issues having to be treated differently

than before and can therefore have an influence on the recognition of taxes in the consolidated financial statements.

Furthermore, there are uncertainties in connection with past restructuring in Central and Eastern Europe regarding the possible retrospective application of subsequent tax changes. However, CA Immo considers the probability of an actual charge to be low.

With regard to the tax deductibility of service charges within the Group, CA Immo always endeavours to charge an arm's length price for internal services and to document this sufficiently in order to comply with all legal requirements (transfer price documentation). However, it is possible that the tax authorities may take a different view and come to a conclusion that could lead to tax consequences with regard to the deductibility of internal service charges made in the past and thus trigger subsequent tax payments.

Currency risks

The possible reintroduction of national **currencies** by individual Eurozone members would also have serious consequences for the European economies and financial markets. Finally, the exit of individual nations from European Monetary Union could lead to a complete collapse of the monetary system.

Since CA Immo is active on a number of markets outside the eurozone, the company is subject to various currency risks. Where rents are payable in currencies other than the euro on these markets and cannot be fully adjusted to current exchange rates in time, **incoming payments may be reduced** by means of exchange rate changes. Where expenses and investments are not transacted in euros, exchange rate fluctuations can impair the **payment capacity** of Group companies and adversely affect the Group's profits and earnings situation.

CA Immo generally counters such risk in that foreign currency inflows are secured by pegging rents to the euro; no significant and direct currency risk exists at present.

The pegging of rents affects the **creditworthiness of tenants** and thus produces an indirect currency risk that can result in payment bottlenecks and loss of rent. Since incoming payments are mainly received in local currency, however, free liquidity (rental revenue less operating costs) is converted into euros upon receipt. This process is continually overseen by the responsible country managers. There is no currency risk on the liabilities side. Currency risks linked to construction projects are hedged according to need on a case-by-case basis, taking account of the currency underlying the order and lease agreement, likely exchange rate development and the calculation rate.

Transaction risk and risks from sales transactions

After many years of high demand and record transaction volumes on the European real estate market as well as on CA Immo's core markets, particularly in Germany, the transaction markets slumped in 2022 due to significant changes in the general conditions for real estate investments. The risk of transactions being paused or even cancelled due to problems with pricing, availability and financing costs remains high.

Sales transactions can produce risks linked to contractual agreements and assurances. These might relate to **guaranteed** income from rental payments and can subsequently reduce purchase sums agreed or received. Sufficient financial provision has been made to counter recognised risks to revenue from transacted sales, and liquidity risk is considered in liquidity planning. Contractual obligations in the form of follow-on costs (e.g. residual construction work) form part of relevant project cost estimates.

OTHER RISKS

Operational and organisational risks

Weaknesses in the CA Immo Group's **structural and process organisation** can lead to unexpected losses or additional expenditure. This risk can arise from shortcomings in **EDP** and other **information systems** as well as human error and inadequate internal inspection procedures. Flawed programme sequences as well as automated EDP and information systems pose a high operational risk where their type and scope fail to take account of business volumes or prove vulnerable to cyber-crime (**IT and cyber risks**). Human risk factors include an insufficient understanding of corporate strategy, inadequate internal risk monitoring (and especially business process controls) and excessive decision-making authority at individual level, which can lead to unconsidered actions or a proliferation of decision-making bodies that hinder flexible responses to changes in the market. Some real estate management tasks and other administrative duties are outsourced to external third parties. In the process of transferring administrative tasks, it is possible that knowledge of managed properties and administrative processes can be lost, and that CA Immo could prove incapable of identifying and contractually committing suitable service providers within the necessary timeframe.

Nonetheless, the **expertise** possessed by a company and its workforce constitutes a significant competitive factor and a unique point of distinction over competitors. When key members of staff leave, therefore, the company is exposed to the risk of loss of expertise, which generally requires a significant commitment of corporate resources (money, time, recruitment of new employees) to redress the balance (**HR risk**).

