Risk Report

As an international real estate investor, property owner and project developer, CPI Europe is exposed to a variety of general and branch-specific risks in its business operations. An integrated risk management process provides the Group with a sound basis for the timely identification of potential risks and the assessment of the possible consequences.

Risks represent the possibility of deviating from planned targets as the result of “coincidental” disruptions caused by the unpredictable nature of the future. In this connection, negative variances are considered risks in the strict sense of the term and positive variances are seen as opportunities.

Principles of integrated risk management

The structure of CPI Europe’s (excluding S IMMO) risk management is based on the rules of the Austrian Corporate Governance Code and the integrated framework of the COSO ERM*, an internationally recognised concept for the design of risk management systems.

Based on the hedging and management instruments currently in use, no material risks can be identified at the present time that would endanger CPI Europe’s (excluding S IMMO) standing as a going concern. The overall risk situation for the company and for the entire market in 2024 was influenced by the challenging political and macroeconomic environment. The major risk categories are discussed in greater detail at the end of this risk report.

The procedures for handling risk at CPI Europe are anchored in a Group-wide risk management system which is integrated in operating practices and reporting paths and has a direct influence on processes and strategic decisions. Risk management takes place at all levels through internal guidelines, reporting systems and the internal control system (ICS) which is monitored by the internal audit department.

Monitoring and control of the risk management system
The risk management system is monitored and controlled through two corporate channels. On the one hand, internal audit evaluates the effectiveness of risk management and contributes to its improvement. On the other hand, the auditor reviews the functionality of risk management in accordance with C-Rule 83 of the Austrian Corporate Governance Code (in the version released in January 2025) and reports to the Executive Board on the results of this analysis.

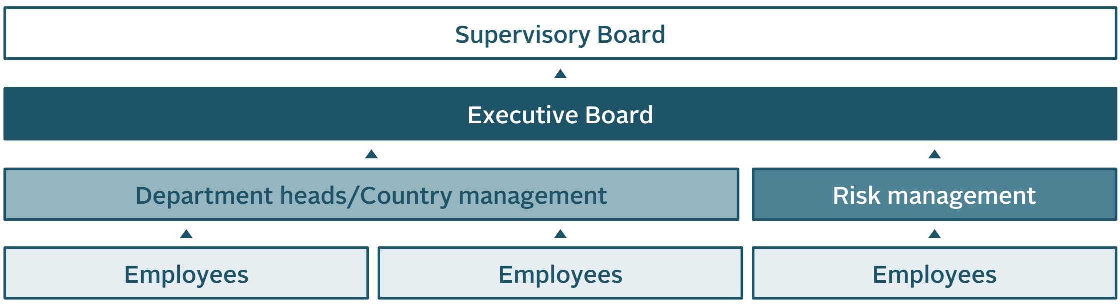
Evaluation of the functionality of the risk management system
Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, evaluated the effectiveness of CPI Europe’s (excluding S IMMO) risk management system during the period from January to March 2025. This analysis covered the design and implementation of the measures and organisational procedures instituted by the company, but not their application in the sense of operating effectiveness. The conclusions reached by Ernst & Young based on the audit procedures and the evidence obtained indicated that no facts or circumstances were identified which could imply that the risk management system instituted by CPI Europe AG as of 31 December 2024 – based on the COSO comprehensive framework for corporate risk management – was not functional.

* Committee of Sponsoring Organisations of the Treadway Commission – Enterprise Risk Management; coso.org

Structure of risk management

The goal of risk management at CPI Europe (excluding S IMMO) is to implement the strategy defined by the Executive Board with a minimum of risk. The Group's strategic goals are transferred to the operating processes where the measures for the identification, prevention and management of risks are located.

