January –
June

# Half-Year Report H1

VONOVIA

# KEY FIGURES

| **Financial Key Figures** in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Rental income in the Rental Segment | 890.7 | 1,014.8 | 13.9 | 1.894.2 |
| Adjusted EBITDA Rental | 616.9 | 724.0 | 17.4 | 1.315.1 |
| Adjusted EBITDA Value-Add | 54.4 | 75.7 | 39.2 | 121.2 |
| Adjusted EBITDA Recurring Sales | 34.9 | 42.4 | 21.5 | 79.1 |
| Adjusted EBITDA Development | 7.9 | 30.7 | >100 | 39.4 |
| Adjusted EBITDA Total | 714.1 | 872.8 | 22.2 | 1,554.8 |
| EBITDA IFRS | 692.8 | 811.9 | 17.2 | 1,534.4 |
| Group FFO | 539.4 | 609.1 | 12.9 | 1,132.0 |
| thereof attributable to Vonovia shareholders | 513.8 | 582.6 | 13.4 | 1,069.7 |
| thereof attributable to Vonovia hybrid capital investors | 20.0 | 20.0 | 0.0 | 40.0 |
| thereof attributable to non-controlling interests | 5.6 | 6.5 | 16.1 | 22.3 |
| Group FFO per share in € | 1.04 | 1.12 | 7.7 | 2.18 |
| Income from fair value adjustments of investment properties | 1,372.9 | 2,258.7 | 64.5 | 3,517.9 |
| EBT | 1,846.7 | 901.6 | -51.2 | 3,874.3 |
| Profit for the period | 1,200.0 | 125.3 | -89.6 | 2,402.8 |
| Cash flow from operating activities | 513.5 | 774.8 | 50.9 | 1,132.5 |
| Cash flow from investing activities | -3,158.7 | -82.1 | -97.4 | -3,892.5 |
| Cash flow from financing activities | 3,244.8 | 40.2 | -98.8 | 3,041.5 |
| Maintenance and modernization | 565.5 | 804.3 | 42.2 | 1,569.4 |
| thereof for maintenance expenses and capitalized maintenance | 205.3 | 208.7 | 1.7 | 430.4 |
| thereof for modernization (incl. new construction) | 360.2 | 595.6 | 65.4 | 1,139.0 |

| **Key Balance Sheet Figures** in € million | June 30, 2018 | June 30, 2019 | Change in % | Dec. 31, 2018 |
|---|---|---|---|---|
| Fair value of the real estate portfolio | 41,732.3 | 47,449.0 | 13.7 | 44,239.9 |
| Adjusted NAV | 20,634.4 | 26,305.0 | 27.5 | 23,262.6 |
| Adjusted NAV per share in €* | 39.83 | 48.51 | 21.8 | 44.90 |
| LTV in % | 43.9 | 40.4 | -3.5 pp | 42.8 |

| **Non-financial Key Figures** | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Number of units managed | 486,531 | 475,754 | -2.2 | 480,102 |
| thereof own apartments | 403,926 | 396,739 | -1.8 | 395,769 |
| thereof apartments owned by others | 82,605 | 79,015 | -4.3 | 84,333 |
| Number of units bought | 63,444 | 2,556 | -96.0 | 63,706 |
| Number of units sold | 6,285 | 1,988 | -68.4 | 15,102 |
| thereof Recurring Sales | 1,200 | 1,234 | 2.8 | 2,818 |
| thereof Non-core Disposals | 5,085 | 754 | -85.2 | 12,284 |
| Vacancy rate in % | 2.8 | 2.9 | 0.1 pp | 2.4 |
| Monthly in-place rent in €/m² | 6.36 | 6.64 | 4.4 | 6.52 |
| Organic rent increase in % | 4.1 | 4.0 | -0.1 pp | 4.4 |
| Number of employees (as of June 30/December 31) | 9,685 | 10,024 | 3.5 | 9,923 |

| **EPRA Key Figures** in € million | June 30, 2018 | June 30, 2019 | Change in % | Dec. 31, 2018 |
|---|---|---|---|---|
| EPRA NAV | 24,238.3 | 27,240.6 | 12.4 | 26,105.0 |
| EPRA NAV per share in €* | 46.79 | 50.23 | 7.4 | 50.39 |

* Based on the shares carrying dividend rights on the reporting date June 30, 2018: 518,077,934, June 30, 2019: 542,273,611 and Dec. 31, 2018: 518,077,934.

## OUR CONTRIBUTION TO THE CURRENT DEBATE

## INTERIM GROUP MANAGEMENT REPORT – BUSINESS DEVELOPMENT IN THE FIRST HALF OF 2019



## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS



## INFORMATION

# OUR CONTRIBUTION TO THE CURRENT DEBATE

## Comments on the Plans for Berlin-specific Tenancy law

### *Background*

A position paper for a Berlin-specific tenancy law was published in early June. It mainly consists of the following points:

> Rents for new and existing lease agreements are to be frozen for five years.
> An absolute rent ceiling is to be defined.
> The rent freeze is to apply in the whole of Berlin both for existing lease agreements as well as for new lettings. The only exceptions are new builds, apartments eligible for social security subsidies and economic hardship cases.
> As a general rule, modernization cost allocations that will increase the gross rent, including ancillary expenses, by more than € 0.50 per m² per month are to require prior approval in the future.
> The authorities responsible will be authorized to prohibit landlords from charging excessive rents and to reduce the rent to the permissible level (rent ceiling) at the tenant's request.
> Breaches of the new rent legislation are to carry penalties (of up to € 500,000).

The position paper was approved by the Berlin State Government ("Senat") on June 18, 2019 and the State Government's Department for Urban Development and Housing has been commissioned to develop a draft bill by the end of August 2019. As the plans stand at the moment, corresponding legislation is due to enter into force in Berlin on January 11, 2020.

### *Problem and Solution*

The background to the plans for the Berlin-specific tenancy law is that the Berlin residential property market, like those in many other cities in Germany, is characterized by rising demand on the one hand and insufficient supply on the other. This increasing imbalance is pushing up the rents charged when properties are relet, in particular. Many people are worried that they will no longer be able to afford rising rents and that they will no longer be able to find a suitable apartment if they have to move.

At Vonovia, we take these concerns very seriously and want to live up to our responsibility to play an active role in developing suitable solutions. With rent averaging around € 6.68 per m², our apartments are in the affordable segment of the market and are certainly not one of the factors driving prices up. What is more, we are not involved in luxury modernizations and do not terminate tenancy agreements because we want to use the apartments ourselves. In many cases, the measures described in our Business Philosophy (**https://www.vonovia.de/geschaeftsverstaendnis**) actually extend beyond the statutory requirements. In addition, with 1,500 to 2,000 new rental apartments planned for completion this year alone, we are one of Germany's biggest housing developers.

The plans for the Berlin-specific rent freeze legislation, however, are heading in the entirely wrong direction. The legislation does not solve the actual problem, namely the insufficient number of apartments, but rather serves to exacerbate it. The investment climate in Berlin will deteriorate further and future new construction activity is likely to decline. This is an issue that has now been raised even by the municipal housing companies in Berlin and the cooperative housing associations.

The sustainable long-term solution to this problem lies precisely in creating more homes. Imposing drastic regulations, however, will only achieve the opposite and will also have a negative impact on the building stock in general instead of improving it. This runs contrary to the climate targets that have been set and stands in the way of the necessary $CO_2$ savings, the required investments in senior-friendly apartment conversions and the construction of new apartments, which is urgently needed.

### *Legal Assessment*

We believe that the planned legislation, based on the key aspects that have been announced to date, is unconstitutional because the federal state of Berlin does not have the necessary legislative powers. The German federal government has exercised its competing legislative powers in the area of civil law with definitive effect in the rent legislation set out in the German Civil Code (BGB). The federal government has indicated that it also intends to retain responsibility for regulation in this area in the future, with the Federal Ministry of Justice presenting a draft bill stepping up the regulations associated with the rent cap as recently as in May.

In addition, this sort of legislation would breach the fundamental right to property (Article 14 of the German Basic Law [GG]) and would likely also be an infringement on the ban on causing financial loss covered by the fundamental right to property. What is more, the regulations would be out of proportion: the legislation does not help to create homes for people on low incomes. Given the shortage of homes, apartments would still be rented out to individuals on higher incomes. The federal legislator has a whole variety of alternative tools at its disposal that do not encroach upon constitutional property rights (e.g., targeted measures to accelerate the construction of new and affordable homes; targeted subsidies for lower-income tenant groups). These “milder measures” must be exhausted first.

In spite of the constitutional concerns, we currently expect the planned legislation to come into force in the form proposed by the Berlin State Government in January 2020. At the moment, it is impossible to predict to what extent the final legislation could deviate from the position paper.

### *No Major Impact for Vonovia*

We expect the financial impact of the Berlin-specific rent freeze legislation on Vonovia to be limited given the relatively small share of our portfolio that is located in Berlin (around 10% of the overall portfolio) and due to the fact that we can offset any negative effects by re-directing investment funds to other locations. We currently see no reason to change our business expectations or our strategy.

We also believe that the risk of other federal states following Berlin’s example and trying to pass similarly restrictive tenancy laws is extremely low. We have published a detailed analysis of this matter on our investor relations website at **https://investors.vonovia.de/news.**

### *Where Do We Go From Here?*

We are convinced that the rent freeze legislation that the Berlin State Government plans to implement is unconstitutional. However, it looks likely that it won’t be possible to take legal action in this regard until after the law has been promulgated.

In addition to administrative or civil law proceedings, another possibility would be proceedings concerning the abstract review of the planned law before the Berlin Constitutional Court. This would require the Berlin State Government or one quarter of Berlin’s House of Representatives (at least) to file a motion for a review of the law’s constitutionality. Another option would be proceedings involving an abstract review of the statute before the Federal Constitutional Court. This would require a corresponding motion to be filed by the German federal government, a federal state government or (at least) one quarter of the members of the German Bundestag.

# INTERIM GROUP MANAGEMENT REPORT – BUSINESS DEVELOPMENT IN THE FIRST HALF OF 2019

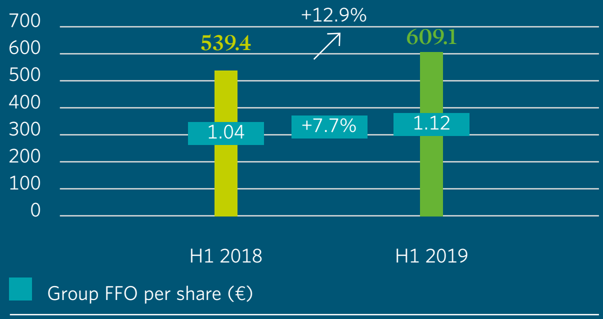
## Overview

Vonovia made a successful start to the 2019 fiscal year. We continued to pursue our business strategy unchangedly in the first six months. With investments in modernization and new construction totaling € 595.6 million in the first half of the year 2019, our investment program remains the driver of our organic growth. Our Group FFO increased by 12.9% from € 539.4 million in the first half of 2018 to € 609.1 million in the first half of 2019 due to acquisitions.

## Further Increase in Sustained Earnings

### Group FFO

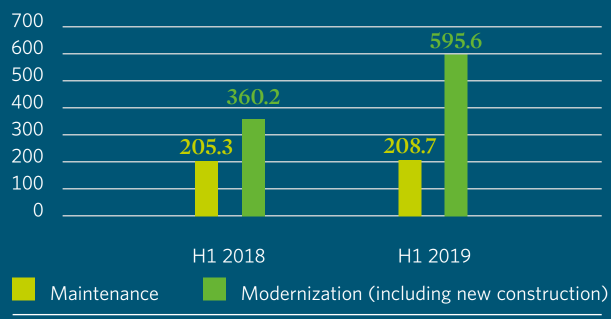
in € million




## Maintenance and Modernization Expanded Again

### Investments

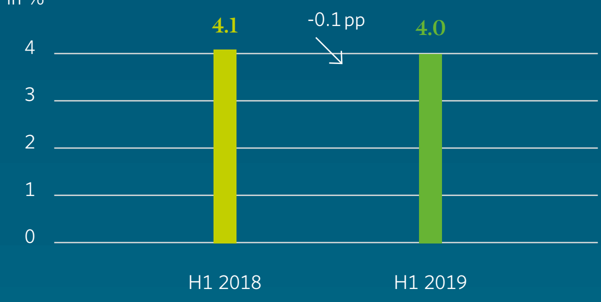
in € million




## Organic Rent Growth

### Organic Rent Growth

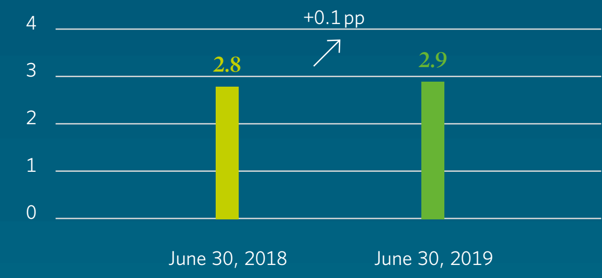
in %




## Vacancy Rate

### Vacancy Rate

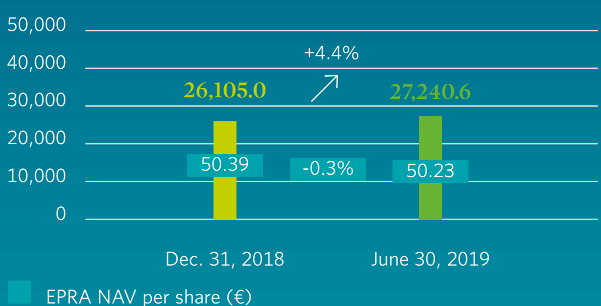
in %




## Increase in Net Assets

### EPRA NAV

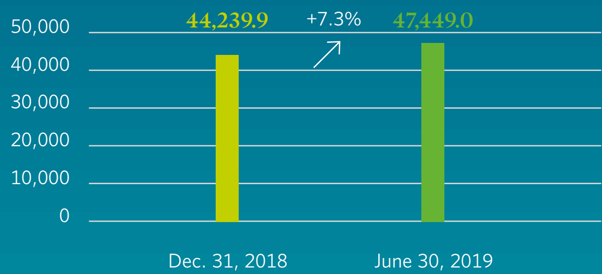
in € million




## Fair Value of the Real Estate Portfolio

### Fair Value of the Real Estate Portfolio

in € million



# Vonovia SE in the Capital Market

## Shares in Vonovia

In the first six months of 2019, the price of Vonovia's shares rose by approximately 6%, closing the first half of the year 2019 up by 7% on a year-to-date basis, which is similar to the performance shown by the EPRA Europe Index. There were two main factors driving our share price performance: the share price showed a marked increase in the first quarter of 2019, also due to the ECB's decision not to lift key rates until the end of the year at the earliest. The positive performance of Vonovia's shares, which had gained as much as 23%, stalled on June 5, 2019 when the Berlin State Government announced its plans to freeze rents in the city for a period of five years. Our comments on the plans currently pursued by the Berlin State Government can be found in the chapter entitled "Our contribution to the current debate," as well as on our website.

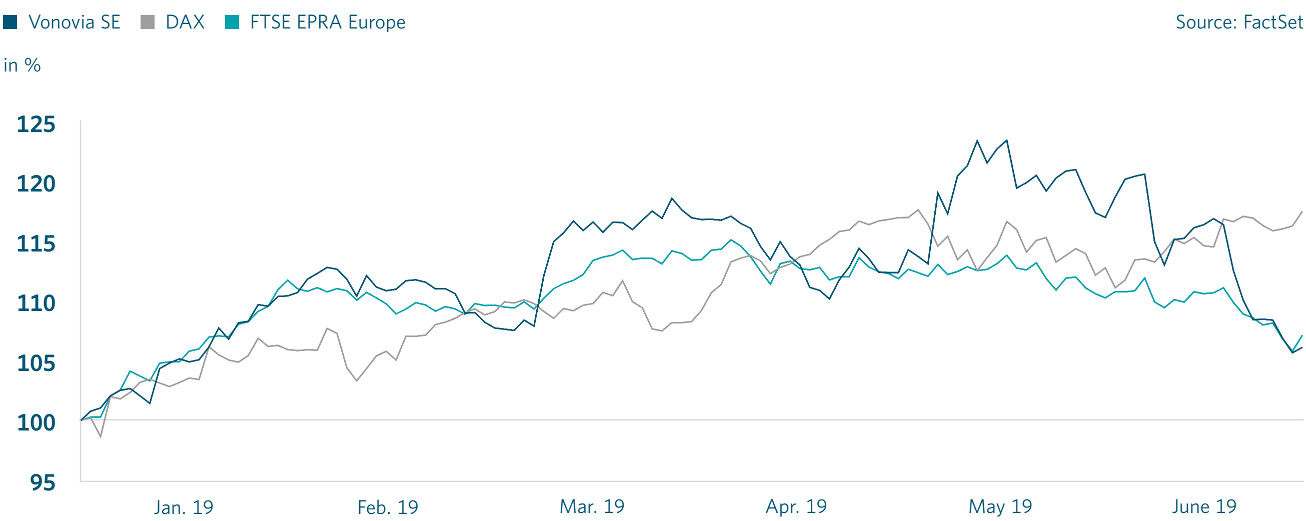
**https://investors.vonovia.de/news**

As only around 10% of our portfolio is located in Berlin, we believe that the risk for Vonovia is limited. We do consider the current development as confirmation that our approach of investing in various urban growth regions across Germany is the right strategy, and we currently see no reason to change our long-term view on the business.

We believe that the environment for the German residential real estate sector remains positive in general. In our view, the main drivers behind this will be the imbalance between high demand for, and a short supply of, affordable homes in urban locations, the continued keen interest in German residential real estate and the ongoing favorable interest rate environment.

Vonovia's market capitalization amounted to € 22.8 billion at the end of the first half of 2019.

### Share Price Development



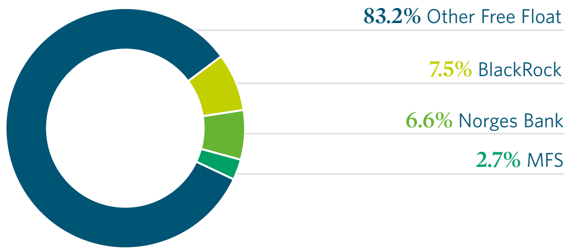
## Shareholder Structure

The chart below shows the voting rights pursuant to Sections 33 and 34 of the German Securities Trading Act (WpHG) as reported by the shareholders in relation to the current share capital. It is important to note that the number of voting rights reported could have changed within the respective thresholds without triggering an obligation to notify the company.