CA Immo takes various measures to counter these risk factors. In the case of corporate mergers, structured processes of organisational integration are observed. Process organisation (i.e. system/process integration) is firmly established; activities to ensure the long-term implementation of operational processes are ongoing. The Group structure is regularly scrutinised and examined to ensure predefined structures take account of the size of the company. CA Immo counters risks linked to personal expertise (which can arise with the resignation of key knowledge holders) through regular transfers of knowledge (via training courses) and by documenting know-how (in manuals, etc.); far-sighted staff planning also plays a part.

Legal risks

In the course of normal business activity, the companies of the Group can become involved in **legal disputes**, both as plaintiffs and as defendants. Such cases are heard in various jurisdictions. The law applicable in each case, the varying degrees of efficiency of the competent courts and the complexity of the matters in dispute may in some cases result in a considerable length of proceedings or other delays. CA Immo is confident that it has made sufficient financial provisions for legal disputes. At present, no lawsuits or arbitration proceedings that could threaten the company's survival are imminent or pending.

In spring 2020, CA Immo filed claims for damages against the Republic of Austria and the State of Carinthia for a preliminary amount of €1.9 bn on the grounds of unlawful and culpable partisan influence on the best bidder procedure in the context of the privatisation of the federal housing companies in 2004 ("**BUWOG**") and the unlawful failure to award a contract to CA Immo. The first-instance criminal verdicts of the "BUWOG criminal proceedings" of January 2022 against the defendants, former Federal Minister of Finance Grassner et al., which are relevant to these civil proceedings and - due to the pending appeal proceedings - not legally binding, essentially confirmed from CA Immo's point of view that unlawful and partisan actions were taken to the detriment of CA Immo in connection with the BUWOG privatisation proceedings. An assessment of the effects of the criminal proceedings on the pending civil proceedings for damages will only be possible once all appeal proceedings have been concluded and a final criminal verdict has been reached.

It is not possible to predict changes to **legal regulations**, case law and administrative practice, or the impact of these on business results and operations; such changes may in particular adversely affect real estate values or the cost structure of the CA Immo Group. CA Immo proactively manages such legal risks by taking numerous measures. These include the regular assessment of historical and existing legal risks, continual monitoring of legislative changes and changes in case law, the incorporation of lessons learned into business processes and continuous informative and training measures.

ESG RISKS

Current developments on capital markets (e.g. EU Green Deal) as well as new legal requirements create pressure for companies to report more strongly than before on ESG risks resulting from their business activities. Environmental, social and governance aspects also play an essential role in the entire real estate sector. Buildings are seen as one of the key factors for climate protection due to their high energy consumption, which is why attention is currently still primarily focused on environmental issues, but social and governance factors are also becoming increasingly relevant.

Environmental risks

Energy use in buildings for lighting, heating or cooling leads to direct or indirect CO₂ emissions. Building materials contain carbon that is produced during their extraction, manufacture, transport and processing. As carbon is present in almost every phase of the construction and operation of buildings, companies should start implementing appropriate **decarbonisation programmes for real estate** in time to contribute to the ambitious goal of climate neutrality in Europe by 2050.



As a responsible player in the European real estate sector, CA Immo fully supports the **United Nations climate goals** and the associated transition to a low-carbon, sustainable economy. To best meet the associated requirements and secure its long-term competitiveness, CA Immo embeds corresponding goals, measures, processes and systems in its strategic orientation (e.g. sustainability certifications, ESG reporting, green financing, etc.).

For CA Immo, improving the **energy efficiency** of existing buildings is a key factor in achieving **climate neutrality**. In this way, we prevent higher energy consumption and the associated higher operating costs. Since the results of carbon efficiency depend to a large extent on decisions made in the planning phase, we pay attention to future environmental impacts at a very early stage in our project developments. Where possible, we focus on increasing the proportion of sustainable materials, paying attention to the carbon footprint of conventional materials and generating energy from on-site renewable sources (solar panels, heat pumps, heat grids, etc.). Our procurement process also ensures that the high ecological requirements are met in accordance with the certification standard provided for the building in question. We oblige our construction service providers to comply with the

sustainability standards according to DGNB Gold or LEED Gold (e.g. material declaration, worker protection).