Responsibilities and reporting paths

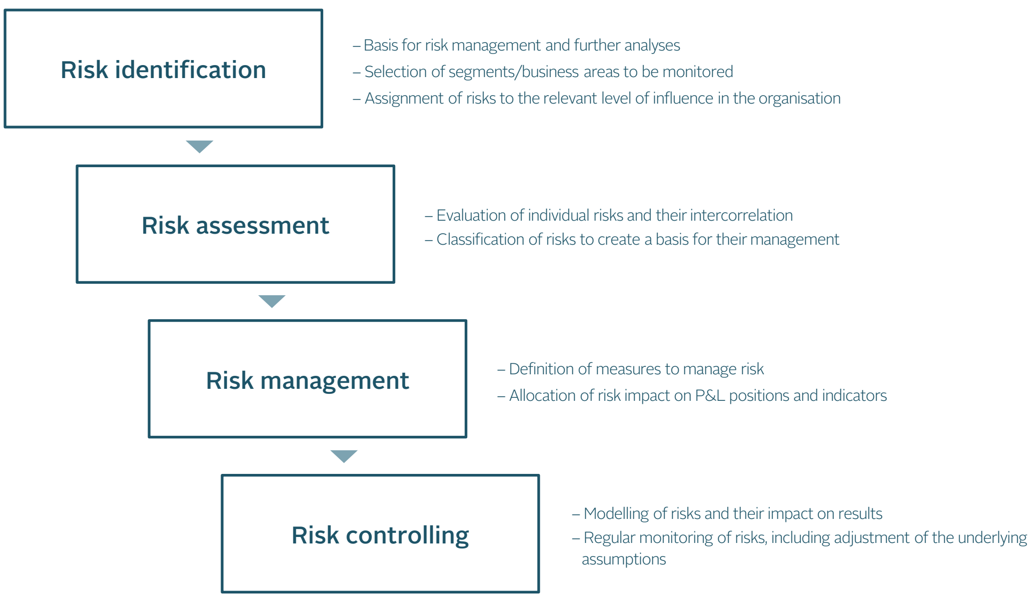


The Executive Board is responsible for risk management in CPI Europe (excluding S IMMO) and defines the corporate goals and related risk strategy.

Risk management is a staff function which reports directly to the Executive Board. It monitors the corporate risks that are not related to specific business areas, aggregates risk data and reports, and actively supports the business areas and country organisations in the identification of risks and economically feasible countermeasures. Risk management reports regularly to the Executive Board and quarterly to the Supervisory Board.

At the country organisation level, the heads of the respective units are responsible for risk management. Risk positions are reported to the Executive Board at least once each quarter by the business area and country managers. Acute risks are reported immediately to the Executive Board.

Risk management process



Material risk categories

The risk categories relevant for CPI Europe follow the company's value chain and are also focused on environmental, governance and social opportunities and risks. CPI Europe has defined a broad range of measures to address and counter risks. These measures represent an integral part of all corporate processes and, consequently, form the basis for the reduction of risk.