Based on the German stock exchange's definition of free float, only the interest held by Norges Bank (Ministry of Finance on behalf of Norway) does not count toward the free float. This means that 93.4% of Vonovia's shares were in free float on June 30, 2019. The underlying voting rights notifications and corresponding financial instruments reported by shareholders or other instruments pursuant to Sections 38, 39 WpHG can be found online under **https://investors.vonovia.de/disclosure-of-voting-rights.**

In line with Vonovia's long-term strategic focus, the majority of its investors have a similarly long-term focus. The company's investors include pension funds, sovereign wealth funds and international asset managers in particular. There is also a large number of individual shareholders, although they only represent a small proportion of the total capital.

### Major Shareholders (as of June 30, 2019)




## Investor Relations Activities

Vonovia SE is committed to transparent, ongoing dialogue with its shareholders and potential investors. In the first six months of 2019, Vonovia participated in a total of 13 investors' conferences and organized 16 roadshow days in the most important European, North American and Asian financial centers. In addition, numerous one-on-one meetings and teleconferences were held with investors and analysts to keep them informed of current developments and special issues.

The Investor Relations team also organized and carried out property tours for interested investors and analysts on location with colleagues from the operational areas of the company. The aim of these events was to provide the participants with firsthand insight into Vonovia's real estate portfolio and processes. Investor Relations also held detailed presentations on Vonovia and the situation on the German residential real estate market at informational events for private shareholders.

We will continue to communicate openly with the capital market. Various roadshows, conferences and participation in investor forums have already been planned. Information can be found in the Financial Calendar on our Investor Relations website. **https://investors.vonovia.de**

## Capital Markets Day

This year's Capital Markets Day was held on June 5, 2019 in Frankfurt am Main and the motto of the event was "Embracing a smart world." 68 analysts and investors were able to gain an insight into how Vonovia is forging ahead with the issue of digitalization in order to boost customer satisfaction and make its business processes more efficient. The event included a deep dive into the issues of "Digitalization around our assets", "Digitalization around our customers" and "Strategy execution in Southern Germany." In the end, participants were able to get an impression of two new construction/modernization projects in downtown Frankfurt in the form of a property tour.

## 2019 Annual General Meeting

The Annual General Meeting of Vonovia SE was held in Bochum on May 16, 2019. All of the agenda items were carried by a large majority, including the proposal to distribute a dividend of € 1.44 per share. The shareholders can choose whether they want to receive this in cash or as new shares. 45.75% of shareholders opted for the scrip dividend. This corresponds to a dividend yield of 3.6% in relation to the share's closing price of € 39.59 on the reporting date of December 28, 2018. The dividend for the 2018 fiscal year was paid out from a deposit account for tax purposes. It was therefore paid out to shareholders without withholding tax or the solidarity surcharge being deducted.

## Analyst Assessments

At present, 29 international analysts publish studies on Vonovia on a regular basis (as of June 30, 2019). The average target share price was € 51.50 as of June 30, 2019. Of these analysts, 71% issued a "buy" recommendation, with 25% issuing a "hold" recommendation and only 4% recommending that investors sell the company's shares. One broker has currently suspended coverage of Vonovia due to past acquisitions.

## Share Information

| | |
|---|---|
| 1st day of trading: | July 11, 2013 |
| Subscription price: | € 16.50 |
| Total number of shares: | 542,273,611 |
| Share capital in €: | 542,273,611 |
| ISIN: | DE000A1ML7J1 |
| WKN: | A1ML7J |
| Ticker symbol: | VNA |
| Common code: | 94567408 |
| Share class: | Registered shares with no par value |
| Stock exchange: | Frankfurt Stock Exchange |
| Market segment: | Regulated market |
| Indices & weighting: June 30, 2019 | DAX (2.1%)<br>Stoxx Europe 600 (0.3%)<br>MSCI Germany (1.9%)<br>GPR 250 World (1.7%)<br>FTSE EPRA/NAREIT Europe Index (13.4%)<br>GPTMS150 (2.6%) |

# Development of the Economic Environment

## Development of the Economy and the Industry

### Germany

According to the Kiel Institute for the World Economy (IfW), economic performance showed solid development in the first quarter of 2019 with growth in gross domestic product (GDP) of 0.4%. The increase is primarily due to increased private consumer spending. Overall, however, the picture for the economy remains inconsistent according to the Institute for Economic Research (ifo). The export-oriented manufacturing sector, which generates about one quarter of value creation, is subject to the current trade conflicts, while the service sector is able to record moderate growth, and the construction sector robust growth. The underlying economic trend is also apparent in the sentiment indicators. In June, the ifo business climate index reached a level of 97.4 points, the lowest value seen since November 2014. Employment continues to increase, though at a slower rate. According to the Federal Statistical Office (Destatis), the number of people employed increased in May by 468,000 compared with May 2018, which only indicates a gain of 1.0%. The unemployment rate of 4.9% for June as published by the German Federal Employment Agency (Bundesagentur für Arbeit) decreased compared to the prior-year period by only 0.1 percentage points. Destatis reported a 1.6% year-on-year increase in the rate of inflation in Germany – as measured by the consumer price index – in June 2019. The European Central Bank (ECB) is sticking to its expansive monetary policy. The main refinancing rate has been at an all-time low of 0.0% since March 2016. According to the ECB's Governing Council, European key rates will remain at their current low level throughout the first half of 2020 at the very least in order to take account of the inflation target of below, but close to, 2%.

All in all, the German Federal Ministry of Economic Affairs and Energy (BMWi) expects that macroeconomic output will have dipped slightly in the second quarter with the two-track course of development continuing. However, the export-oriented industrial sectors should switch back to a moderate expansion course starting in the second half of the year. The intact domestic economic drivers could once again have a stronger impact. In particular, private consumption will increase against the backdrop of further income growth. Construction investment will also remain on an upward trajectory, although this is expected to be associated with a further marked increase in construction prices. Nevertheless, some economic research institutes made downward adjustments to their forecasts in June. The IfW and the ifo institute predict GDP growth of 0.6% for 2019 (spring forecast: 1.0%) and a growth rate for 2020 of 1.6% and 1.7%, respectively. The German federal government has also lowered its forecast, predicting growth of 0.5% for 2019 (2020: 1.5%). Consumer prices are expected to rise by an average of 1.5% in the course of the year, accelerating to an increase of 1.8% in 2020 in line with the improved economic conditions. The risks hanging over global economic development remain dominated by the trade conflict between the US and China, with an escalation looking increasingly likely after the trade talks failed. Weak global trade hits German industry particularly hard due to its strong international links. In addition, the United Kingdom's plans to leave the European Union also constitute a risk as far as the forecast is concerned. The budget situation in Italy is another source of uncertainty. If the dispute with the European Commission flares up again, this could have a negative impact on Italy's economic momentum, which is already weak to begin with, with a knock-on effect on the euro area.

#### *Demand for Homes Remains High, Housing Policy Becoming Increasingly Important*

According to Deutsche Bank Research (DB Research), the nationwide imbalance between the demand for, and the supply of, housing is once again unlikely to change to any considerable degree this year. The population is currently growing due to net migration, a trend that is expected to continue for some years to come. Beyond that, the demand for homes should remain high due to the very positive situation on the labor market and the low interest rates. At the same time, the supply elasticity will probably remain low, according to DB Research. The housing markets are not, however, tense across the board. Growing cities and regions are experiencing significant growth in demand, together with housing shortages, according to the German Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). At the same time, other cities and in many cases rural regions are faced with a dwindling population. In the first half of 2019, home prices continued to rise overall, as the research and consulting institute empirica reported based on an analysis of their price database. Across Germany, the empirica real estate price index for average rents over all years of construction increased by 3.6% in the second quarter of 2019 compared to the same quarter of the previous year (for new construction, the increase was 3.1%). While experts from F+B confirm that quoted rents in the second quarter of 2019 were up on the prior-year quarter, they witnessed a trend toward a slight drop/stagnation in quoted rents in the first half of the year. At the same time, however, rents under existing rental contracts are still on the rise. The increase in the quoted prices for condominiums was once again more pronounced than the increase in rents. The empirica price index for condominiums (all years of construction) increased by 9.4% in the second quarter of 2019 compared to the prior-year quarter (new construction 7.0%). Experts from DB Research expect prices and rents to increase in 2019, with lower rental yields as a result, although the price momentum is likely to slow slightly in a year-on-year comparison. The German Tenants' Association (Deutscher Mieterbund) expects the standard local comparative rent to rise by between 3% and 5% in Germany's cities in 2019. The National Association of German Cooperative Banks (BVR) estimates that the prices for owner-occupied residential property will increase by around 5.5%, looking at all of Germany's administrative districts on average.

Construction activity is still lagging behind the demand for housing. According to Destatis, 285,900 apartments were completed in Germany in 2018, a figure that was up by only 0.4% as against the previous year. According to DB Research, there is an annual demand for housing of at least 350,000 apartments. A lack of land available for construction and the increasingly pressing shortage of skilled workers are expected to stand in the way of any rapid increase in completions. Supply is now lagging more than one million apartments behind demand in total, particularly in the country's large and very large cities. According to DB Research, the additional annual supply should only exceed the additional annual demand for living space in 2022. Since it will take a good few years for the real estate boom to reach the end of its cycle, DB Research believes that the risk of a bubble forming in the current cycle has increased considerably. The empirica bubble index for Germany shows a moderate to high risk for 229 out of 401 administrative districts and self-governing cities.

Investor demand for residential real estate in Germany is likely to remain high, in particular among risk-averse German investors. The planned rent freeze (Mietendeckel) could put a damper on the investment climate in Berlin.

Given the shortage of housing and rising rents and prices, housing policy is becoming one of the most pressing issues on the political agenda. The German Tenancy Law Amendment Act (Mietrechtsanpassungsgesetz), which is designed to ensure greater transparency with regard to the rent cap and to limit and simplify the modernization allocation, has been in force since January 1, 2019. The draft bill on the introduction of a special depreciation for the construction of rental apartments was passed by the German Bundesrat in June 2019. Further legislation under discussion with relevance for the real estate sector includes the stepping up of rent cap regulations, which is supposed to be extended beyond 2020 by a period of five years; an intended amendment to the German real estate transfer tax system that aims to make share deals less attractive; and the planned Berlin-specific five-year rent freeze.

### Austria

After the Austrian economy showed strong growth of 2.7% in 2018, the beginning of 2019 brought more moderate economic development. GDP rose by 0.4% in the first quarter of the year 2019, in line with the average growth rate for the euro area. According to the Austrian Institute of Economic Research (WIFO), domestic demand once again proved to be a stable pillar propping up economic growth. Both private consumer spending and public-sector consumer spending expanded. Gross fixed asset investment (equipment and construction investments) also showed robust growth in the first three months of 2019. Exports increased by 0.6% in the first quarter of 2019. All in all, however, this confirms the trend toward declining momentum that emerged in mid-2018. Import demand increased by 0.4% in the first quarter of 2019. The economic slowdown is gradually starting to leave its mark on the labor market, too, even though the situation remains favorable. The number of non-self-employed people in active employment rose further in June based on preliminary estimates (+60,000 or +1.6% in a year-on-year comparison). Based on the national definition, the unemployment rate came to 6.5% in June, which corresponds to a drop of 0.3 percentage points as against June 2018. The rate of inflation came to 1.7% in May 2019 (CPI), a level that is on a par with the level for the euro area. The price increase remains moderate.

In its most recent economic forecast, the Austrian central bank (OeNB) predicts that, though the global economic slowdown will put a damper on economic growth in Austria, sustained dynamic domestic demand will counteract any major slowdown. In light of the above, the WIFO is predicting GDP growth of 1.7% in 2019 and 1.5% in 2020. Bank Austria expects the pace of growth in gross fixed asset investment at just over 2% to be much more moderate in 2019. Within this context, the bank is more optimistic regarding developments in construction in general than it is with regard to equipment investments. According to OeNB forecasts, the consumer price index (CPI) will drop from 2.1% in 2018 to 1.7% this year, remaining at this level in 2020 and 2021. As far as 2019 is concerned, the WIFO expects employment momentum to wane slightly as the economy slows down.

Overall conditions on the real estate market remain positive. 2018 was characterized by low interest rates, an ongoing good supply of properties despite a slight drop and very high demand for real estate among owner-occupiers and investors alike. At the beginning of 2019, experts from the real estate service provider RE/MAX Austria reported that they do not expect to see any significant change in these conditions in 2019 either. In line with this prediction, the values of the current OeNB residential real estate price index on the basis of new and used condominiums and single-family residences show an increase in Austria in the first quarter of 2019 of 5.0% compared to the previous year's period. In Vienna, prices increased compared to the previous year by 5.5%. In the rest of Austria (excluding Vienna), price developments were slightly lower during the same period at 4.1%. According to the consumer price index published by the Austrian statistical office, Statistik Austria, apartment rents rose by 3.3% in May 2019 compared with the same month of the previous year. The fundamental price indicator of the OeNB for residential real estate shows a further increase in possible overvaluation for Vienna in the first quarter of 2019 compared with the fourth quarter of 2018, but remains stable for Austria overall. According to the RE/MAX Real Estate Future Index, residential real estate prices are expected to increase slightly overall in 2019, although the rate of increase will be lower than in previous years. Rents and prices for condominiums will continue to increase both in city centers and on the outskirts of cities, whereas the prices for condominiums in country municipalities will remain virtually unchanged and rents will falter. Apartment purchase prices are likely to increase at a faster rate than rents that can be freely agreed. According to EHL, rents in Vienna are expected to increase by around 1.5%, with purchase prices for properties in average locations expected to rise by between around 2.75% and 4% in 2019.

The Austrian Conference on Spatial Planning (ÖROK) reports that the Austrian population has increased considerably in the past and will continue to grow in the future. According to the OeNB, excess demand started to accumulate in the mid-2000s due to smaller household sizes, rising net migration and weak construction activity, a trend that reached its peak in 2016. Given the dynamic development of residential construction in 2017 and 2018 with the notable decline in demand for housing, excess demand is expected to be remedied throughout Austria by 2020, according to the OeNB. One exception is Vienna, where apartments are expected to remain in short supply even in 2020. EHL believes that the new Viennese building regulations, e.g., the requirement for a higher proportion of subsidized apartments where areas are rezoned for residential development, encumber the Viennese property market. In the short and medium term, the impact on the supply of apartments will be a negative one, which could also put an end to the slight easing of the situation regarding apartment prices and rents.

The dynamic development on the Austrian real estate investment market continued in the first quarter of 2019. According to EHL, transactions worth just under € 900 million were executed. The share attributable to the residential segment, which recently started to play more of a role, was, however, on the below-average side in the first quarter of the year at only 9%, although a number of other, and in some cases high-volume, transactions in this segment are expected to be executed before 2019 is over. According to EHL, international investors continue to see Austria as an investment location of above-average appeal.

## Sweden

After 2018 finished with strong GDP growth in Sweden, growth slowed to 0.6% in the first quarter of 2019. On the demand side, the picture is a mixed one. According to the National Institute of Economic Research (NIER), domestic demand dipped slightly due to declining investment and a drop in private household consumption. In combination with a weak Swedish krona, this prompted a drop in imports. On the other hand, the depreciation of the krona spurred exports. The slowdown in the first quarter of 2019 is also reflected in the labor market, with employment stagnating at a relatively high level. However, further growth in the potential working-age population, mainly due to immigration, pushed the unemployment rate up slightly, to 6.4%. Despite a relatively strong labor market, both the economic confidence and consumer confidence index have been on a downward trend since the late summer of 2018, with both indices currently below their long-term averages. The inflation rate (CPIF) came to 2.1% in May. With inflation lagging behind the forecast released by the Swedish Riksbank, the Swedish central bank made the decision in April to postpone its planned rate hike until the spring of 2020, leaving the interest rate at the current level of -0.25%. The NIER expects GDP growth to slow further to 0.2% in the second quarter of 2019.

The growth of the Swedish economy in 2019 is likely to lag behind the previous year's figure of 2.3%, even though the NIER recently revised its forecast upward to GDP growth of 1.9% for 2019. The European Commission forecasts a figure of 1.4%. Future years do not promise a marked increase in growth either: The NIER is predicting economic growth of 1.2% in 2020, with private consumption expected to be the main contributing factor. Growth in the number of jobs remains slow. As the working-age population is continuing to grow at the same time, the unemployment rate is likely to increase slightly. The latest forecasts indicate that foreign trade will show positive development. The depreciation of the Swedish krona means that exports are likely to grow at a faster pace than imports in 2019 and 2020. Government spending will remain on a par with the prior-year level in 2019. Gross fixed asset investment will fall in 2019 in a year-on-year comparison. Investment activity is expected to increase in the years to come. Investments are being hindered by the growing lack of skilled workers coupled with concerns surrounding developments in global trade. The Swedish economy is affected by the same uncertainty factors as Germany and Austria. The NIER expects the rate of inflation (CPIF) to come to 1.8% in 2019, just shy of the 2% target set by the Swedish Riksbank. The NIER predicts that inflation will fall further to 1.7% in 2020.

According to Sveriges Allmännytta (formerly SABO), the Swedish Association of Public Housing Companies, the housing market is under significant pressure. The population has seen strong growth in recent years and is expected to continue expanding. New construction has not been able to keep up with this population growth. Much of Sweden is facing a housing shortage, primarily in its urban areas. According to the residential property market survey by Boverket, the Swedish National Board of Housing, Building and Planning, rental apartments are needed in particular. Residential construction is limited in many municipalities due to high construction costs and the difficulties faced by private individuals in being granted loans. According to data supplied by Statistics Sweden, rents rose by an average of 1.1% in 2018. In 2019, a further increase is predicted. According to "Hem & Hyra," the member's magazine published by the Swedish tenants' association ("Hyresgästföreningen"), this year's rent negotiations had largely been concluded in May 2019. The average increase came to around 2%, higher than in previous years.

As CBRE reports, the market situation for multifamily residences varies considerably depending on whether they contain rental apartments or condominiums. Whereas international investors are showing increased interest in rent-restricted apartments – the Swedish rental housing market is subject to stringent statutory regulation – the market for condominiums is under pressure. According to CBRE, some developers have a tough year ahead and individual project developments could be turned into rental apartments. The prices on the market for residential property ownership came under pressure in the fall of 2017 but have largely stabilized over the last few quarters as Boverket reports. The Valueguard HOX price index, which reflects the price development of typical condominiums and single-family homes, was up by 1.8% year-on-year in May 2019. Stricter mortgage rules governing real estate financing contributed to a downward price trend in late 2017, which, according to the European Commission, was driven mainly by weakness in the tenant-owned apartment ("Bostadsrätt") market. This term refers to the cooperative property ownership of apartment buildings common in Sweden. In addition, the increase in the supply of new homes coming on the market is likely to have contributed to the cooling of prices, too, although property service provider Newsec says that these homes are often being built in a market segment that is too expensive. The NIER expects home prices to gradually bounce back from the previous slump. Boverket has identified fears of a slowdown and the high level of supply as the biggest price risks.