Detailed information on this – in particular on climate risks and opportunities including risk assessment – can be found in the ESG Report.

Other environmental and climate risks

Environmental and safety regulations include actual as well as latent obligations to remediate contaminated properties. Compliance with these regulations may involve significant investment and other costs. These obligations could relate to properties that are currently or were in the past owned, managed or developed by CA Immo. In particular, this relates to **contamination** with previously undiscovered harmful materials or pollutants, war material or other environmental risks such as soil contamination, etc. Some regulations sanction the release of emissions into the air, soil and water, which form the basis of CA Immo's **liability** to third parties and can have a significant impact on the sale, letting or rental income of the properties concerned. **Natural disasters** and extreme weather events can also cause considerable damage to properties. In principle, insurable risks are insured to the usual extent (e.g. all-risk insurance for development projects). However, if there is insufficient **insurance cover** for such damage, this could have adverse effects. In order to minimise risk, CA Immo also includes these aspects in its due diligence before every purchase. Corresponding guarantee declarations are required from the seller. Wherever possible, the CA Immo Group uses environmentally compatible materials and energy-saving technologies. CA Immo takes account of the ecological precautionary principle by carrying out project developments and (re)developments exclusively on the basis of certifiability.

Social risks



In the social area, our strategic focus is on the following topics in particular: Well-being, health and safety, employee development, diversity, community impact, social aspects of a sustainable supply chain and neighbourhood development. In the case of construction services, for example, CA Immo requires and monitors its contractors for compliance with statutory regulations on health and safety at work, regulations on workplaces and working hours, and collective agreements.

Information on the main social risks for CA Immo and the comprehensive protective measures implemented by CA Immo in the wake of the Covid 19 pandemic to ensure a safe working environment for CA Immo employees, tenants and on CA Immo construction sites can be found in the ESG report.

Governance risks



Exemplary corporate governance represents an opportunity for CA Immo to increase its value in the long term. Conversely, failure to comply with governance and compliance standards entails high risks, which can range from penalties and fines to loss of reputation. These include not only compliance with legal requirements, governance rules and (internal) guidelines, but also the transparent handling of conflicts of interest, the payment of appropriate remuneration, the promotion of open communication with all stakeholders, respect for human rights and adherence to our ethical principles and corporate values. CA Immo takes a clear position against any form of unequal treatment, human rights violations, organised crime (e.g. fraud, extortion, bribery and corruption), money laundering or terrorist financing. In contrast, we want to promote integrity and diversity at all levels.

The **risk of corruption** is addressed, for example, by the Code of Conduct ("Zero Tolerance") and the related Gifts and Donations Policy. Employees are required to report any suspicions internally. In addition, employees and external third parties who suspect misconduct can report it anonymously via the electronic **whistleblowing system**¹⁾ set up by CA Immo on the company's website. The Supervisory Board is informed at least once a year about measures taken to combat corruption. Corruption-related matters are audited on the basis of the audit plan

¹⁾ <https://www.caimmo.com/en/investor-relations/whistleblower-system/>

approved by the Audit Committee or on the basis of special audit assignments from the Management Board, Audit Committee or full Supervisory Board. All operationally active Group companies are audited for corruption risks on a regular basis.

As early as the awarding process, we require our **contractors and suppliers (vendors)** to recognise and comply with our Code of Ethics and Code of Conduct as well as the governance, social and environmental standards we have defined. CA Immo checks its business partners - especially construction companies - as part of the award process not only with regard to their professional qualifications and economic situation, but also with regard to social aspects. As part of a **third-party compliance** check, compliance with governance, social and environmental standards is queried and checked by means of

questionnaires and the use of company and risk databases for undesirable media, sanctions, watchlists, etc., and taken into account in award processes. In the area of governance, we pay particular attention to compliance with laws, our internal guidelines for contract partners, for example, with regard to corporate ethics, ensuring compliance and measures to combat corruption, money laundering and the financing of terrorism.

Details of our key standards and the associated control mechanisms are available on our website.¹⁾

¹⁾<https://www.caimmo.com/en/investor-relations/corporate-governance/our-values/>