Risk category	Description	Countermeasures
Business risks	These risks are related to the general framework conditions for business activities and exceed the scope of property-specific risks.	These risks are countered by strategic decisions at the corporate level.
	Financial risks are related to lenders or the terms and conditions for the provision of cash and cash equivalents (see section 7.2 in the consolidated financial statements).	The continuous monitoring of asset and liability positions as well as proactive analyses form the basis for strategic measures to safeguard the company's financial strength.
	Operational risk can arise through detrimental actions by corporate bodies and/or employees to the disadvantage of the company.	The company's activities are separated into individual processes and relevant process steps are controlled internally.
	Other risks represent individual risks with a Group-wide impact.	These risks are countered by strategic decisions at the corporate level.
Risks of improper business practices	CPI Europe is committed to responsible and transparent actions and to compliance with legal rules and regulations. Risks in this area arise from deviations from these general principles.	Guidelines have been issued to cover the actions of corporate bodies and employees in individual areas to prevent these risks from occurring.
Social risks	The company is responsible for its employees as well as other service providers in the broader sense of the term. Risks arising from the company's role as an employer in the broader sense of the term are aggregated in this risk category.	CPI Europe's commitment to compliance with all fundamental and human rights as well as regular surveys of employees' needs represent the cornerstones of risk minimisation in this area.
Environmental and climate risks	Climate risks arise from the meteorological conditions at a property's location. In addition, environmental risks arise from the construction and operation of buildings.	Measures are implemented on a timely basis to prevent any negative effects on a property. When new builds are constructed, a special focus is also placed on minimising the negative impact on the environment.
	The attainment of the planned climate neutrality and the development of a circular economy are connected with risks arising from the technological and regulatory transition.	CPI Europe takes the necessary steps to support the technological improvement and sustainable management of its buildings. It also supports the creation of a greater awareness for these issues by all stakeholders.
Project development risks	Planning risks are risks which occur during the planning phase of a property. This phase extends from the design to the approval of a project.	Project development risks are prevented by the exact inspection of new locations, the timely involvement of all stakeholders and measures to anticipate future negative developments.
	Realisation risks represent the risks arising in connection with the construction of a building, beginning with the receipt of the building permit.	Realisation risks are prevented through quality assurance measures in processes as well as measures to externalise risk.
	Marketing risks are related to the commercialisation of a project and are very important in regard to profitability.	Marketing risks are precluded at CPI Europe by timely risk and opportunity analyses as well as long-term market monitoring.
Asset management risks	Earnings risks are risks connected with the generation of steady income from the standing investments.	CPI Europe is taking steps to evolve from a conventional landlord to a service provider who reacts early on to market trends.
	Usage risks, as a group, represent the risks involved with the management of a property and, consequently, have a significant influence on the company's earning power.	Active portfolio management and the continuous technical monitoring of properties are designed to reduce usage risks.
	Owners, tenants and facility mangers are exposed to management risks during the ongoing operation of a property.	CPI Europe follows a clear externalisation strategy with regard to management risks.
Portfolio and valuation risks	Portfolio and valuation risks include the factors that would lead to a change in the value of a portfolio.	Active portfolio management and the expertise from long-term market monitoring help CPI Europe to identify potential problems at an early stage.
Transaction risks	Transaction risks are connected with the acquisition and sale of properties and include additional irregularities on the transaction market.	Process measures and regular monitoring of the transaction markets are designed to minimise existing risks. Market problems are managed with risk prevention measures.

Features of the internal control system

The internal control system (ICS) of CPI Europe (excluding S IMMO) comprises a wide range of measures and processes to protect assets and to ensure the accuracy and reliability of accounting. The goal of the ICS is to prevent or identify errors and therefore allow for early correction. The ICS also supports compliance with major legal directives and the business policies defined by the Executive Board.