The NIER reports that, after the drop in house prices, housing investment was down last year after a prolonged phase of rapid growth. The number of housing starts has declined considerably. According to SEB ("Skandinaviska Enskilda Banken"), the drop is primarily focused in the segment of tenant-owned apartments, whereas the construction of apartments for rent and single-family homes is much more stable. Boverket predicts that the number of housing starts will drop from almost 68,000 in 2017 to 49,000 in 2019. This means that construction activity would fall considerably short of the level that is actually required. In its June 2018 forecast, Boverket calculated that 93,000 apartments would have to be built every year in the period leading up to 2020.

According to Savills, the real estate investment market made an impressive start to the first quarter of 2019. The investment volume came to SEK 42 billion, 54% more than in the prior-year period and the largest volume ever witnessed for a first quarter. It was also a strong first quarter for residential real estate, with an investment volume of SEK 10 billion. There is keen investor interest in both new builds and old stock. Savills expects the volume to remain at a consistently high level in this sector in 2019.

# Economic Development in the First Half of 2019

## Key Events During the Reporting Period

The acquisition of 2,340 apartments in the greater Stockholm and Gothenburg regions by Vonovia from Akelius Residential Property was completed on April 1, 2019. The value of the property assets acquired amounts to around € 451.9 million.

Vonovia implemented a capital increase involving 16,500,000 new shares on May 16, 2019. The new shares were placed with institutional investors in the scope of a private placement by means of an accelerated bookbuilding procedure and will carry dividend rights as of January 1, 2019. The shares were granted at a placement price of € 45.10 per share. This increases the capital reserves by € 727.7 million.

The Annual General Meeting held on May 16, 2019, resolved to pay a dividend for the 2018 fiscal year in the amount of € 1.44 per share. During the subscription period, shareholders with a total of 45.8% of shares carrying dividend rights opted for the scrip dividend that had been offered as opposed to a cash dividend. As a result, 7,695,677 new shares were issued at a subscription price of € 44.352 and in a total amount of € 341.3 million.

As part of the public takeover offer made to the shareholders of Victoria Park AB (publ), Vonovia had agreed on call options for 10,235,198 class A shares and 14,264,946 class B shares, which corresponds to 10.0% of the total number of shares and 12.5% of the total voting rights in Victoria Park. These call options were exercised on May 15, 2019, meaning that Vonovia controls 91.4% of the total number of shares and 94.4% of the total voting rights as of June 30, 2019.

Vonovia then asked the Board of Directors of Victoria Park to initiate a squeeze-out in line with the Swedish Companies Act for the purchase of all remaining shares in Victoria Park. The Board of Directors of Victoria Park resolved to apply for Nasdaq Stockholm to delist Victoria Park's ordinary shares of class A and class B. The last day of trading was June 18, 2019.

In the second quarter of 2019, there was an increase in value of € 2,258.7 million (€ 2,056.2 million of it in Germany) as part of the valuation of property portfolios. This led to an impairment test of the goodwill in the German business areas of the Rental segment.

The impairment tests performed in the second quarter of 2019 revealed the need for goodwill impairments in the amount of € 1,901.0 million. These are distributed among the business areas North, Southeast, West, Central and South of the Rental segment Germany. There was also a negative effect due to currency changes of the Swedish krona in the amount of € 5.8 million.

## Results of Operations

Vonovia's corporate strategy remained unchanged in the first half of 2019 and the Group showed solid development overall.

As of June 30, 2019, Vonovia had a real estate portfolio comprising 396,739 residential units, 120,964 garages and parking spaces and 5,278 commercial units. The locations span 691 cities, towns and municipalities in Germany, Austria and Sweden. 79,015 residential units are also managed for other owners.

The following key figures provide an overview of Vonovia's results of operations and the relevant drivers in the first half of 2019. When comparing the current key figures against the previous year, it is important to bear in mind that the figures for 2019 include BUWOG and Victoria Park, which were acquired in the previous year, together with their earnings contributions for the period from January to June 2019. BUWOG was consolidated for the first time with effect from March 31, 2018 and Victoria Park with effect from June 30, 2018. This means that the key figures and segment figures for the first half of 2018 include BUWOG with its earnings contributions for the period from April to June.

| in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Income from property management | 1,282.9 | 1,432.1 | 11.6 | 2,708.2 |
| thereof rental income in the Rental segment | 890.7 | 1,014.8 | 13.9 | 1,894.2 |
| Income from disposal of properties | 386.4 | 226.7 | -41.3 | 1,097.5 |
| Income from disposal of real estate inventories (Development) | 73.5 | 124.9 | 69.9 | 225.1 |
| Adjusted EBITDA Total | 714.1 | 872.8 | 22.2 | 1,554.8 |
| Adjusted EBITDA Rental | 616.9 | 724.0 | 17.4 | 1,315.1 |
| Adjusted EBITDA Value-add | 54.4 | 75.7 | 39.2 | 121.2 |
| Adjusted EBITDA Recurring Sales | 34.9 | 42.4 | 21.5 | 79.1 |
| Adjusted EBITDA Development | 7.9 | 30.7 | >100 | 39.4 |
| Group FFO | 539.4 | 609.1 | 12.9 | 1,132.0 |
| EBITDA IFRS | 692.8 | 811.9 | 17.2 | 1,534.4 |
| Monthly in-place rent (€/m²) | 6.36 | 6.64 | 4.4 | 6.52 |
| Average area of own apartments in the reporting period (in thousand m²) | 23,190 | 25,114 | 8.3 | 24,293 |
| Average number of own units (number of units) | 368,999 | 395,785 | 7.3 | 384,777 |
| Vacancy rate in % | 2.8 | 2.9 | 3.6 | 2.4 |
| Maintenance expenses and capitalized maintenance (€/m²) | 8.85 | 8.31 | -6.1 | 17.72 |
| thereof maintenance expenses (€/m²) | 6.04 | 5.85 | -3.1 | 11.92 |
| thereof capitalized maintenance (€/m²) | 2.81 | 2.46 | -12.5 | 5.79 |
| Number of units bought | 63,444 | 2,556 | -96.0 | 63,706 |
| Number of units sold | 6,285 | 1,988 | -68.4 | 15,102 |
| thereof Recurring Sales | 1,200 | 1,234 | 2.8 | 2,818 |
| thereof Non-core Disposals | 5,085 | 754 | -85.2 | 12,284 |
| Number of employees (as of June 30/December 31) | 9,685 | 10,024 | 3.5 | 9,923 |

## Group FFO

The following key figures provide an overview of the development in Group FFO and other value drivers in the reporting period.

### Group FFO

| in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Rental income in the Rental segment | 890.7 | 1,014.8 | 13.9 | 1,894.2 |
| Expenses for maintenance | -140.0 | -147.0 | 5.0 | -289.7 |
| Operating expenses in the Rental segment | -133.8 | -143.8 | 7.5 | -289.4 |
| **Adjusted EBITDA Rental** | **616.9** | **724.0** | **17.4** | **1,315.1** |
| Revenue Value-add | 614.5 | 760.9 | 23.8 | 1,462.2 |
| thereof external revenue | 92.4 | 134.9 | 46.0 | 203.9 |
| thereof internal revenue | 522.1 | 626.0 | 19.9 | 1,258.3 |
| Operating expenses Value-add | -560.1 | -685.2 | 22.3 | -1,341.0 |
| **Adjusted EBITDA Value-add** | **54.4** | **75.7** | **39.2** | **121.2** |
| Income from disposals Recurring Sales | 156.3 | 174.9 | 11.9 | 356.1 |
| Fair value of properties sold adjusted to reflect effects not relating to the period from assets held for sale in the Recurring Sales segment | -114.5 | -124.5 | 8.7 | -262.8 |
| **Adjusted result Recurring Sales** | **41.8** | **50.4** | **20.6** | **93.3** |
| Selling costs Recurring Sales | -6.9 | -8.0 | 15.9 | -14.2 |
| **Adjusted EBITDA Recurring Sales** | **34.9** | **42.4** | **21.5** | **79.1** |
| Income from disposal of “Development to sell” properties | 73.5 | 124.9 | 69.9 | 225.1 |
| Cost of Development to sell | -60.6 | -95.2 | 57.1 | -181.8 |
| **Gross profit Development to sell** | **12.9** | **29.7** | **>100** | **43.3** |
| Fair value Development to hold | 25.5 | 103.8 | >100 | 98.0 |
| Cost of Development to hold | -22.8 | -86.1 | >100 | -79.3 |
| **Gross profit Development to hold*** | **2.7** | **17.7** | **>100** | **18.7** |
| Operating expenses in the Development segment | -7.7 | -16.7 | >100 | -22.6 |
| **Adjusted EBITDA Development** | **7.9** | **30.7** | **>100** | **39.4** |
| **Adjusted EBITDA Total** | **714.1** | **872.8** | **22.2** | **1,554.8** |
| FFO interest expense | -140.1 | -177.8 | 26.9 | -328.8 |
| Current income taxes FFO | -15.8 | -30.6 | 93.7 | -36.5 |
| Consolidation** | -18.8 | -55.3 | >100 | -57.5 |
| **Group FFO** | **539.4** | **609.1** | **12.9** | **1,132.0** |

* Prior-year value new construction VTS: € 0.6 million, BUWOG: € 2.1 million.
** Thereof intragroup profits in H1 2019: € 23.8 million (H1 2018: € 16.1 million), valuation result for new construction/development to hold in H1 2019: € 17.7 million (H1 2018: € 2.7 million), IFRS 16 effects H1 2019: € 13.8 million (H1 2018: € 0.0 million).

As of the end of June 2019, our apartments were still virtually fully occupied. The vacancy rate of 2.9% was up slightly on the value of 2.8% seen at the end of June 2018. Rental income in the **Rental segment** rose by 13.9% from € 890.7 million in the first half of 2018 to € 1,014.8 million in the first half of 2019, largely due to the acquisitions of BUWOG and Victoria Park in the previous year. BUWOG contributed a volume of € 100.4 million (April–June 2018: € 51.9 million), while Victoria Park contributed € 65.0 million. Out of the total rental income in the Rental segment of € 1,014.8 million, € 895.6 million is attributable to the portfolio in Germany (H1 2018: € 858.3 million), € 54.2 million to the portfolio in Austria (H1 2018: € 32.4 million) and € 65.0 million to the portfolio in Sweden. The increase in rent due to market-related factors came to 1.2%. We were also able to achieve an increase in rent of 2.5% thanks to housing quality improvements achieved as part of our modernization program. The corresponding like-for-like increase in rent came to 3.7% in the 2019 reporting period. If we also include the increase in rent due to new construction measures and measures to add extra stories, then we arrive at an organic increase in rent of 4.0% in total. The average monthly in-place rent within the Group at the end of June 2019 came to € 6.64 per $m^2$ compared to € 6.36 per $m^2$ at the end of June 2018. At the end of June 2019, the monthly in-place rent in the German portfolio came to € 6.65 per $m^2$ with a value of € 4.59 per $m^2$ for the Austrian portfolio and a value of € 9.20 per $m^2$ for the Swedish portfolio. The rental income from the Austrian property portfolio additionally includes maintenance and improvement contributions (EVB). The rental income from the portfolio in Sweden shows rents including ancilliary expenses.

## Maintenance and Modernization

| in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Expenses for maintenance | 140.0 | 147.0 | 5.0 | 289.7 |
| Capitalized maintenance | 65.3 | 61.7 | -5.5 | 140.7 |
| Modernization work* | 360.2 | 595.6 | 65.4 | 1,139.0 |
| **Total cost of modernization and maintenance** | **565.5** | **804.3** | **42.2** | **1,569.4** |

* Incl. new construction H1 2019: € 163.5 million, H1 2018: € 26.4 million.

We continued successfully with our modernization and maintenance strategy in the first half of 2019. The total volume increased from € 565.5 million in the first half of 2018 to € 804.3 million in the first half of 2019. This was driven by an increase in the modernization volume including new construction, which rose by 65.4% from € 360.2 million in 2018 to € 595.6 million in 2019.

Operating expenses in the Rental segment in the first half of 2019 were up by 7.5% on the figures for 2018, from € 133.8 million to € 143.8 million. This development is due primarily to the larger portfolio thanks to the acquisitions of BUWOG and Victoria Park. All in all, Adjusted EBITDA Rental rose by 17.4%, from € 616.9 million in the first half of 2018 to € 724.0 million in 2019.

The **Value-add segment** showed positive development in the first half of 2019. We expanded the services offered by our craftsmen's organization even further and continued to invest in improvements to the existing building stock. In addition, we also continued to expand our business activities relating to the provision of cable television to our tenants, metering services and insurance and residential environment services. At the end of the first half of 2019, Vonovia Immobilien Treuhand provided services to a total of around 100,600 units, of which 79,015 are apartments managed for third parties. We once again expanded our energy supply services in the first six months. We supplied a total of around 15,000 households with energy directly at the end of the first half of 2019.

External revenue from our Value-add activities with our end customers in the first half of 2019 rose by 46.0% as against the same period of 2018, from € 92.4 million to € 134.9 million. Group revenue rose by 19.9% in the same period, from € 522.1 million in 2018 to € 626.0 million in 2019. Overall, this results in a 23.8% increase in the revenue from the Value-add segment, from € 614.5 million in the 2018 reporting period to € 760.9 million in 2019. The Adjusted EBITDA Value-add rose by 39.2% in the first half of 2019 to € 75.7 million as against € 54.4 million in the first half of 2018.

The EBITDA margin of the core business, calculated based on the Adjusted EBITDA Operations (total of the Adjusted EBITDA Rental and the Adjusted EBITDA Value-add less any intragroup profits included in these figures) in relation to rental income within the Group, once again showed positive development in the reporting period. It increased from 73.4% (including BUWOG) in the first half of 2018 to 76.4% in the current reporting period.

We continued to pursue our selective sales strategy in the first half of 2019. In the Recurring Sales segment, we report all business activities relating to the sale of single residential units (Privatize).

In the **Recurring Sales segment,** the income from disposal of properties came to € 174.9 million in the first half of 2019, up by 11.9% on the value of € 156.3 million reported in the same period of 2018; of this, € 125.1 million are attributed to sales in Germany (H1 2018: € 118.7 million) and € 49.8 million to sales in Austria (H1 2018: € 37.6 million). We privatized 1,234 apartments in the first six months of 2019 (H1 2018: 1,200), thereof 958 in Germany (H1 2018: 1,006) and 276 in Austria (H1 2018: 194). Adjusted EBITDA Recurring Sales came in at € 42.4 million in the first half of 2019, up by 21.5% on the value of € 34.9 million seen in the first half of 2018. The fair value step-up for Recurring Sales came in at 40.5% in the 2019 reporting period, up against the comparative value of 36.6% for 2018.

Outside of the Recurring Sales segment, we made 754 Non-core Disposals as part of our portfolio adjustment measures in the first six months of 2019 (H1 2018: 5,085) with total proceeds of € 51.8 million (H1 2018: € 230.1 million). At 20.4%, the fair value step-up for Non-core Disposals was considerably higher than for the same period in the previous year (15.4%).

The **Development segment** showed successful development in the first half of 2019. A comparison of the following key figures with the previous year is only possible to a limited extent, due to the acquisition of BUWOG on March 31, 2018. In the "Development to sell" area, the income from disposal of properties came to € 124.9 million, up by 69.9% on the value of € 73.5 million achieved in the first half of 2018, with € 53.9 million attributable to project development in Germany and € 71.0 million attributable to project development in Austria. The resulting gross profit for "Development to sell" came to € 29.7 million (H1 2018: € 12.9 million). In the "Development to hold" area, a fair value of € 103.8 million was achieved in the reporting period (H1 2018: € 25.5 million), with € 74.8 million attributable to project development in Germany (H1 2018: € 25.5 million) and € 29.0 million attributable to project development in Austria. The gross profit for "Development to hold" came to € 17.7 million (H1 2018: € 2.7 million). The Adjusted EBITDA for the Development segment amounted to € 30.7 million in the first half of 2019 (H1 2018: € 7.9 million). A total of 379 units were completed in the "Development to sell" area in the first half of 2019 (H1 2018: 365), thereof 74 in Germany (H1 2018: 61) and 305 in Austria (H1 2018: 304). In the "Development to hold" area, a total of 385 units were completed (H1 2018: 176), thereof 257 in Germany (H1 2018: 176 units) and 128 units in Austria. Around 36,000 units are in the development pipeline at the end of the first half of 2019.

In the first six months of the year, the primary key figure for the sustained earnings power of the core business, Group FFO, increased by 12.9%, from € 539.4 million in 2018 to € 609.1 million in 2019, largely due to acquisitions. This trend was fueled primarily by the positive development in adjusted EBITDA total, which rose by 22.2% from € 714.1 million to € 872.8 million during the reporting period.

In the 2019 reporting period, the **non-recurring items** eliminated in the adjusted EBITDA total came to € 25.3 million (H1 2018: € 50.5 million). The following table gives a detailed list of the non-recurring items:

## Non-recurring Items

| in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Acquisition costs incl. integration costs* | 30.0 | 11.6 | -61.3 | 87.8 |
| Severance payments/pre-retirement part-time work arrangements | 13.3 | 8.9 | -33.1 | 18.3 |
| Business model optimization/development of new fields of business | 7.4 | 0.6 | -91.9 | 0.8 |
| Refinancing and equity measures | -0.2 | 4.2 | – | -0.3 |
| **Total non-recurring items** | **50.5** | **25.3** | **-49.9** | **106.6** |

* Including takeover costs and non-recurring expenses in connection with acquisitions, such as HR measures relating to the integration process.

Figures for the previous year shown in line with the current reporting structure.

## Reconciliations

The **financial result** changed from € -195.7 million in the first six months of 2018 to € -233.1 million in 2019. FFO interest expense is derived from the financial result as follows:

### Reconciliation of Financial Result/FFO Interest Expense

| in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Income from loans | 1.3 | 1.0 | -23.1 | 2.2 |
| Interest income | 3.9 | 2.6 | -33.3 | 6.8 |
| Interest expense | -200.9 | -236.7 | 17.8 | -449.1 |
| **Financial result*** | **-195.7** | **-233.1** | **19.1** | **-440.1** |
| Adjustments: | | | | |
| Transaction costs | 8.4 | 19.4 | >100 | 14.2 |
| Prepayment penalties and commitment interest | 3.6 | 7.5 | >100 | 8.4 |
| Effects from the valuation of non-derivative financial instruments | 7.7 | -12.8 | – | 14.9 |
| Derivatives | 10.1 | 30.0 | >100 | 14.3 |
| Interest accretion to provisions | 3.9 | 4.8 | 23.1 | 9.1 |
| Accrued interest | 37.8 | -2.3 | – | 43.4 |
| Interest on prior-year tax | – | – | – | 20.3 |
| Other effects | 7.3 | 2.6 | -64.4 | 13.5 |
| **Net cash interest** | **-116.9** | **-183.9** | **57.3** | **-302.0** |
| Deferred interest adjustment/IFRS16 Leasing | -37.8 | 6.5 | – | -43.4 |
| Adjustments income from investments in other real estate companies | 13.9 | 0.2 | -98.6 | 14.0 |
| Adjustment of interest paid due to taxes | 0.7 | -0.6 | – | 2.6 |
| **Interest expense FFO** | **-140.1** | **-177.8** | **26.9** | **-328.8** |

* Excluding income from other investments.

In the first six months of 2019, the FFO interest expense came to € -177.8 million, up by 26.9% on the prior-year value of € -140.1 million, primarily due to the 100% debt financing of the BUWOG acquisition at the end of the first quarter of 2018.

In the first six months of 2019, the profit for the period came to € 125.3 million as against € 1,200.0 million in the first half of 2018. The goodwill impairments in the amount of € 1,901.0 million in the first half of 2019 were the main factor behind this (H1 2018: € 0.0 million). This was counteracted by the net income from fair value adjustments of investment properties of € 2,258.7 million (H1 2018: € 1,372.9 million).

## Reconciliation of Profit for the Period/Group FFO

| in € million | H1 2018 | H1 2019 | Change in % | 12M 2018 |
|---|---|---|---|---|
| Profit for the Period | 1,200.0 | 125.3 | -89.6 | 2,402.8 |
| Financial result* | 195.7 | 233.1 | 19.1 | 440.1 |
| Income taxes | 646.7 | 776.3 | 20.0 | 1,471.5 |
| Depreciation and amortization | 23.3 | 1,935.9 | >100 | 737.9 |
| Net income from fair value adjustments of investment properties | -1,372.9 | -2,258.7 | 64.5 | -3,517.9 |
| **= EBITDA IFRS** | **692.8** | **811.9** | **17.2** | **1,534.4** |
| Non-recurring items | 50.5 | 25.3 | -49.9 | 106.6 |
| Total period adjustments from assets held for sale | -7.8 | 0.3 | – | -0.5 |
| Financial income from investments in other companies | -13.9 | -0.2 | -98.6 | -14.0 |
| Other (Non-core Disposals) | -26.3 | -6.0 | -77.2 | -129.2 |
| Intragroup profits | 16.1 | 23.8 | 47.8 | 38.8 |
| Valuation result new construction/development to hold | 2.7 | 17.7 | >100 | 18.7 |
| **= Adjusted EBITDA Total** | **714.1** | **872.8** | **22.2** | **1,554.8** |
| Interest expense FFO** | -140.1 | -177.8 | 26.9 | -328.8 |
| Current income taxes FFO | -15.8 | -30.6 | 93.7 | -36.5 |
| Consolidation | -18.8 | -55.3 | >100 | -57.5 |
| **= Group FFO** | **539.4** | **609.1** | **12.9** | **1,132.0** |
| Group FFO per share in €*** | 1.04 | 1.12 | 7.7 | 2.18 |

* Excluding income from investments.
** Incl. financial income from investments in other real estate companies.
*** Based on the shares carrying dividend rights on the reporting date June 30, 2018: 518,077,934, June 30, 2019: 542,273,611 and December 31, 2018: 518,077,934.

# Assets

## Consolidated Balance Sheet Structure

| | Dec. 31, 2018 | | June 30, 2019 | |
|---|---|---|---|---|
| | in € million | in % | in € million | in % |
| Non-current assets | 47,639.6 | 96.5 | 48,565.9 | 95.4 |
| Current assets | 1,748.0 | 3.5 | 2,317.1 | 4.6 |
| **Assets** | **49,387.6** | **100.0** | **50,883.0** | **100.0** |
| Total equity | 19,664.1 | 39.8 | 20,071.8 | 39.4 |
| Non-current liabilities | 25,577.8 | 51.8 | 27,147.0 | 53.4 |
| Current liabilities | 4,145.7 | 8.4 | 3,664.2 | 7.2 |
| **Equity and Liabilities** | **49,387.6** | **100.0** | **50,883.0** | **100.0** |

The Group's total assets increased by € 1,495.4 million as against December 31, 2018, rising from € 49,387.6 million to € 50,883.0 million. This was largely due to a € 3,406.0 million increase in investment properties from € 43,490.9 million to € 46,896.9 million, with € 2,258.7 million resulting from the property valuation process (€ 2,056.2 million of it in Germany). The impairment of goodwill in the amount of € 1,901.0 million has a counteracting effect. The impairment loss is a result of the impairment test performed in the second quarter of 2019. In addition, non-current assets fell by € 672.8 million due to the sale of the shares in Deutsche Wohnen SE. Current assets rose by € 732.9 million, primarily due to an increase in cash and cash equivalents. Goodwill and trademark rights comprise 2.0% of the total assets.

As of June 30, 2019, the **gross asset value (GAV)** of Vonovia's property assets came to € 47,704.5 million, which corresponds to 93.8% of total assets compared with € 44,226.9 million or 89.6% at the end of 2018.

The € 407.7 million increase in total equity from € 19,664.1 million to € 20,071.8 million is due, in particular, to the capital increases implemented in May and June 2019 in the amount of € 1,080.9 million in total (after deductions to reflect transaction costs). The dividend distributions in the sum of € 746.0 million had the opposite effect. In addition, the development of equity was influenced by the profit for the first six months of € 125.3 million and, with the opposite effect, by the equity effect resulting from the initial application of the new IFRS standards on lease accounting (IFRS 16) in the amount of € -35.0 million (€ -24.1 million after taking deferred taxes into account).

This brings the equity ratio to 39,4%, compared with 39,8% at the end of 2018.

Liabilities increased by € 1,087.7 million from € 29,723.5 million to € 30,811.2 million. The amount of non-derivative financial liabilities rose by € 390.4 million, largely due to the purchase of a real estate portfolio in Sweden. Beyond this, liabilities increased by € 692.1 million due to the increase in deferred taxes as a result of the increase in the value of the real estate portfolio.

## Net Asset Value

Vonovia's net asset value (NAV) figures are based on the best practice recommendations of the EPRA (European Public Real Estate Association). At the end of the first half of 2019, the EPRA NAV came to € 27,240.6 million, up by 4.4% on the value of € 26,105.0 million seen at the end of 2018. EPRA NAV per share developed from € 50.39 at the end of 2018 to € 50.23 at the end of the first half of 2019. The Adjusted NAV of € 26,305.0 million at the end of the first half of 2019 was an increase of 13.1% over € 23,262.6 million at the end of 2018. This represents an increase in the Adjusted NAV per share from € 44.90 at the end of 2018 to € 48.51 at the end of the first half of 2019.

### Net Asset Value (NAV)

| in € million | Dec. 31, 2018 | June 30, 2019 | Change in % |
|---|---|---|---|
| Total equity attributable to Vonovia shareholders | 17,880.2 | 18,264.2 | 2.1 |
| Deferred taxes on investment properties | 8,161.1 | 8,900.5 | 9.1 |
| Fair value of derivative financial instruments* | 87.2 | 103.2 | 18.3 |
| Deferred taxes on derivative financial instruments | -23.5 | -27.3 | 16.2 |
| EPRA NAV | 26,105.0 | 27,240.6 | 4.4 |
| Goodwill | -2,842.4 | -935.6 | -67.1 |
| **Adjusted NAV** | **23,262.6** | **26,305.0** | **13.1** |
| **EPRA NAV per share in €**** | **50.39** | **50.23** | **-0.3** |
| **Adjusted NAV per share in €**** | **44.90** | **48.51** | **8.0** |

* Adjusted for effects from cross currency swaps.
** Based on the number of shares on the reporting date Dec. 31, 2018: 518,077,934, June 30, 2019: 542,273,611.

## Fair Values

Major market developments and valuation parameters that have an impact on the fair values of Vonovia are assessed on an ongoing basis. Due to the market momentum recognized across Germany in the first half of 2019, Vonovia arranged for a new valuation to be performed for the locations that have been affected the most, i.e., on around two-thirds of the portfolio. This led to net income from the valuation of € 2,258.7 million.

In addition, buildings under construction (new construction/development to hold) were completed during the reporting period. A fair value measurement is performed for the first time when the properties are completed. This results in a valuation effect of € 17.7 million for the period from January 1 to June 30, 2019 (H1 2018: € 2.7 million from new construction VTS and BUWOG).

In June, the Berlin State Government decided some basic points on a white paper for a rent freeze, which intends to freeze rents in the city for a period of five years, with only a small number of exceptions. A corresponding law is to be developed in the fall of 2019 and promulgated in early 2020. The exact details of the law and its constitutionality are currently unclear. It remains to be seen how the market will react. There is no evidence of any impact on fair values at the time of the half-year financial statements.

The recognition and valuation of investment properties are explained in detail in the consolidated financial statements for 2018.

## Financial Position

### Cash Flow

The following table shows the Group cash flow:

#### Key Data from the Statement of Cash Flows

| in € million | H1 2018 | H1 2019 |
|---|---|---|
| Cash flow from operating activities | 513.5 | 774.8 |
| Cash flow from investing activities | -3,158.7 | -82.1 |
| Cash flow from financing activities | 3,244.8 | 40.2 |
| **Net changes in cash and cash equivalents** | **599.6** | **732.9** |
| Cash and cash equivalents at the beginning of the period | 266.2 | 547.7 |
| **Cash and cash equivalents at the end of the period** | **865.8** | **1,280.6** |

The cash flow from **operating activities** increased from € 513.5 million in the first half of 2018 to € 774.8 million in the first half of 2019. The low payouts in net current assets had a positive effect on operating cash flow.

The cash flow from **investing activities** shows a payout balance of € -82.1 million for the first half of 2019, including income from the sale of the shares in Deutsche Wohnen SE in the amount of € 698.1 million. Payments for the acquisition of investment properties came to € -1,176.9 million. Included in this is the purchase of a real estate portfolio in Sweden for € 406.8 million. On the other hand, income from portfolio sales in the amount of € 438.0 million was collected. The previous year was largely characterized by the net purchase price payments for the shares in BUWOG and Victoria Park in the total amount of € 2,934.2 million.

The cash flow from **financing activities** includes payments for regular and unscheduled repayments in the amount of € -1,611.2 million and, on the other hand, proceeds from issuing financial liabilities in the amount of € 1,995.3 million. Payouts for transaction and financing costs amounted to € 42.0 million. Interest paid came to € -188.0 million in the first half of 2019. The cash flow from financing activities also includes payments for the acquisition of shares in non-controlling interests in the amount of € -435.5 million, mainly in connection with the acquisition of all remaining shares in BUWOG as well as the exercise of the call options for the shares in Victoria Park.

Net changes in **cash and cash equivalents** came to € 732.9 million.

### Financing

According to the publication dated May 8, 2019, Vonovia's credit rating as awarded by the agency Standard & Poor's is an unchanged 'BBB+' with a stable outlook for the long-term corporate credit rating and 'A-2' for the short-term corporate credit rating. At the same time, the credit rating for the issued and unsecured bonds is 'BBB+.'

A European medium-term notes program (EMTN program) has been launched for the Group via Vonovia Finance B.V., allowing funds to be raised quickly at any time using bond issues and without any major administrative outlay. The prospectus for the EMTN program has to be updated annually and approved by the financial supervisory authority of the Grand Duchy of Luxembourg (CSSF).

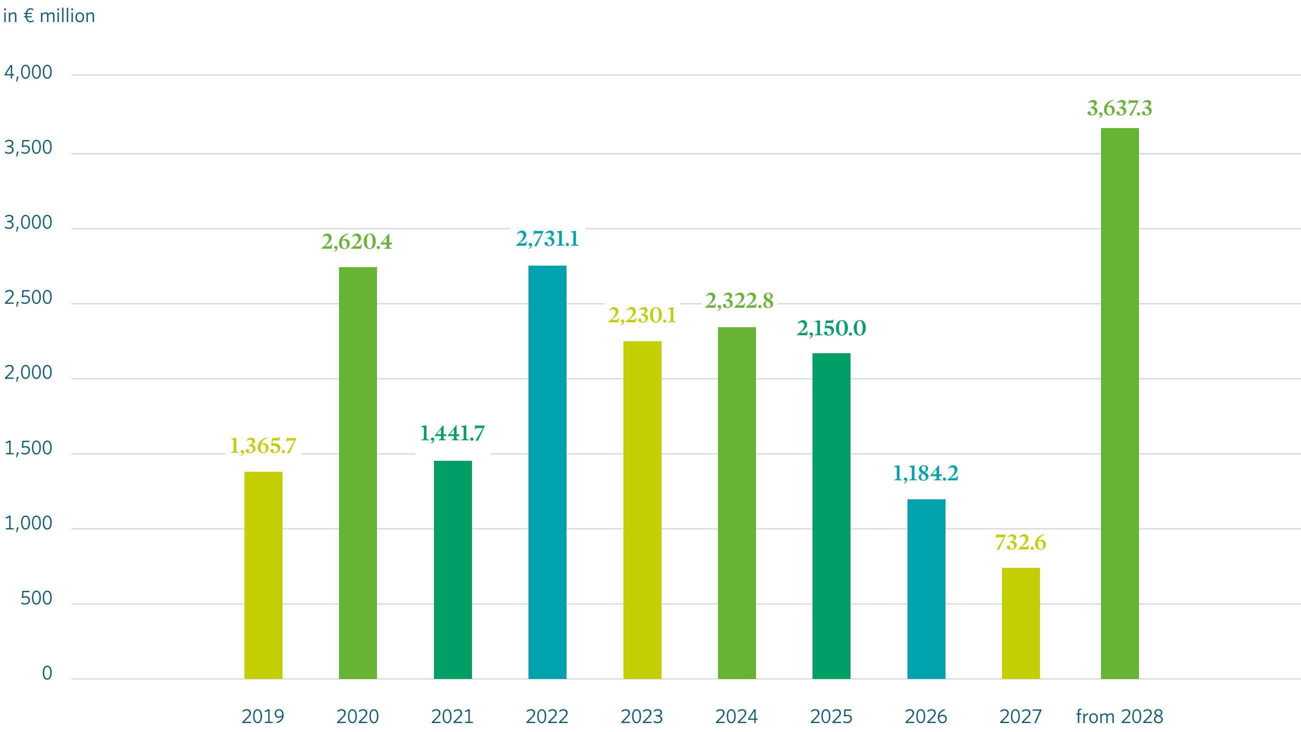
As of the reporting date of June 30, 2019, Vonovia Finance B.V. had placed a total bond volume of € 13.1 billion, € 12.4 billion of which relates to the EMTN program. With effect from January 29, 2019 and as part of its EMTN program, Vonovia placed a bond with a nominal volume of € 500 million and a coupon of 1.800% maturing on June 29, 2025. The first interest payment date is June 29, 2019.

Victoria Park informed all bondholders on June 17, 2019 and repaid the corporate bond (Bond Sweden) in the amount of € 58.5 million in due form effective June 10, 2019.

On April 8, 2019, Vonovia repaid the subordinated debenture (hybrid) of € 700 million issued by Vonovia Finance B.V. in full.

The **debt maturity profile** of Vonovia's financing was as follows as of June 30, 2019:

### Maturity Profile




In connection with the issue of unsecured bonds by Vonovia Finance B.V., Vonovia has undertaken to comply with the following standard market covenants:

> Limitations on incurrence of financial indebtedness
> Maintenance of consolidated coverage ratio
> Maintenance of total unencumbered assets

The existing structured and secured financing arrangements also require adherence to certain standard market covenants. Any failure to meet the agreed financial covenants could have a negative effect on the liquidity status.

The LTV (loan to value) is as follows as of the reporting date:

| in € million | Dec. 31, 2018 | June 30, 2019 | Change in % |
|---|---|---|---|
| Non-derivative financial liabilities | 20,136.0 | 20,526.4 | 1.9 |
| Foreign exchange rate effects | -33.5 | -34.9 | 4.2 |
| Cash and cash equivalents | -547.7 | -1,280.6 | >100 |
| **Net debt** | **19,554.8** | **19,210.9** | **-1.8** |
| Receivables/Prepayments from sales | -256.7 | 15.0 | -105.8 |
| **Adjusted net debt** | **19,298.1** | **19,225.9** | **-0.4** |
| | | | |
| **Fair value of the real estate portfolio** | **44,239.9** | **47,449.0** | **7.3** |
| Shares in other real estate companies | 800.3 | 127.4 | -84.1 |
| **Adjusted fair value of the real estate portfolio** | **45,040.2** | **47,576.4** | **5.6** |
| | | | |
| **LTV** | **42.8%** | **40.4%** | **-2.4 pp** |

The financial covenants have been fulfilled as of the reporting date.

| in € million | Dec. 31, 2018 | June 30, 2019 | Change in % |
|---|---|---|---|
| Non-derivative financial liabilities | 20,136.0 | 20,526.4 | 1.9 |
| **Total assets** | **49,387.6** | **50,883.0** | **3.0** |
| | | | |
| **LTV bond covenants** | **40.8%** | **40.3%** | **-0.5 pp** |

# Opportunities and Risks

For the purposes of the interim financial statements as of June 30, 2019, there are no opportunities and risks over and above, or material changes to, the opportunities and risks set out in the combined management report for the 2018 fiscal year.

There are no indications of any risks that could pose a threat to the company's existence, and – as things stand at present – no such risks are expected to arise in the future.

# Business Outlook

The first six months of the 2019 fiscal year were very successful for Vonovia on the whole. We were systematic in continuing to implement our corporate strategy. All business segments showed positive development.

We expect these positive developments to continue in the 2019 fiscal year and that we will achieve our forecast figures. Given the dynamic development of the German, Austrian and Swedish housing markets, we expect to see a further increase in value in our investment properties and thus a moderate increase in Adjusted NAV per share. We do not expect significant effects from the current discussion about the Berlin rent freeze.

Our current forecast is based on the outlook for the Vonovia Group as a whole, which includes the original overall plans for the 2019 fiscal year, as well as current business developments and possible opportunities and risks. Beyond this, the Group's further development remains exposed to general opportunities and risks. These have been described in detail in the chapter on opportunities and risks in the Group management report of the 2018 Annual Report. The forecast was based on the accounting principles used in the annual financial statements, with the adjustments described elsewhere in the management report being made.