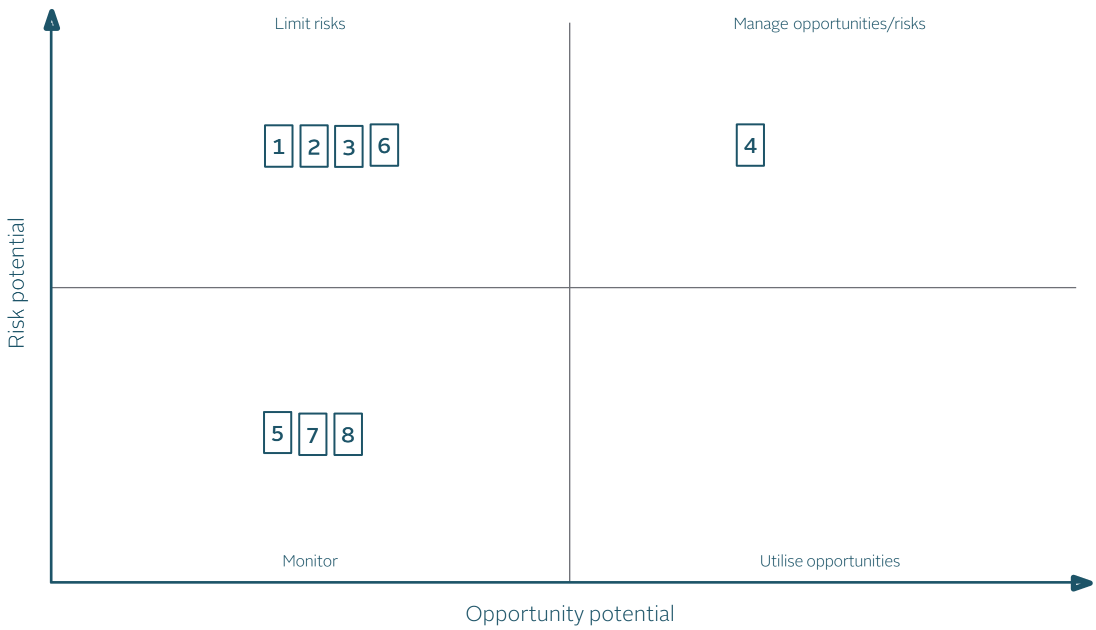
The ICS is integrated in all corporate processes. Its key features involve the appropriate segregation of duties, the application of the four-eyes principle within the framework of relevant corporate processes, compliance with internal guidelines (e.g. IFRS accounting manual of CPI Europe (excluding S IMMO)), the review of accounting data by Group controlling for correctness, plausibility and completeness, the integration of preventive and detective controls in processes as well as automatic key controls through specific software settings.

Monitoring by internal audit
Internal audit is responsible for the independent review of the effectiveness of the ICS and, in this way, contributes to its quality assurance. This department also evaluates the effectiveness of risk management and supports its continuous improvement. Based on an annual audit plan approved by the Supervisory Board, the internal audit department independently and regularly reviews operating processes and business transactions. The priorities for this schedule are defined in accordance with risk criteria and organisational goals.

The results of the audits are reported to CPI Europe's (excluding S IMMO) Executive Board on a regular basis and to the Supervisory Board twice each year. As part of an annual report, the internal audit department explains its activities and summarises the major audit areas and results.

Opportunity and risk position in 2024

Overview of opportunities and risks as of 31 December 2024



Macroeconomic conditions (1)
Various factors were responsible for a series of downward revisions in growth forecasts for the 2024 financial year. One major reason was the dramatic drop in European car sales in China, which brought the automotive industry and its supply chain under pressure. This decline was particularly visible in the export sector, especially in Germany. Forecasts for 2025 are slightly optimistic, but the new US government represents a significant source of uncertainty. In the first weeks of his second term of office, Donald Trump imposed new customs duties on goods from numerous countries. Europe could also be affected by these measures over the medium term. According to a German saying: "When two people quarrel, it usually makes a third person happy" – this could, however, create opportunities for the European economy, for example in the form of windfall profits.

Inflation declined significantly in comparison with the past two years, even though a slight upward trend materialised towards the end of 2024. Core inflation (i.e. excluding energy and food prices) proved to be more persistent than assumed, and an increase here could delay any reductions in key interest rates. CPI Europe expects the weak economic growth will be reflected in continuing reservation in the demand for office space and stable development in the retail sector.

Financial market risks (2)
The European Central Bank (ECB) followed the downward trend in inflation by cutting the key interest rate from 4.5% to 3.15%, a move which slightly reduced the interest pressure on real estate companies. However, the high number of branch insolvencies was reflected in higher risk premiums and a decline in investor interest. The property cycle was substantially extended by the ECB's zero interest policy and included numerous real estate investments which quickly led to losses given the changed market conditions. The pace of the ECB's interest rate steps is expected to slow year-on-year in 2025. Persistent core inflation could be an obstacle on the way to the ECB's 2% inflation target, while the consolidation in the real estate branch should come to an end in 2025 and could lead to a slight reduction in risk premiums.