Our current forecast for the main performance indicators in the 2019 fiscal year was updated in accordance with the accounting standards applied to the 2019 quarterly financial statements, including the initial application of IFRS 16:

| | Actual 2018 | Forecast 2019 | Forecast for 2019 in the 2019 Q1 Report | Forecast for 2019 in the 2019 H1 Report |
|---|---|---|---|---|
| Adjusted NAV per share | € 44.90 | suspended | suspended | suspended |
| Adjusted EBITDA Total | € 1,554.8 million | € 1,650–1,700 million | € 1,700–1,750 million | € 1,700–1.750 million |
| Group FFO | € 1,132.0 million | € 1,140–1,190 million | € 1,165–1,215 million | € 1,165–1,215 million |
| Group FFO per share* | € 2.18 | € 2.20–2.30 | € 2.25–2.35 | € 2.15–2.24 |
| Customer Satisfaction Index (CSI) | Decrease of 2.6% | Up slightly year-on-year | Down slightly year-on-year | Single-digit percentage below prior year |
| Rental income | € 1,894.2 million | € 2,020–2,070 million | € 2,020–2,070 million | € 2,020–2,070 million |
| Organic rent increase | 4.4% | Increase of approx. 4.4% | Increase of approx. 4.4% | Increase of approx. 4.4% |
| Maintenance incl. capitalized maintenance | € 430.4 million | – | - | – |
| Modernization and new construction | € 1,139.0 million | € 1,300–1,600 million | € 1,300–1,600 million | € 1,300–1,600 million |
| Number of units sold Recurring Sales | 2,818 | approx. 2,500 | approx. 2,500 | approx. 2,500 |
| Step-up Recurring Sales | 35.5% | approx. 30% | approx. 30% | approx. 30% |
| Number of units sold Non-core Disposals | 12,284 | – | – | – |
| Step-up Non-core Disposals | 23.0% | – | – | – |

* Based on the shares carrying dividend rights on the reporting date.

Bochum, Germany, July 22, 2019

Management Board

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated Income Statement

| in € million | Notes | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 | Apr. 1– June 30, 2018 | Apr. 1– June 30, 2019 |
|---|---|---|---|---|---|
| Income from property letting | | 1,258.6 | 1,396.9 | 669.3 | 702.7 |
| Other income from property management | | 24.3 | 35.2 | 13.6 | 17.7 |
| **Income from property management** | 5 | **1,282.9** | **1,432.1** | **682.9** | **720.4** |
| Income from disposal of properties | | 386.4 | 226.7 | 272.4 | 72.2 |
| Carrying amount of properties sold | | -340.5 | -194.7 | -234.7 | -57.6 |
| Revaluation of assets held for sale | | 34.6 | 27.0 | 25.9 | 21.0 |
| **Profit on disposal of properties** | 6 | **80.5** | **59.0** | **63.6** | **35.6** |
| Income from the disposal of properties (Development) | | 73.5 | 124.9 | 73.5 | 65.5 |
| Cost of sold properties | | -60.6 | -95.2 | -60.6 | -49.1 |
| **Profit on the disposal of properties (Development)** | | **12.9** | **29.7** | **12.9** | **16.4** |
| Net income from fair value adjustments of investment properties | 7 | 1,372.9 | 2,258.7 | 1,372.9 | 2,201.8 |
| Capitalized internal expenses | | 255.7 | 309.9 | 150.1 | 171.4 |
| Cost of materials | 8 | -627.3 | -693.1 | -347.1 | -358.6 |
| Personnel expenses | | -236.9 | -265.3 | -125.1 | -131.4 |
| Depreciation and amortization | | -23.3 | -1,935.9 | -14.3 | -1,919.4 |
| Other operating income | | 47.2 | 51.9 | 24.6 | 27.6 |
| Impairment losses on financial assets | | -10.0 | -9.9 | -4.4 | -4.4 |
| Gains resulting from the derecognition of financial assets measured at amortized cost | | 1.3 | 1.2 | 0.2 | 0.1 |
| Other operating expenses | | -134.9 | -110.2 | -78.1 | -51.5 |
| Net income from investments accounted for using the equity method | | -0.2 | -2.4 | -0.5 | -2.5 |
| Financial income | 9 | 26.8 | 12.6 | 17.5 | 1.4 |
| Financial expenses | 10 | -200.9 | -236.7 | -115.9 | -121.4 |
| **Earnings before tax** | | **1,846.7** | **901.6** | **1,639.3** | **585.5** |
| Income taxes | 11 | -646.7 | -776.3 | -568.5 | -661.6 |
| **Profit for the period** | | **1,200.0** | **125.3** | **1,070.8** | **-76.1** |
| Attributable to: | | | | | |
| Vonovia's shareholders | | 1,143.4 | 98.7 | 1,027.2 | -86.5 |
| Vonovia's hybrid capital investors | | 14.8 | 14.8 | 7.4 | 7.4 |
| Non-controlling interests | | 41.8 | 11.8 | 36.2 | 3.0 |
| **Earnings per share (basic and diluted) in €** | | **2.32** | **0.19** | **2.05** | **-0.16** |

# Consolidated Statement of Comprehensive Income

| in € million | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 | Apr. 1– June 30, 2018 | Apr. 1– June 30, 2019 |
|---|---|---|---|---|
| Profit for the period | 1,200.0 | 125.3 | 1,070.8 | -76.1 |
| Cash flow hedges | | | | |
| Change in unrealized gains/losses | -3.9 | -6.0 | 5.2 | -5.2 |
| Taxes on the change in unrealized gains/losses | 2.8 | 2.0 | -0.9 | 1.7 |
| Net realized gains/losses | 0.3 | 5.4 | -8.3 | 6.7 |
| Taxes due to net realized gains/losses | -0.1 | -0.2 | 2.7 | -1.4 |
| Total | -0.9 | 1.2 | -1.3 | 1.8 |
| Currency translation differences | | | | |
| Changes in the period | -1.9 | -27.6 | -1.9 | -14.8 |
| Total | -1.9 | -27.6 | -1.9 | -14.8 |
| Items which will be recognized in profit or loss in the future | -2.8 | -26.4 | -3.2 | -13.0 |
| Equity instruments at fair value in other comprehensive income | | | | |
| Changes in the period | 83.1 | 30.5 | 58.8 | 0.1 |
| Taxes on changes in the period | -1.0 | -0.4 | -0.8 | – |
| Total | 82.1 | 30.1 | 58.0 | 0.1 |
| Actuarial gains and losses from pensions and similar obligations | | | | |
| Change in actuarial gains/losses | – | -48.8 | – | -25.7 |
| Tax effect | – | 16.2 | – | 8.5 |
| Total | – | -32.6 | – | -17.2 |
| Items which will not be recognized in profit or loss in the future | 82.1 | -2.5 | 58.0 | -17.1 |
| Other comprehensive income | 79.3 | -28.9 | 54.8 | -30.1 |
| **Total comprehensive income** | **1,279.3** | **96.4** | **1,125.6** | **-106.2** |
| Attributable to: | | | | |
| Vonovia's shareholders | 1,222.7 | 72.7 | 1,082.0 | -115.0 |
| Vonovia's hybrid capital investors | 14.8 | 14.8 | 7.4 | 7.4 |
| Non-controlling interests | 41.8 | 8.9 | 36.2 | 1.4 |

# Consolidated Balance Sheet

## Assets

| in € million | Notes | Dec. 31, 2018 | June 30, 2019 |
|---|---|---|---|
| Intangible assets | 12 | 2,943.2 | 1,038.4 |
| Property, plant and equipment | | 250.4 | 332.8 |
| Investment properties | 13 | 43,490.9 | 46,896.9 |
| Financial assets | | 888.8 | 228.5 |
| Other assets | | 12.2 | 15.3 |
| Deferred tax assets | | 54.1 | 54.0 |
| Total non-current assets | | 47,639.6 | 48,565.9 |
| Inventories | | 8.8 | 9.9 |
| Trade receivables | | 493.1 | 219.9 |
| Financial assets | | 0.8 | 1.0 |
| Other assets | | 114.4 | 233.6 |
| Income tax receivables | | 170.2 | 120.6 |
| Cash and cash equivalents | | 547.7 | 1,280.6 |
| Real estate inventories | | 307.1 | 312.4 |
| Assets held for sale | | 105.9 | 139.1 |
| Total current assets | | 1,748.0 | 2,317.1 |
| **Total assets** | | **49,387.6** | **50,883.0** |

## Equity and liabilities

| in € million | Notes | Dec. 31, 2018 | June 30, 2019 |
|---|---|---|---|
| Subscribed capital | | 518.1 | 542.3 |
| Capital reserves | | 7,183.4 | 8,238.4 |
| Retained earnings | | 9,942.0 | 9,533.3 |
| Other reserves | | 236.7 | - 49.8 |
| **Total equity attributable to Vonovia's shareholders** | | **17,880.2** | **18,264.2** |
| Equity attributable to hybrid capital investors | | 1,001.6 | 1,021.4 |
| **Total equity attributable to Vonovia's shareholders and hybrid capital investors** | | **18,881.8** | **19,285.6** |
| Non-controlling interests | | 782.3 | 786.2 |
| **Total equity** | 14 | **19,664.1** | **20,071.8** |
| Provisions | | 616.7 | 659.2 |
| Trade payables | | 4.4 | 2.8 |
| Non-derivative financial liabilities | 15 | 17,437.5 | 17,944.7 |
| Derivatives | | 69.8 | 90.5 |
| Lease liabilities | | 94.7 | 420.6 |
| Liabilities to non-controlling interests | | 24.2 | 23.6 |
| Financial liabilities from tenant financing | | 56.1 | 53.3 |
| Other liabilities | | 42.5 | 28.3 |
| Deferred tax liabilities | | 7,231.9 | 7,924.0 |
| **Total non-current liabilities** | | **25,577.8** | **27,147.0** |
| Provisions | | 450.5 | 461.2 |
| Trade payables | | 239.1 | 196.6 |
| Non-derivative financial liabilities | 15 | 2,698.5 | 2,581.7 |
| Derivatives | | 41.4 | 43.5 |
| Lease liabilities | | 4.7 | 24.9 |
| Liabilities to non-controlling interests | | 9.0 | 7.0 |
| Financial liabilities from tenant financing | | 104.7 | 106.0 |
| Other liabilities | | 597.8 | 243.3 |
| **Total current liabilities** | | **4,145.7** | **3,664.2** |
| **Total liabilities** | | **29,723.5** | **30,811.2** |
| **Total equity and liabilities** | | **49,387.6** | **50,883.0** |

# Consolidated Statement of Cash Flows

| in € million | Notes | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 |
|---|---|---|---|
| Profit for the period | | 1,200.0 | 125.3 |
| Net income from fair value adjustments of investment properties | 7 | -1,372.9 | -2,258.7 |
| Revaluation of assets held for sale | 6 | -34.6 | -27.0 |
| Depreciation and amortization | | 23.3 | 1,935.9 |
| Interest expenses/income | 9/10 | 196.0 | 233.1 |
| Income taxes | 11 | 646.7 | 776.3 |
| Results from disposals of investment properties | 6 | -45.9 | -32.0 |
| Results from disposals of other non-current assets | | 0.4 | 1.0 |
| Other expenses/income not affecting net income | | 0.5 | 1.7 |
| Change in working capital | | -70.8 | 17.2 |
| Income tax paid | | -29.2 | 2.0 |
| **Cash flow from operating activities** | | **513.5** | **774.8** |
| Proceeds from disposals of investment properties and assets held for sale | | 361.8 | 438.0 |
| Proceeds from disposals of other assets | | 0.6 | 695.2 |
| Payments for investments of investment properties | 13 | -544.5 | -1,176.9 |
| Payments for investments of other assets | | -46.5 | -42.5 |
| Payments for acquisition of shares in consolidated companies, in due consideration of liquid funds | | -2,934.2 | – |
| Interest received | | 4.1 | 4.1 |
| **Cash flow from investing activities** | | **-3,158.7** | **-82.1** |

| in € million | Notes | Jan. 1–<br>June 30, 2018 | Jan. 1–<br>June 30, 2019 |
|---|---|---|---|
| Capital contributions on the issue of new shares (including premium) | 14 | 995.8 | 744.2 |
| Cash paid to shareholders of Vonovia SE and non-controlling interests | 14 | -385.6 | -409.5 |
| Proceeds from issuing financial liabilities | 15 | 3,486.8 | 1,995.3 |
| Cash repayments of financial liabilities | 15 | -630.9 | -1,611.2 |
| Repayment of leases | | – | -13.1 |
| Payments for transaction costs relating with capital measures | | -45.0 | -23.6 |
| Payments for other financing costs | | -3.5 | -18.4 |
| Payments for the acquisition of shares in non-controlling interests | | -68.0 | -435.5 |
| Proceeds for the sale of shares of consolidated companies | | 16.2 | – |
| Interest paid | | -121.0 | -188.0 |
| Cash flow from financing activities | | 3,244.8 | 40.2 |
| | | | |
| Net changes in cash and cash equivalents | | 599.6 | 732.9 |
| Cash and cash equivalents at the beginning of the period | | 266.2 | 547.7 |
| **Cash and cash equivalents at the end of the period*** | | **865.8** | **1,280.6** |

* Thereof restricted cash € 66.9 million (June 30, 2018: € 93.7 million).

# Consolidated Statement of Changes in Equity

| | | | | Other reserves | |
|---|---|---|---|---|---|
| in € million | Subscribed capital | Capital reserves | Retained earnings | Cash flow hedges | Equity instruments at fair value in other comprehensive income |
| **As of Jan. 1, 2018** | 485.1 | 5,966.3 | 8,471.6 | -68.8 | 225.7 |
| Profit for the period | | | 1,143.4 | | |
| Other comprehensive income | | | | | |
| Changes in the period | | | | -1.1 | 82.1 |
| Reclassification affecting net income | | | | 0.2 | |
| Total comprehensive income | | | 1,143.4 | -0.9 | 82.1 |
| Capital increase | 33.0 | | | | |
| Premium on the issue of new shares | | 1,224.4 | | | |
| Transaction costs in connection with the issue of shares | | -7.0 | | | |
| Dividend distributed by Vonovia SE | | | -640.3 | | |
| Acquisition of BUWOG | | | | | |
| Changes recognized directly in equity | | -1.5 | 4.1 | | |
| **As of June 30, 2018** | **518.1** | **7,182.2** | **8,978.8** | **-69.7** | **307.8** |
| **As of Jan. 1, 2019** | 518.1 | 7,183.4 | 9,942.0 | -63.3 | 284.8 |
| Application of new standards | | | -34.0 | | |
| Deferred tax liabilities of the application of new standards | | | 10.6 | | |
| **As of Jan. 1, 2019 adjusted** | 518.1 | 7,183.4 | 9,918.6 | -63.3 | 284.8 |
| Profit for the period | | | 98.7 | | |
| Other comprehensive income | | | | | |
| Changes in the period | | | -32.1 | -4.0 | 30.1 |
| Reclassification affecting net income | | | | 5.2 | |
| Total comprehensive income | | | 66.6 | 1.2 | 30.1 |
| Capital increase | 24.2 | | | | |
| Premium on the issue of new shares | | 1,061.3 | | | |
| Transaction costs in connection with the issue of shares | | -4.6 | | | |
| Dividend distributed by Vonovia SE | | | -746.0 | | |
| Sale of Equity instruments at fair value in other comprehensive income | | | 292.6 | | -292.6 |
| Changes recognized directly in equity | | -1.7 | 1.5 | | |
| **As of June 30, 2019** | **542.3** | **8,238.4** | **9,533.3** | **-62.1** | **22.3** |

| Currency translation differences | Total | Equity attributable to Vonovia's shareholders | Equity attributable to Vonovia's hybrid capital investors | Equity attributable to Vonovia's share-holders and hybrid capital investors | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| 0.9 | 157.8 | 15,080.8 | 1,001.6 | 16,082.4 | 608.8 | 16,691.2 |
| | | 1,143.4 | 14.8 | 1,158.2 | 41.8 | 1,200.0 |
| | | | | | | |
| -1.9 | 79.1 | 79.1 | | 79.1 | | 79.1 |
| | 0.2 | 0.2 | | 0.2 | | 0.2 |
| -1.9 | 79.3 | 1,222.7 | 14.8 | 1,237.5 | 41.8 | 1,279.3 |
| | | 33.0 | | 33.0 | | 33.0 |
| | | 1,224.4 | | 1,224.4 | | 1,224.4 |
| | | -7.0 | | -7.0 | | -7.0 |
| | | -640.3 | | -640.3 | | -640.3 |
| | | | | | 336.5 | 336.5 |
| | | 2.6 | 5.0 | 7.6 | -49.4 | -41.8 |
| **-1.0** | **237.1** | **16,916.2** | **1,021.4** | **17,937.6** | **937.7** | **18,875.3** |
| | | | | | | |
| 15.2 | 236.7 | 17,880.2 | 1,001.6 | 18,881.8 | 782.3 | 19,664.1 |
| | | -34.0 | | -34.0 | -1.0 | -35.0 |
| | | 10.6 | | 10.6 | 0.3 | 10.9 |
| 15.2 | 236.7 | 17,856.8 | 1,001.6 | 18,858.4 | 781.6 | 19,640.0 |
| | | 98.7 | 14.8 | 113.5 | 11.8 | 125.3 |
| | | | | | | |
| -25.2 | 0.9 | -31.2 | | -31.2 | -2.9 | -34.1 |
| | 5.2 | 5.2 | | 5.2 | | 5.2 |
| -25.2 | 6.1 | 72.7 | 14.8 | 87.5 | 8.9 | 96.4 |
| | | 24.2 | | 24.2 | | 24.2 |
| | | 1,061.3 | | 1,061.3 | | 1,061.3 |
| | | -4.6 | | -4.6 | | -4.6 |
| | | -746.0 | | -746.0 | | -746.0 |
| | -292.6 | | | | | |
| | | -0.2 | 5.0 | 4.8 | -4.3 | 0.5 |
| **-10.0** | **-49.8** | **18,264.2** | **1,021.4** | **19,285.6** | **786.2** | **20,071.8** |

# Notes

## Accounting Policies

### 1 Principles of the Consolidated Financial Statements

Vonovia SE is incorporated and domiciled in Germany. Its registered office is located in Bochum.

The consolidated financial statements as of June 30, 2019, were prepared in line with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union for interim financial statements in accordance with IAS 34. They include the company and its subsidiaries.

In accordance with IAS 34, the scope of Vonovia's interim consolidated financial statements as of June 30, 2019, is condensed compared with the consolidated financial statements as of December 31, 2018.

### 2 Business Combinations

#### *Acquisition of Victoria Park*

As of June 30, 2019, the final purchase price allocation using the anticipated acquisition method and the consideration granted is unchanged as against December 31, 2018. The measurement period for the first-time recognition of the merger with Victoria Park ended on June 30, 2019.

The call options granted to Deutsche Annington Acquisition during the original offer period were exercised on May 15, 2019. The call options include 10,235,198 class A shares and 14,264,946 class B shares, which corresponds to 10.0% of the total number of shares and 12.5% of the total voting rights in Victoria Park. The exercise price of the call options is the same as the price paid in the public takeover offer for the shares in Victoria Park. Vonovia therefore holds 91.4% of the share capital and 94.4% of all voting rights in Victoria Park.

As this resulted in Vonovia holding more than 90% of the voting rights, Vonovia asked the Board of Directors of Victoria Park to initiate a squeeze-out procedure for the acquisition of all remaining shares in Victoria Park in line with the Swedish Companies Act (sv. aktiebolagslagen (2005:551)). The Board of Directors then resolved to apply for Nasdaq Stockholm to delist Victoria Park's ordinary shares of class A and class B. The last day of trading was June 18, 2019.

In addition, a resolution on the recall of all 1,032,047 preference shares was passed at the Extraordinary General Meeting of Victoria Park AB (publ), Malmo, Sweden held on June 19, 2019. This takes place pursuant to § 5.4 of the Articles of Association at a recall price of SEK 300 per share.

### 3 Currency Translation

The exchange rates of the currencies relevant to the Vonovia Group have developed as follows:

| Basis: € 1 | Closing rate: Dec. 31, 2018 | Closing rate: June 30, 2019 | Average for period: Jan. 1–June 30, 2018 | Average for period: Jan. 1–June 30, 2019 |
|---|---|---|---|---|
| HUF – Hungarian forint | 320.98 | 323.39 | 314.11 | 320.42 |
| SEK – Swedish krona | 10.25 | 10.56 | 10.31 | 10.52 |
| UAH – Ukrainian hryvnia | 32.79* | – | 32.36 | – |
| USD – US dollar | 1.15 | 1.14 | 1.21 | 1.13 |

* The exchange rate for 2018 is fixed for September 30, as the company was sold on September 30, 2018.

## 4 Accounting Policies

Recognition and measurement, as well as the explanatory information and notes, are generally based on the same recognition and measurement methods that were used to prepare the consolidated financial statements for the 2018 fiscal year. There were no seasonal or economic influences that had an impact on Vonovia's business activities in the reporting period.

With the exception of the new lease accounting standard set out in IFRS 16, the new standards and interpretations to be applied as of January 1, 2019 do not have any material effects on Vonovia's consolidated financial statements.

### *Leases*

The new leasing standard, IFRS 16 "Leases," is to be applied as a mandatory requirement for fiscal years beginning on or after January 1, 2019 and specifies how companies applying the IFRS recognize, measure, present and disclose leases in their financial statements.

In particular, IFRS 16 replaces the previous leasing standard, IAS 17 "Leases," and introduces only one accounting model (right-of-use model) for lessees, based on which all leases are to be recognized in the balance sheet as a matter of principle. There is an accounting option available for short-term leases and leases of low-value assets. Vonovia makes use of this option, meaning that such leases are not recognized. The previous distinction between operating and finance leases only remains in place for accounting at the level of the lessor.

As of January 1, 2019, all contracts that give the Vonovia Group the right to control the use of an identified asset over a certain period of time in return for consideration are considered leases within the meaning of IFRS 16. All lease contracts within the Vonovia Group were assessed as of January 1, 2019 to determine whether they are or contain a lease within the meaning of IFRS 16. In this respect, the practical expedient provided for in IFRS 16.C3 was not applied.

In respect of those leases previously classified as operating leases, Vonovia recognizes lease liabilities as of January 1, 2019, equal to the present value of the future lease payments, discounted to reflect the term-specific incremental borrowing rate at the time of initial application. Right-of-use assets are recognized accordingly. The initial measurement of the right-of-use assets as of January 1, 2019, is based on the amount of the lease liabilities plus any advance payments that have already been made. Initial, directly assignable costs are not recognized as of January 1, 2019.

The right-of-use assets are generally recognized at amortized cost, taking depreciation and impairments into account. Right-of-use assets that meet the definition of investment properties pursuant to IAS 40 are recognized at fair value as of the time of initial application in line with the recognition and measurement rules set out in IAS 40.

The lease liabilities are adjusted in line with financial principles. They are increased by the periodic interest expenses and reduced by the lease payments made.

In the consolidated income statement, leasing expenses from operating leases that were recognized on a straight-line basis in previous years are replaced by depreciation or net income from fair value adjustments (for right-of-use assets within the meaning of IAS 40) and interest expenses.

Leases ending/expiring within the 2019 fiscal year are treated as short-term leases, meaning that they are not recognized. As far as rented IT equipment is concerned, portfolios have been set up for leases with similar terms and a single discount rate has been applied to these portfolios. As part of the transition to IFRS 16, Vonovia also takes scenarios pursuant to IAS 37 into account and adjusts the valuation of the right-of-use assets to reflect provisions for onerous contracts recognized on the reporting date. Periods resulting from extension or termination options granted to Vonovia on an unilateral basis are assessed on a lease-by-lease basis and are only taken into account if their use is sufficiently probable – for example, due to financial incentives.

In addition to conventional vehicle leasing, the Vonovia Group also leases IT equipment (IT leasing), residential and commercial property for subletting (interim leasing), heat generation plants to supply the Group's own properties with heat (contracting) as well as office buildings, office spaces and storage spaces (rental). Under license agreements with public-sector institutions Vonovia is granted the right to use public properties as storage locations or parking spaces, to lay heating pipes or cables, or to construct playgrounds. Long-term leasehold contracts, however, have the biggest impact on the company's net assets, financial position and results of operations. These involve Vonovia leasing land for the rental of constructed residential and commercial properties.

Vonovia applied the new leasing standard IFRS 16 for the first time as of January 1, 2019 based on the modified retrospective method provided for in the transitional provisions. As a result, the cumulative effect resulting from the initial application of IFRS 16 has been recognized as an adjustment to the value of retained earnings/non-controlling interests in the opening balance sheet in the amount of € -35.0 million

(€ -24.1 million after consideration of deferred taxes). The effect results from the differences in the discounting of right-of-use assets and lease liabilities in connection with leasehold contracts. Due to the IAS 40 measurement of the right-of-use assets under leasehold contracts, the fair value of the right-of-use assets is calculated using property-specific discount rates. The lease liabilities from leasehold contracts, on the other hand, are calculated with the help of term-specific incremental borrowing rates. Comparative information has not been adjusted.

*Effects Resulting from the Initial Application of IFRS 16*

As of January 1, 2019, total lease liabilities of € 357.5 million and total right-of-use assets in the amount of € 1,085.0 million were recognized.

The difference between lease liabilities and right-of-use assets is largely due to the fair value measurement of the right-of-use assets from leasehold contracts under IAS 40. Hereditary building rights previously already included in investment properties were reclassified to right-of-use assets within investment properties in the amount of € 762.5 million.

### Cumulative Effect from the Initial Application of IFRS 16 Within Retained Earnings/Non-controlling Interests as of January 1, 2019

| in € million | |
|---|---|
| Right-of-use assets within investment properties | 1,002.8 |
| Right-of-use assets within property, plant and equipment | 82.2 |
| Right-of-use assets as of January 1, 2019 | 1,085.0 |
| | |
| Lease liabilities as of January 1, 2019 | -357.5 |
| Fair value of leasehold contracts within investment properties as of January 1, 2019 | -762.5 |
| Cumulative effect as of Jan 1, 2019 applying IFRS 16 (before taxes) | -35.0 |
| Deferred taxes resulting from the initial application of IFRS 16 | 10.9 |
| **Cumulative effect as of Jan 1, 2019 applying IFRS 16 (after taxes)** | **-24.1** |

The bigger part of the newly added right-of-use assets in the amount of € 1,085.0 million is reported under **investment properties** and results from both leasehold contracts (€ 1,001.4 million) and from interim rental agreements (€ 1.4 million). The other right-of-use assets in the amount of € 82.2 million are reported under **property, plant and equipment** and mainly include right-of-use assets resulting from the leasing of land for the construction of commercial property to be used by the company itself (€ 26.5 million), from concluded lease agreements (€ 22.8 million), heating supply contracts (€ 16.5 million) and vehicle lease contracts (€ 11.8 million).

### New Right-of-use Assets as a Result of IFRS 16

| in € million | Jan 1, 2019 | June 30, 2019 |
|---|---|---|
| Right-of-use assets | | |
| Leasehold contracts | 1,001.4 | 1,015.1 |
| Interim rental agreements | 1.4 | 1.2 |
| Right-of-use assets within investment properties | 1,002.8 | 1,016.3 |
| Leasing of land for the construction of commercial properties used by the Group | 26.5 | 26.4 |
| Lease agreements | 22.8 | 19.4 |
| Contracting | 16.5 | 15.7 |
| Vehicle leases | 11.8 | 9.0 |
| Tenancy and license agreements | 2.6 | 1.6 |
| Leases of IT-equipment | 2.0 | 1.5 |
| Right-of-use assets within property, plant and equipment | 82.2 | 73.6 |
| | **1,085.0** | **1,089.9** |

## New Lease Liabilities due to IFRS 16

| | Jan. 1, 2019 | | June 30, 2019 | |
|---|---|---|---|---|
| in € million | non-current | current | non-current | current |
| Lease liabilities | | | | |
| Leasehold contracts (IAS 40) | 269.0 | 4.9 | 268.9 | 2.7 |
| Interim rental agreements | 0.4 | 1.0 | 0.2 | 0.9 |
| Leasing of land for the construction of commercial properties used by the Group | 25.7 | 0.8 | 25.3 | 0.8 |
| Lease agreements | 16.0 | 6.8 | 12.9 | 6.6 |
| Contracting | 15.1 | 1.4 | 14.4 | 1.4 |
| Vehicle leases | 5.6 | 6.2 | 3.2 | 5.8 |
| Tenancy and license agreements | 0.6 | 2.0 | 0.6 | 1.0 |
| Leases of IT-equipment | 1.1 | 0.9 | 0.7 | 0.8 |
| | **333.5** | **24.0** | **326.2** | **20.0** |

Right-of-use assets totalling € 1,089.9 million and lease liabilities totaling € 346.2 million were recognized as of June 30, 2019. The weighted average incremental borrowing rate for all lease liabilities to be recognized amounts to 2.3% as of January 1, 2019.

The present value of the future lease obligations, pursuant to IAS 17, reported in the Notes to the consolidated financial statements as of December 31, 2018, deviates from the present value of the lease liabilities to be recognized as of January 1, 2019, pursuant to IFRS 16. This is due to leases expiring in 2019 (short-term) and particularly due to those lease agreements that are not classified as leases under the right-of-use model within the meaning of IFRS 16.

## Reconciliation of the Present Value of the Lease Obligations as of December 31, 2018 (IAS 17) to the Present Value of the Lease Obligations as of January 1, 2019 (IFRS 16)

| in € million | |
|---|---|
| Present value of the lease payments as of Dec. 31, 2018 | 367.9 |
| Leases expired or expiring in 2019 (short-term) | -5.3 |
| Leases not classified as leases pursuant to IFRS 16 | -5.1 |
| Present value of operating lease liabilities as of Jan. 1, 2019 | 357.5 |
| Obligations under finance leases as of Jan. 1, 2019 | 99.4 |
| **Present value of total lease liabilities as of Jan. 1, 2019 pursuant to IFRS 16** | **456.9** |

The changes resulting from IFRS 16 presented above will also be reflected in the consolidated financial statements for 2019 as a whole.

### *Impact on Existing Finance Leases*

Up until December 31, 2018, Vonovia had recognized fixed-term heating supply contracts as well as the Spree-Bellevue property, which has a term running up until 2044, as finance leases in accordance with the provisions set out in IAS 17. At the time of the transition, the right-of-use assets and lease liabilities resulting from the aforementioned agreements were stated at their present values as of December 31, 2018 (right-of-use assets: € 75.7 million; lease liabilities: € 99.4 million) and recognized in accordance with the provisions set out in IFRS 16 as of this point in time.

As of June 30, 2019, the right-of-use assets resulting from those finance leases that were previously recognized pursuant to IAS 17 amounted to € 81.1 million. Of this amount, € 76.6 million were recognized under investment properties (Spree-Bellevue) and € 4.5 million under property, plant and equipment (heat generation plants). The associated lease liabilities amount to € 99.3 million.

# Notes to the Consolidated Income Statement

The figures from the previous year are only comparable to a limited extent due to acquisitions made in the previous year.

## 5 Income from Property Management

| in € million | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 |
|---|---|---|
| Rental income | 892.6 | 1,016.2 |
| Ancillary costs | 366.0 | 380.7 |
| Income from property letting | 1,258.6 | 1,396.9 |
| Other income from property management | 24.3 | 35.2 |
| | **1,282.9** | **1,432.1** |

## 6 Profit on Disposal of Properties

| in € million | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 |
|---|---|---|
| Income from disposal of investment properties | 258.5 | 110.4 |
| Carrying amount of investment properties sold | -212.6 | -78.4 |
| Profit on disposal of investment properties | 45.9 | 32.0 |
| Income from sale of assets held for sale | 127.9 | 116.3 |
| Retirement carrying amount of assets held for sale | -127.9 | -116.3 |
| Revaluation of assets held for sale | 34.6 | 27.0 |
| Profit on disposal of assets held for sale | 34.6 | 27.0 |
| | **80.5** | **59.0** |

The fair value adjustment of investment properties held for sale for which a purchase contract had been signed but for which transfer of title had not yet taken place led to a gain of € 27.0 million as of June 30, 2019 (first half of 2018: € 34.6 million).

## 7 Net Income from Fair Value Adjustment of Investment Properties

The measurement of the investment properties led to a gain as of June 30, 2019, of € 2,258.7 million (first half of 2018: € 1,372.9 million; see explanatory information in note 13 “Investment Properties“). This includes € 3.9 million (first half of 2018: € 0.0 million) for the measurement of right-of-use assets (IFRS 16).

## 8 Cost of Materials

| in € million | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 |
|---|---|---|
| Expenses for ancillary costs | 334.1 | 360.6 |
| Expenses for maintenance and modernization | 247.4 | 287.4 |
| Other cost of purchased goods and services | 45.8 | 45.1 |
| | **627.3** | **693.1** |

## 9 Financial Income

| in € million | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 |
|---|---|---|
| Income from other investments | 21.6 | 8.9 |
| Income from non-current securities and non-current loans | 1.3 | 1.0 |
| Other interest and similar income | 3.9 | 2.7 |
| | **26.8** | **12.6** |

The income from other investments comprises financial income from investments in other residential real estate companies in the amount of € 0.2 million (first half of 2018: € 13.9 million). The sale of the shares in Deutsche Wohnen with effect from February 1, 2019 means that there is no longer any corresponding income from investments in the reporting year to match the dividend of € 13.5 million received in the previous year.

In addition, the item includes financial income resulting from the collection of the profit share from the investment in AVW GmbH & Co. KG, Hamburg, in the amount of € 8.2 million (first half of 2018: € 7.5 million) for the previous fiscal year in each case.

## 10 Financial Expenses

| in € million | Jan. 1– June 30, 2018 | Jan. 1– June 30, 2019 |
|---|---|---|
| Interest expense from non-derivative financial liabilities | 155.6 | 175.1 |
| Swaps (current interest expense for the period) | 5.4 | 6.6 |
| Effects from the valuation of non-derivative financial instruments | 7.7 | -12.8 |
| Effects from the valuation of swaps | 11.3 | 27.9 |
| Transaction costs | 8.4 | 19.5 |
| Prepayment penalties and commitment interest | 3.6 | 7.5 |
| Interest accretion to provisions | 4.4 | 4.8 |
| Interest from leases | 2.8 | 7.0 |
| Other financial expenses | 1.7 | 1.1 |
| | **200.9** | **236.7** |

## 11 Income Taxes

Income taxes relate to current taxes in the amount of € 36.9 million (first half of 2018: € 28.1 million) and deferred taxes in the amount of € 739.4 million (first half of 2018: € 618.6 million).

The income tax expense is based on the average effective consolidated tax rate to be expected for the entire fiscal year. The ratio of tax expense to profit before tax (consolidated tax rate) rose from 35.0% in the first half of 2018 to 86.1% in the first half of 2019.

The increase in the consolidated tax rate is primarily due to the goodwill impairment of € 1,901.0 million (first half of 2018: € 0.0 million), which is not subject to tax. As the expenses resulting from the goodwill impairment loss are not tax-deductible, they influence pre-tax income but have no impact on tax expense. Similarly, the goodwill impairment does not result in deferred tax income, as the recognition of deferred tax liabilities was not permitted when the goodwill was initially recognized.

# Notes to the Consolidated Balance Sheet

## 12 Intangible Assets

### *Goodwill*

Goodwill amounted to € 935.6 million as of June 30, 2019. This means that goodwill has dropped by € 1,906.8 million compared with December 31, 2018. The change is due to an impairment loss of € 1,901.0 million and to a negative effect resulting from currency changes affecting the Swedish krona in the amount of € 5.8 million.

The impairment loss is the result of the impairment test performed in the second quarter of 2019. The € 2,258.7 million increase in the value of the real estate portfolio in the first half of the 2019 fiscal year (thereof € 2,056.2 million in Germany), together with the revision of the regional structure within Germany that is planned with effect from July 1, 2019, constituted a triggering event according to IAS 36 (see explanatory information in note [18] "Subsequent Events"). This resulted in the German business areas of the Rental segment being subjected to an impairment test. Other than for these business areas, no triggering events were identified for any other groups of cash-generating units.

In general, an increase in the value of the real estate portfolio increases the carrying amount of the groups of cash-generating units affected by the measurement, which can, in turn, lead to impairment losses being recognized on the goodwill allocated to the business areas.

As part of the impairment test and in accordance with IAS 36.19, first the value in use was calculated based on the Management Board-approved detailed plan with a planning period of five years. This was derived from the five-year plan at Group level approved by the Management Board and the Supervisory Board. With regard to the regional business areas of the Rental segment, the main drivers behind the results of the five-year plan are the increase in gross rental income and the planned vacancy rate.

The growth rate for the cash-generating units of the Rental segment was calculated regionally on the basis of actual rents and limited to 1% for the segment as a whole. The main parameters for calculating the value in use are the sustainable rate of increase, the weighted average total cost of capital (WACC) and the expected cash flows.

### Parameters for WACC Calculation for the Rental Segment (Germany)

| | Dec. 31, 2018 | June 30, 2019 |
|---|---|---|
| Risk-free interest rate in % | 1.1 | 0.8 |
| Market risk premium in % | 7.0 | 7.0 |
| Levered beta | 0.53 | 0.64 |
| WACC (after tax) in % | 3.6 | 3.8 |

The need for impairment that has been calculated is distributed among the North, Southeast, West, Middle and South areas, with the goodwill allocated being written off in full for all of the business areas with the exception of West and Central. In the West area, the remaining goodwill comes to € 341.0 million, with goodwill of € 19.2 million remaining for the Central area.

The impairment loss was recognized in the consolidated income statement under "depreciation and amortization." The value in use for the North area amounts to € 5.8 billion, with a value of € 3.4 billion for the Southeast area, € 4.8 billion for the West area, € 4.9 billion for the Middle area and € 5.5 billion for the South area.