Liquidity risk on the real estate market (3)
Declining inflation and interest rates supported a sustainable recovery on the commercial property market. The largest real estate markets in Europe, with the exception of France, reported double-digit growth in investment volumes. Italy was the leader with an increase of 47% over 2023. The Austrian market closed 2024 with a year-on-year decline of 6%, but a strong fourth quarter and optimistic sentiment lead to a positive outlook for 2025. The transaction volumes in CEE rose by 51% over the previous year in 2024, with growth generated primarily by the markets in Poland and the Czech Republic. Recovery on the SEE market lagged behind with a decline of 28% in 2024, whereby the strongest markets were Serbia and Bulgaria.

An analysis of the asset classes shows strong demand, above all, for retail properties in all markets. The office segment is also recovering slowly, but investor interest has weakened substantially. The demand for hotels – apart from SEE – remains high. As regards transaction activity, CPI Europe can therefore expect a slight easing of liquidity risk on the market. The trend towards green properties will continue in 2025 and, due the low level of new construction, create a potential decline in the yields for properties that meet sustainability standards.

Risks from climate change (4)
2024 proved to be the warmest year to date in the history of measurement and, especially due to the millennium floods in Austria, will be remembered for a long time. The properties owned by CPI Europe were, fortunately, not affected by physical happenings, but the risks for individual properties remain. CPI Europe has set a goal to actively manage these risks. From the risk viewpoint, climate change is seen as a significant factor. Further details can be found in the non-financial section of the management report.

Legal proceedings (5)
As in the previous years, CPI Europe is involved in restitution claims related to the VIVO! locations in Cluj and Constanța. The proceedings related to the VIVO! Cluj resulted in a final judgment that rejected CPI Europe's ownership title to the land. For the shopping center itself, all instances to date have confirmed the ownership of CPI Europe. The legal proceedings over the VIVO! Constanța resulted in a first instance decision in favour of CPI Europe.

Valuation risks (6)
As described above, the interest rate cuts implemented by the ECB in 2024 led to a noticeable recovery on the transaction markets. Lower financing costs served as a stimulus for both transaction revenues and prime yields, which stabilised and began to decline slightly in several markets. Increasing discounts from peak yields were also visible. The focus of investors in the prime segment was clearly directed to ESG-aligned buildings, whereby EU taxonomy-alignment is gaining greater acceptance as a criterion in this connection. A growing interest by tenants in sustainable buildings is also evident. An analysis of the current oversupply of rental space in individual markets shows that investments to attain full occupancy are becoming even more relevant. CPI Europe has set a strategic goal to invest with a focus and, where necessary, to streamline the portfolio. This trend can also be seen in other market participants and should continue in the coming years.

Revaluation results totalled EUR 12.6 million in 2024.

IT risks (7)
CPI Europe implemented a new ERP system (Enterprise Resource Planning) in 2024 to strengthen the digitalisation of its corporate processes. The goal of this digitalisation initiative is to increase building efficiency and, at the same time, reduce costs for tenants. The company plans to roll out smart meters in all its portfolio properties over the coming years. This will lead to greater cost transparency for tenants and changes in operating costs. However, the opportunities provided by digitalisation will be accompanied by an increase in potential risks. The escalation in cyberattacks on companies, in particular, represents a risk, and CPI Europe has defined the protection of its IT systems as a priority. Accompanying measures, such as training for employees, guarantee the highest possible level of security. Based on the procedures already established, the risk to critical corporate processes can be considered low.

Portfolio risks (8)
The occupancy rate in CPI Europe's standing investment portfolio equalled 93.2% as of 31 December 2024 (31 December 2023: 92.2%). The retail properties were practically fully rented at 97.2%. In the office properties, the occupancy rate was 88.5%.

CPI Europe's active development projects (properties under construction) have a combined carrying amount of EUR 15.6 million (31 December 2023: EUR 61.5 million). The outstanding construction costs for these projects totalled EUR 28.2 million at the end of 2024 (31 December 2023: EUR 56.2 million). Pipeline projects, including real estate inventories, had a carrying amount of EUR 147.8 million as of 31 December 2024 (31 December 2023: EUR 195.8 million).