In the West business area any negative deviation of the values planned for the key assumptions would ceteris paribus lead to a further impairment loss. If the planned sustainable rate of increase were to decline by 0.25 percentage points or the average total cost of capital were to increase by 0.4 percentage points, then this would result in a full impairment loss of € 341.0 million being recognized against the goodwill remaining in the West business area. In the Central area ceteris paribus, an impairment loss of € 19.2 million would be recognized against the allocated goodwill in the event of an increase in the average total cost of capital of 0.3 percentage points, with an increase of 0.4 percentage points triggering a full impairment.

## 13 Investment Properties

| in € million | |
|---|---|
| **As of Jan. 1, 2019** | 43,490.9 |
| Additions of right-of-use assets (IFRS 16) | 241.2 |
| Additions | 733.8 |
| Capitalized modernization costs | 455.6 |
| Grants received | -1.9 |
| Transfer from real estate inventories | 5.5 |
| Transfer to real estate inventories | -23.7 |
| Transfer from assets held for sale | 3.8 |
| Transfer to assets held for sale | -153.2 |
| Disposals of right-of-use assets (IFRS 16) | -1.0 |
| Disposals | -78.4 |
| Disposals due to changes in scope of consolidation | -4.9 |
| Net income from fair value adjustments of investment properties | 2,254.8 |
| Net income from fair value adjustments of right-of-use assets (IFRS 16) | 3.9 |
| Revaluation of assets held for sale | 27.0 |
| Revaluation from currency effects | -56.5 |
| **As of June 30, 2019** | **46,896.9** |
| **As of Jan. 1, 2018** | 33,182.8 |
| Additions due to business combinations | 6,214.7 |
| Additions | 365.8 |
| Capitalized modernization costs | 1,006.0 |
| Grants received | -2.6 |
| Transfer from property, plant and equipment | 10.7 |
| Transfer to property, plant and equipment | -6.5 |
| Transfer from assets held for sale | 24.4 |
| Transfer to assets held for sale | -323.9 |
| Disposals | -597.6 |
| Disposals due to changes in scope of consolidation | -2.3 |
| Net income from fair value adjustments of investment properties | 3,517.9 |
| Revaluation of assets held for sale | 68.5 |
| Revaluation from currency effects | 33.0 |
| **As of Dec. 31, 2018** | **43,490.9** |

The values as of June 30, 2019 include assets of € 378.9 million (Dec. 31, 2018: € 346.2 million) that are measured using the acquisition costs model, as their fair value cannot be measured reliably on a continuing basis.

The acquisition of 2,340 apartments in the greater Stockholm and Gothenburg regions by Vonovia from Akelius Residential Property was completed on April 1, 2019.

### *Fair Values*

Vonovia determines fair value in accordance with the requirements of IAS 40 in conjunction with IFRS 13. We refer to the detailed information set out in the consolidated financial statements for 2018.

Vonovia values its portfolio using a method known as the discounted cash flow (DCF) method. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of ten years and discounted to the date of valuation as the net present value. In addition, the terminal value of the property at the end of the ten-year period is determined using the expected stabilized net operating income and again discounted to the date of valuation as the net present value. In addition, the valuation of the portfolio in Austria is based on the assumption of sales strategies for the recurring sales of apartments for a subportfolio. Attainable income is recognized in line with the calculation procedure and reported in the appropriate period in the DCF model. In order to take the sales potential into account, the DCF detailed period is extended to 100 years for the Austrian portfolios and no terminal value is used. For the portfolio in Sweden, the result of the external appraiser Savills Sweden AB in cooperation with Malmöbryggan Fastighetsekonomi AB was applied to the interim balance sheet. The fair values of the Victoria Park portfolio were also calculated using a DCF procedure.

Due to the market momentum recognized across Germany in the first half of 2019, Vonovia decided to perform a new valuation on the 20 German locations that account for the largest fair value shares. The list of the locations to be valued was extended to include six additional German locations in which considerable changes in value had been observed, as well as Vienna and the portfolio in Sweden. The selection accounts for more than two-thirds of the total Vonovia fair value. The fair values for these revalued locations (excl. the Swedish portfolio) were calculated as of June 30, 2019 by the in-house valuation department on the basis of the methodology described above. The valuation for Vienna was performed by the in-house valuation department for the first time as of June 30, 2019. The property assets in Germany and Austria are additionally assessed by the independent property appraiser CBRE GmbH. The market value resulting from the external review deviates from the internal valuation result by less than 0.1%.

For the part of the portfolio that was not revalued, the valuation from the end of 2018 is applied again, with updates to reflect capitalization. The result of the valuation of the external appraiser CBRE GmbH is taken as a basis for the subportfolios of the BUWOG and Conwert portfolios that were not valued internally for the purposes of the annual financial statements.

The real estate portfolio of Vonovia is to be found in the items investment properties, property, plant and equipment (owner-occupied properties), real estate inventories, contractual assets and assets held for sale. The fair value of the portfolio comprising residential buildings, commercial properties, garages and parking spaces, project developments, as well as undeveloped land and any hereditary building rights granted was € 47,449.0 million as of June 30, 2019 (Dec. 31, 2018: € 44,239.9 million). This corresponds to a net initial yield for the developed land (overall portfolio including Austria and Sweden) of 3.2% (Dec. 31, 2018: 3.4%). For Germany, this results in an in-place-rent multiplier of 22.7 for the portfolio (Dec. 31, 2018: 21.5) and a fair value of € 1,789 per $m^2$ (Dec. 31, 2018: € 1,677). The in-place-rent multiplier for the Austrian portfolio comes to 24.1 (Dec. 31, 2018: 23.6) with a fair value of € 1,394 per $m^2$ (Dec. 31, 2018: € 1,346), while the in-place-rent multiplier for Sweden amounts to 16.0 (Dec. 31, 2018: 14.6) with a fair value of € 1,738 per $m^2$ (Dec. 31, 2018: € 1,563).

The material valuation parameters for the investment properties (level 3) in the real estate portfolio are as follows as of June 30, 2019, broken down by regional markets:

| June 30, 2019<br>Regional Market | Valuation results*<br>Fair Value (in € million) | thereof Assets held for sale (in € million) | thereof Owner-occupied properties (in € million) | thereof Investment properties (in € million) |
|---|---|---|---|---|
| Berlin | 7,171.0 | 2.5 | 6.0 | 7,162.5 |
| Rhine Main Area | 4,191.3 | 5.8 | 6.5 | 4,179.1 |
| Rhineland | 3,610.3 | 2.9 | 8.4 | 3,599.0 |
| Southern Ruhr Area | 3,579.3 | 13.2 | 4.4 | 3,561.7 |
| Dresden | 3,432.3 | 0.1 | 6.2 | 3,425.9 |
| Hamburg | 2,566.6 | 1.3 | 2.8 | 2,562.5 |
| Munich | 2,170.2 | 11.8 | 3.3 | 2,155.2 |
| Stuttgart | 2,007.6 | 1.0 | 2.0 | 2,004.6 |
| Kiel | 2,051.5 | 15.9 | 2.7 | 2,032.9 |
| Hanover | 1,773.4 | 1.2 | 2.0 | 1,770.3 |
| Northern Ruhr Area | 1,579.6 | 2.7 | 4.6 | 1,572.3 |
| Bremen | 1,134.2 | 0.0 | 2.6 | 1,131.6 |
| Leipzig | 910.5 | 0.0 | 1.0 | 909.4 |
| Westphalia | 860.6 | 0.0 | 1.3 | 859.3 |
| Freiburg | 630.2 | 0.0 | 2.0 | 628.2 |
| Other strategic locations | 2,673.2 | 1.1 | 4.0 | 2,668.1 |
| **Total strategic locations** | **40,341.9** | **59.6** | **59.7** | **40,222.6** |
| Non-strategic locations | 738.6 | 74.5 | 1.4 | 662.7 |
| **Vonovia Germany** | **41,080.4** | **134.1** | **61.1** | **40,885.3** |
| Vonovia Austria** | 2,563.0 | 1.5 | 0.0 | 2,561.4 |
| Vonovia Sweden** | 2,260.1 | 0.0 | 0.0 | 2,260.1 |

* Fair value of the developed land excluding € 1,545.6 million in development, undeveloped land, hereditary building rights granted and other, thereof € 946.0 million in investment properties.
** The valuation techniques used for the portfolio in Austria and Sweden provide valuation parameters that are only partially comparable. Administrative and maintenance expenses are not shown separately.

The inflation rate applied to the DCF procedure is 1.6%. Net income from the valuation of investment properties amounted to € 2,258.7 million in the first half of 2019 (Dec. 31, 2018: € 3,517.9 million). For the Austrian portfolio, a sales strategy with an average selling price of € 1,985 per m² was assumed for 51.7% of the properties.

Explanatory information on the prior-year figures can be found in the 2018 Annual Report of Vonovia SE.

### *Sensitivity Analyses*

The sensitivity analyses performed on Vonovia's real estate portfolio show the impact of the value drivers influenced by the market. Those influenced in particular are the market rents and their development, the amount of recognized administrative and maintenance expenses, cost increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter according to regional market in the following.

Interactions between the parameters are possible but cannot be quantified owing to the complexity of the interrelationships. The vacancy and market rent parameters, for example, can influence each other. If rising demand for

| Valuation parameters investment properties (Level 3) | | | | | | |
|---|---|---|---|---|---|---|
| Management costs residential (€ per residential unit p.a.) | Maintenance costs total residential (€/m² p.a) | Market rent residential (€/m² per month) | Market rent increase residential | Stabilized vacancy rate residential | Discount rate total | Capitalized interest rate total |
| 257 | 14.23 | 7.55 | 1.8% | 1.2% | 4.2% | 2.5% |
| 276 | 14.26 | 8.91 | 1.8% | 1.2% | 5.0% | 3.3% |
| 273 | 13.87 | 7.81 | 1.7% | 1.9% | 5.2% | 3.6% |
| 271 | 12.83 | 6.62 | 1.5% | 2.6% | 5.3% | 4.0% |
| 243 | 14.35 | 6.64 | 1.7% | 2.2% | 5.2% | 3.8% |
| 261 | 14.54 | 8.10 | 1.6% | 1.3% | 4.8% | 3.5% |
| 265 | 14.14 | 10.81 | 1.8% | 0.6% | 4.7% | 3.0% |
| 273 | 14.47 | 8.86 | 1.8% | 1.3% | 5.1% | 3.5% |
| 263 | 14.60 | 6.95 | 1.7% | 1.6% | 5.3% | 3.8% |
| 263 | 14.16 | 7.14 | 1.7% | 1.9% | 5.2% | 3.7% |
| 269 | 13.32 | 6.06 | 1.2% | 3.4% | 5.7% | 4.8% |
| 268 | 13.36 | 6.51 | 1.8% | 2.1% | 5.1% | 3.5% |
| 258 | 14.79 | 6.34 | 1.7% | 3.2% | 5.2% | 3.6% |
| 267 | 13.32 | 6.84 | 1.5% | 1.9% | 5.3% | 4.0% |
| 272 | 15.01 | 8.00 | 1.7% | 1.0% | 4.6% | 3.1% |
| 269 | 14.47 | 7.23 | 1.5% | 2.3% | 5.4% | 4.0% |
| **264** | **13.97** | **7.40** | **1.7%** | **1.9%** | **5.0%** | **3.5%** |
| 274 | 14.40 | 7.18 | 1.6% | 2.7% | 5.3% | 3.6% |
| **265** | **14.02** | **7.38** | **1.7%** | **1.9%** | **5.0%** | **3.5%** |
| n.a. | n.a. | 5.64 | 1.2% | n.a. | 5.6% | n.a. |
| n.a. | n.a. | 9.32 | 2.0% | 0.7% | 5.9% | 4.0% |

housing is not met by adequate supply developments, this can result in lower vacancy rates and, at the same time, rising market rents. If, however, the rising demand is compensated for by a high vacancy reserve in the location in question, then the market rent level does not necessarily change.

Changes in the demand for housing can also impact the risk associated with the expected payment flows, which is then reflected in adjusted amounts recognized for discounting and capitalized interest rates. The effects do not, however, necessarily have to have a favorable impact on each other, for example, if the changes in the demand for residential real estate are overshadowed by macroeconomic developments.

In addition, factors other than demand can have an impact on these parameters. Examples include changes in the portfolio, in seller and buyer behavior, political decisions and developments on the capital market.

The table below shows the percentage impact on values in the event of a change in the valuation parameters. The absolute impact on values is calculated by multiplying the percentage impact by the fair value of the investment properties.

| June 30, 2019 | Change in value as a percentage under varying parameters | | |
|---|---|---|---|
| | Management costs residential | Maintenance costs residential | Cost increase/ inflation |
| Regional Market | -10%/+10% | -10%/+10% | -0.5%/+0.5% points |
| Berlin | 0.5/-0.5 | 1.7/-1.7 | 5.1/-5.2 |
| Rhine Main Area | 0.5/-0.5 | 1.4/-1.4 | 3.0/-3.2 |
| Rhineland | 0.5/-0.5 | 1.7/-1.7 | 3.5/-3.6 |
| Southern Ruhr Area | 0.8/-0.8 | 2.3/-2.3 | 4.4/-4.5 |
| Dresden | 0.7/-0.7 | 2.1/-2.1 | 4.2/-4.4 |
| Hamburg | 0.5/-0.5 | 1.7/-1.7 | 3.5/-3.6 |
| Munich | 0.4/-0.4 | 1.2/-1.2 | 3.4/-3.5 |
| Stuttgart | 0.5/-0.5 | 1.5/-1.5 | 3.0/-3.2 |
| Kiel | 0.7/-0.7 | 2.2/-2.2 | 4.1/-4.3 |
| Hanover | 0.6/-0.6 | 2.0/-2.0 | 3.9/-4.0 |
| Northern Ruhr Area | 1.0/-1.0 | 2.8/-2.8 | 4.4/-4.5 |
| Bremen | 0.7/-0.7 | 2.2/-2.2 | 4.9/-5.0 |
| Leipzig | 0.7/-0.7 | 2.3/-2.2 | 4.9/-4.9 |
| Westphalia | 0.7/-0.7 | 2.3/-2.2 | 4.1/-4.2 |
| Freiburg | 0.5/-0.5 | 1.7/-1.8 | 3.9/-4.0 |
| Other strategic locations | 0.6/-0.6 | 2.0/-2.0 | 3.3/-3.5 |
| **Total strategic locations** | **0.6/-0.6** | **1.9/-1.9** | **4.0/-4.1** |
| Non-strategic locations | 0.7/-0.6 | 2.3/-2.3 | 6.1/-6.0 |
| **Vonovia Germany** | **0.6/-0.6** | **1.9/-1.9** | **4.0/-4.2** |
| Vonovia Austria* | n.a. | n.a. | n.a. |
| Vonovia Sweden* | n.a. | n.a. | 1.3/-1.3 |

* The valuation methods for the portfolio in Austria and Sweden use valuation parameters that are only partially comparable. Administrative and maintenance expenses are not shown separately.

| Change in value as a percentage under varying parameters | | | |
|---|---|---|---|
| Market rent residential | Market rent increase residential | Stabilized vacancy rate residential | Discounting and capitalized interest rates total |
| **-2.0% / +2.0%** | **-0.2% / +0.2% points** | **-1% / +1% points** | **-0.25% / +0.25% points** |
| -2.4 / 2.3 | -9.2 / 11.2 | 1.7 / -1.8 | 11.4 / -9.3 |
| -2.3 / 2.3 | -6.7 / 7.8 | 1.2 / -1.6 | 8.2 / -7.0 |
| -2.3 / 2.3 | -6.5 / 7.4 | 1.7 / -1.8 | 7.7 / -6.7 |
| -2.5 / 2.5 | -6.5 / 7.4 | 2.0 / -2.0 | 7.0 / -6.1 |
| -2.4 / 2.5 | -6.6 / 7.4 | 1.9 / -1.9 | 7.4 / -6.5 |
| -2.1 / 2.2 | -6.8 / 7.9 | 1.2 / -1.7 | 8.3 / -7.1 |
| -2.0 / 2.1 | -7.6 / 9.0 | 0.7 / -1.5 | 9.9 / -8.3 |
| -2.2 / 2.2 | -6.5 / 7.5 | 1.4 / -1.6 | 7.9 / -6.8 |
| -2.4 / 2.4 | -6.5 / 7.4 | 1.9 / -1.9 | 7.2 / -6.3 |
| -2.4 / 2.3 | -6.6 / 7.5 | 1.8 / -1.8 | 7.6 / -6.6 |
| -2.6 / 2.6 | -5.7 / 6.3 | 2.3 / -2.3 | 5.6 / -5.1 |
| -2.3 / 2.3 | -7.3 / 8.4 | 1.9 / -1.9 | 8.1 / -7.0 |
| -2.5 / 2.6 | -7.0 / 8.1 | 2.0 / -1.9 | 7.8 / -6.7 |
| -2.3 / 2.3 | -6.2 / 7.1 | 1.9 / -2.0 | 6.9 / -6.1 |
| -2.4 / 2.3 | -7.5 / 8.8 | 1.2 / -1.7 | 8.9 / -7.6 |
| -2.2 / 2.2 | -6.0 / 6.8 | 1.7 / -1.8 | 6.9 / -6.1 |
| **-2.3 / 2.3** | **-7.1 / 8.2** | **1.6 / -1.8** | **8.3 / -7.1** |
| -2.5 / 2.9 | -8.6 / 10.2 | 2.0 / -2.1 | 10.2 / -8.6 |
| **-2.3 / 2.3** | **-7.1 / 8.2** | **1.6 / -1.8** | **8.4 / -7.1** |
| -0.4 / 0.4 | n.a. | n.a. | 4.2 / -3.9 |
| -2.9 / 2.9 | -1.3 / 1.3 | 1.3 / -1.8 | 5.8 / -5.1 |

## 14 Total Equity

### Development of the Subscribed Capital

in €

| | |
|---|---|
| **As of Jan. 1, 2019** | 518,077,934.00 |
| Capital increase against cash contributions on May 16, 2019 | 16,500,000.00 |
| Capital increase against non-cash contributions on June 13, 2019 (scrip dividend) | 7,695,677.00 |
| **As of June 30, 2019** | **542,273,611.00** |

### Development of the Capital Reserves

in €

| | |
|---|---|
| **As of Jan. 1, 2019** | 7,183,423,174.39 |
| Premium from capital increase on May 16, 2019 | 727,650,000.00 |
| Premium from capital increase for scrip dividend on June 13, 2018 | 333,622,989.30 |
| Transaction costs on the issue of new shares (after allowing for deferred taxes) | -4,566,577.64 |
| Other changes not affecting net income | -1,718,362.59 |
| **As of June 30, 2019** | **8,238,411,223.46** |

On May 16, 2019, with the agreement of the Supervisory Board's Finance Committee, Vonovia SE increased the share capital in return for a cash contribution by € 16,500,000.00 to € 534,577,934.00, partially using the 2018 authorized capital and excluding a subscription right of € 518,077,934.00.

The 16,500,000 new no-par-value registered shares were placed with institutional investors in the scope of a private placement by means of an accelerated book building procedure and carry dividend rights as of January 1, 2019.

The shares were granted at a placement price of € 45.10 per share, delivering issue proceeds to Vonovia SE in the amount of € 744.2 million before commission and expenses. The plan is to use the net proceeds from the capital increase to refinance the acquisition of a Swedish real estate portfolio by Vonovia's Swedish subsidiary, Victoria Park AB, at Group level and to finance future growth, with the remaining portion being used for general business purposes.

The Annual General Meeting held on May 16, 2019, resolved to pay a dividend for the 2018 fiscal year in the amount of € 1.44 per share.

As in previous years, shareholders were offered the option of choosing between being paid the dividend in cash or being granted new shares. During the subscription period, shareholders holding a total of 45.8% of the shares carrying dividend rights opted for the scrip dividend as opposed to the cash dividend. As a result, 7,695,677 new shares were issued using the company's authorized capital pursuant to Section 5b of the Articles of Association ("2018 authorized capital") at a subscription price of € 44.352 per share, i.e., a total amount of € 341,318,666.30. This means that the total number of Vonovia's shares has increased to 542,273,611. The total amount of the dividend distributed in cash came to € 404,713,558.66.

The changes in the equity instruments at fair value in other comprehensive income are mainly due to the sale of around 16.8 million shares in Deutsche Wohnen SE with effect from February 1, 2019 to institutional investors as part of an accelerated book building procedure at a price per share of € 41.50. This corresponds to a customary market discount of 4.8% on the closing price of € 43.59 as of January 31, 2019. This results in total proceeds of € 698.1 million.

Changes in other comprehensive income during the period in the amount of € 30.1 million are mainly due to the increase in the price of the shares in Deutsche Wohnen SE up until the time of the sale. The total profit of € 292.6 million was reclassified, without affecting net income, from other reserves to retained earnings pursuant to the designation under IFRS 9 when the transaction was completed.

## 15 Non-derivative Financial Liabilities

| in € million | Dec. 31, 2018 non-current | Dec. 31, 2018 current | June 30, 2019 non-current | June 30, 2019 current |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Liabilities to banks | 4,893.5 | 306.6 | 5,170.0 | 633.0 |
| Liabilities to other creditors | 12,544.0 | 2,272.0 | 12,774.7 | 1,830.8 |
| Deferred interest from non-derivative financial liabilities | - | 119.9 | - | 117.9 |
| | **17,437.5** | **2,698.5** | **17,944.7** | **2,581.7** |

The US dollar bond issued in 2013 is translated at the exchange rate at the end of the reporting period in line with applicable IFRS provisions. Allowing for the hedging rate prescribed through the interest hedging transaction entered into, this financial liability would be € 34.9 million lower than the recognized value (Dec. 31, 2018: € 33.5 million).

The non-derivative financial liabilities developed as follows in the fiscal year under review:

| in € million | Dec. 31, 2018 | June 30, 2019 |
|---|---|---|
| Bond* | 600.0 | 600.0 |
| Bond (Sweden)* | 58.5 | 0.0 |
| Bond (US dollar)* | 184.9 | 184.9 |
| Bond (EMTN)* | 11,850.0 | 12,350.0 |
| Bond (Hybrid) | 700.0 | 0.0 |
| Commercial Paper | 420.0 | 0.0 |
| Portfolio loans | | |
| Berlin Hannoversche Hypothekenbank, Hessische Landesbank* | - | 461.8 |
| Pfandbriefbank, Landesbank Baden-Württemberg* | - | 500.0 |
| Berlin-Hannoversche Hypothekenbank (Landesbank Berlin)* | 499.4 | 499.4 |
| Berlin Hannoversche Hypothekenbank, Landesbank Berlin und Landesbank Baden-Württemberg* | 321.4 | 311.9 |
| Deutsche Hypothekenbank* | 162.7 | 160.1 |
| Nordrheinische Ärzteversorgung* | 29.7 | 29.2 |
| Norddeutsche Landesbank* | 113.7 | 112.0 |
| Mortgages | 5,094.1 | 5,206.6 |
| | **20,034.4** | **20,415.9** |

* Under the conditions of existing loan agreements, Vonovia is obliged to fulfill certain financial covenants.

### *Repayment of Corporate Bonds*

On April 8, 2019, Vonovia repaid the subordinated debenture (hybrid) of € 700 million issued by Vonovia Finance B.V. in full.

Vonovia also repaid the corporate bond (Bond Sweden) issued by its Swedish subsidiary Victoria Park in the amount of € 58.5 million due on June 10, 2019, according to form.

### *Issue of Bonds Under the European Medium-Term Notes Program (EMTN)*

With effect from January 29, 2019 and as part of its EMTN program, Vonovia placed a bond with a nominal volume of € 500 million and a coupon of 1.800% maturing on June 29, 2025 via its Dutch subsidiary Vonovia Finance B.V. The first interest payment date was June 29, 2019.

## Other Notes and Disclosures

### 16 Additional Financial Instrument Disclosures

**Measurement categories and classes:**

| in € million | Carrying amounts June 30, 2019 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | |
| Cash on hand and deposits at banking institutions | 830.6 |
| Commercial papers | 450.0 |
| Trade receivables | |
| Receivables from the sale of properties | 47.4 |
| Receivables from property letting | 43.1 |
| Other receivables from trading | 8.7 |
| Receivables from sale of real estate inventories (Development) | 120.7 |
| Financial assets | |
| Investments valued at equity | 26.4 |
| Loans to other investments | 33.3 |
| Other non-current loans | 16.8 |
| Non-current securities | 4.1 |
| Other investments | 122.1 |
| Derivative financial assets | |
| Cash flow hedges (cross currency swaps) | 22.9 |
| Stand-alone interest rate swaps and interest rate caps as well as embedded derivatives | 3.9 |
| **Liabilities** | |
| Trade payables | 199.4 |
| Non-derivative financial liabilities | 20,526.4 |
| Derivative financial liabilities | |
| Purchase price liabilities from put options/rights to reimbursement | 38.9 |
| Stand-alone interest rate swaps and interest rate caps | 65.1 |
| Other swaps | 30.0 |
| Lease liabilities | 445.5 |
| Liabilities from tenant financing | 159.3 |
| Liabilities to non-controlling interests | 30.6 |

| | Amounts recognized in balance sheet in accordance with IFRS 9 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amortized cost | Fair value affecting net income | Fair value recognized in equity with reclassification | Fair value recognized in equity without reclassification | Amounts recognized in balance sheet in acc. with IFRS 16/IAS 28 | Fair value June 30, 2019 | Fair value hierarchy level |
| | | | | | | | |
| | | | | | | | |
| | 830.6 | | | | | 830.6 | 1 |
| | 450.0 | | | | | 450.0 | 2 |
| | | | | | | | |
| | 47.4 | | | | | 47.4 | 2 |
| | 43.1 | | | | | 43.1 | 2 |
| | 8.7 | | | | | 8.7 | 2 |
| | 120.7 | | | | | 120.7 | 2 |
| | | | | | | | |
| | | | | | 26.4 | 26.4 | n.a. |
| | 33.3 | | | | | 57.6 | 2 |
| | 16.8 | | | | | 20.3 | 2 |
| | | | | 4.1 | | 4.1 | 1 |
| | | | | 122.1 | | 122.1 | 2 |
| | | | | | | | |
| | | -10.6 | 33.5 | | | 22.9 | 2 |
| | | 3.9 | | | | 3.9 | 2 |
| | | | | | | | |
| | 199.4 | | | | | 199.4 | 2 |
| | 20,526.4 | | | | | 21,799.2 | 2 |
| | | | | | | | |
| | 38.9 | | | | | 38.9 | 2 |
| | | 65.1 | | | | 65.1 | 2 |
| | | 2.6 | 27.4 | | | 30.0 | 2 |
| | | | | | 445.5 | 542.6 | 2 |
| | 159.3 | | | | | 159.3 | 2 |
| | 30.6 | | | | | 30.6 | 2 |

**Measurement categories and classes:**

| in € million | Carrying amounts Dec. 31, 2018 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | |
| Cash on hand and deposits at banking institutions | 547.7 |
| Trade receivables | |
| Receivables from the sale of properties | 258.6 |
| Receivables from property letting | 44.4 |
| Other receivables from trading | 6.4 |
| Receivables from sale of real estate inventories (Development) | 183.7 |
| Financial assets | |
| Investments valued at equity | 29.1 |
| Loans to other investments | 33.4 |
| Other non-current loans | 10.2 |
| Non-current securities | 4.0 |
| Other investments | 792.1 |
| Derivative financial assets | |
| Cash flow hedges (cross currency swaps) | 16.3 |
| Stand-alone interest rate swaps and interest rate caps as well as embedded derivatives | 4.5 |
| **Liabilities** | |
| Trade payables | 243.5 |
| Non-derivative financial liabilities | 20,136.0 |
| Derivative financial liabilities | |
| Purchase price liabilities from put options/rights to reimbursement | 36.8 |
| Stand-alone interest rate swaps and interest rate caps | 54.6 |
| Other swaps | 19.8 |
| Liabilities from finance leases | 99.4 |
| Liabilities from tenant financing | 160.8 |
| Liabilities to non-controlling interests | 33.2 |

| Amounts recognized in balance sheet in accordance with IFRS 9 | | | | | | |
|---|---|---|---|---|---|---|
| Amortized cost | Fair value affecting net income | Fair value recognized in equity with reclassification | Fair value recognized in equity without reclassification | Amounts recognized in balance sheet in acc. with IAS 17/IAS 28 | Fair value Dec. 31, 2018 | Fair value hierarchy level |
| | | | | | | |
| | | | | | | |
| 547.7 | | | | | 547.7 | 1 |
| | | | | | | |
| 258.6 | | | | | 258.6 | 2 |
| 44.4 | | | | | 44.4 | 2 |
| 6.4 | | | | | 6.4 | 2 |
| 183.7 | | | | | 183.7 | 2 |
| | | | | | | |
| | | | | 29.1 | 29.1 | n.a. |
| 33.4 | | | | | 48.1 | 2 |
| 10.2 | | | | | 15.8 | 2 |
| | | | 4.0 | | 4.0 | 1 |
| | | | 792.1 | | 792.1 | 2 |
| | | | | | | |
| | -11.0 | 27.3 | | | 16.3 | 2 |
| | 4.5 | | | | 4.5 | 2 |
| | | | | | | |
| 243.5 | | | | | 243.5 | 2 |
| 20,136.0 | | | | | 20,471.2 | 2 |
| | | | | | | |
| 36.8 | | | | | 36.8 | 2 |
| | 54.6 | | | | 54.6 | 2 |
| | -2.6 | -17.2 | | | 19.8 | 2 |
| | | | | 99.4 | 198.0 | 2 |
| 160.8 | | | | | 160.8 | 2 |
| 33.2 | | | | | 33.2 | 2 |

The section below provides information on the financial assets and financial liabilities not covered by IFRS 9:

> Employee benefits in accordance with IAS 19: Gross presentation of right to reimbursement arising from transferred pension obligations in the amount of € 4.6 million (Dec. 31, 2018: € 4.7 million).
> Amount by which the fair value of plan assets exceeds the corresponding obligation of € 0.5 million (Dec. 31, 2018: € 1.1 million).
> Provisions for pensions and similar obligations: € 565.8 million (Dec. 31, 2018: € 520.6 million).

The following table shows the assets and liabilities that are recognized in the balance sheet at fair value and their classification according to the fair value hierarchy:

| in € million | June 30, 2019 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets | | | | |
| Investment properties | 46,896.9 | | | 46,896.9 |
| Financial assets | | | | |
| Non-current securities | 4.1 | 4.1 | | |
| Other investments | 122.1 | | 122.1 | |
| Assets held for sale | | | | |
| Investment properties (contract closed) | 139.1 | | 139.1 | |
| Derivative financial assets | | | | |
| Cash flow hedges (cross currency swaps) | 22.9 | | 22.9 | |
| Stand-alone interest rate swaps and caps as well as embedded derivatives | 3.9 | | 3.9 | |
| Liabilities | | | | |
| Derivative financial liabilities | | | | |
| Cash flow hedges | 30.0 | | 30.0 | |
| Stand-alone interest rate swaps and caps | 65.1 | | 65.1 | |

| in € million | Dec. 31, 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets | | | | |
| Investment properties | 43,490.9 | | | 43,490.9 |
| Financial assets | | | | |
| Non-current securities | 4.0 | 4.0 | | |
| Other investments | 792.1 | 672.8 | 119.3 | |
| Assets held for sale | | | | |
| Investment properties (contract closed) | 105.9 | | 105.9 | |
| Derivative financial assets | | | | |
| Cash flow hedges (cross currency swaps) | 16.3 | | 16.3 | |
| Stand-alone interest rate swaps and caps as well as embedded derivatives | 4.5 | | 4.5 | |
| Liabilities | | | | |
| Derivative financial liabilities | | | | |
| Cash flow hedges | 19.8 | | 19.8 | |
| Stand-alone interest rate swaps and caps | 54.6 | | 54.6 | |

In general, Vonovia measures its investment properties based on the discounted cash flow (DCF) methodology (Level 3). The material valuation parameters and valuation results can be found in note 13 "Investment Properties."

The investment properties classified as assets held for sale are recognized at the time of their transfer to assets held for sale at their new fair value, the agreed purchase price (Level 2).

No financial instruments were reclassified to different hierarchy levels as against the comparative period.

Securities and shares in listed companies included in other investments are measured using the quoted prices in active markets (Level 1).

For the measurement of financial instruments, cash flows are initially calculated and then discounted. In addition to the tenor-specific EURIBOR/STIBOR rates (3M; 6M), the respective credit risk is taken as a basis for discounting. Depending on the expected cash flows, either Vonovia's own credit risk or the counterparty risk is taken into account in the calculation.

For the consolidated financial statements, Vonovia's own credit risk was fundamentally relevant for interest rate swaps. This credit risk is derived for material risks from rates observable on the capital markets and ranges of between 20 and 100 basis points, depending on the residual maturities of financial instruments. Regarding the positive market values of the cross currency swaps, a counterparty risk of 50 basis points was taken into account.

The calculated cash flows of the cross currency swap result from the forward curve for USD/EUR. The cash flows are discounted on the basis of the reference interest rate of each currency (LIBOR and EURIBOR) and translated into euros at the current exchange rate (Level 2).

The fair values of the cash and cash equivalents, trade receivables as well as other financial receivables approximate their carrying amounts at the reporting date owing to their mainly short maturities. The amount of the estimated impairment loss on cash and cash equivalents was calculated based on the losses expected over a period of twelve months. It was determined that the cash and cash equivalents have a low risk of default due to the external ratings and short residual maturities and that there is no need for any material impairment of cash and cash equivalents.

## 17 Segment Reporting

The following table shows the segment information for the reporting period. The prior-year figures now include the segment results for BUWOG:

| in € million | Rental | Value-add | Recurring Sales | Develop-ment | Segments total | Other* | Consolida-tion* | Group |
|---|---|---|---|---|---|---|---|---|
| **Jan. 1–June 30, 2019** | | | | | | | | |
| Segment income | 1,014.8 | 760.9 | 174.9 | 124.9 | 2,075.5 | 51.8 | -343.6 | 1,783.7 |
| thereof external income | 1,014.8 | 134.9 | 174.9 | 124.9 | 1,449.5 | 51.8 | 282.4 | 1,783.7 |
| thereof internal income | | 626.0 | | | 626.0 | | -626.0 | |
| Carrying amount of assets sold | | | -145.8 | | -145.8 | -48.9 | | |
| Revaluation from disposal of assets held for sale | | | 21.3 | | 21.3 | 5.9 | | |
| Expenses for maintenance | -147.0 | | | | -147.0 | | | |
| Production costs development | | | | -95.2 | -95.2 | | | |
| Operating expenses | -143.8 | -685.2 | -8.0 | -16.7 | -853.7 | -2.8 | 319.8 | |
| Net income from fair value adjustments of new construction/ development to hold | | | | 17.7 | 17.7 | | -17.7 | |
| Adjusted EBITDA Total | 724.0 | 75.7 | 42.4 | 30.7 | 872.8 | 6.0 | -41.5 | 837.3 |
| Non-recurring items | | | | | | | | -25.3 |
| Period adjustments from assets held for sale | | | | | | | | -0.3 |
| Income from investments in other real estate companies | | | | | | | | 0.2 |
| EBITDA IFRS | | | | | | | | 811.9 |
| Net income from fair value adjustments of investment properties | | | | | | | | 2,258.7 |
| Depreciation and amortization | | | | | | | | -1,935.9 |
| Income from other investments | | | | | | | | -9.0 |
| Financial income | | | | | | | | 12.6 |
| Financial expenses | | | | | | | | -236.7 |
| EBT | | | | | | | | 901.6 |
| Income taxes | | | | | | | | -776.3 |
| **Profit for the period** | | | | | | | | **125.3** |

* The income for the Rental, Value-add, Recurring Sales and Development segments constitutes income that is regularly reported to the Management Board as the chief operating decision-maker and that reflects Vonovia's sustainable business. The income/costs in the "Other" and "Consolidation" columns are not part of the Management Board's segment management.

| in € million | Rental | Value-add | Recurring Sales | Develop-ment | Segments total | Other* | Consolida-tion* | Group |
|---|---|---|---|---|---|---|---|---|
| **Jan. 1–June 30, 2018** | | | | | | | | |
| Segment income | 890.7 | 614.5 | 156.3 | 73.5 | 1,735.0 | 230.1 | -222.3 | 1,742.8 |
| thereof external income | 890.7 | 92.4 | 156.3 | 73.5 | 1,212.9 | 230.1 | 299.8 | 1,742.8 |
| thereof internal income | | 522.1 | | | 522.1 | | -522.1 | |
| Carrying amount of assets sold | | | -128.2 | | -128.2 | -212.3 | | |
| Revaluation from disposal of assets held for sale | | | 13.7 | | 13.7 | 13.0 | | |
| Expenses for maintenance | -140.0 | | | | -140.0 | | | |
| Production costs development | | | | -60.6 | -60.6 | | | |
| Operating expenses | -133.8 | -560.1 | -6.9 | -7.7 | -708.5 | -4.5 | 206.2 | |
| Net income from fair value adjustments of new construction/development to hold | | | | 2.7 | 2.7 | | -2.7 | |
| Adjusted EBITDA Total | 616.9 | 54.4 | 34.9 | 7.9 | 714.1 | 26.3 | -18.8 | 721.6 |
| Non-recurring items | | | | | | | | -50.5 |
| Period adjustments from assets held for sale | | | | | | | | 7.8 |
| Income from investments in other real estate companies | | | | | | | | 13.9 |
| EBITDA IFRS | | | | | | | | 692.8 |
| Net income from fair value adjustments of investment properties | | | | | | | | 1,372.9 |
| Depreciation and amortization | | | | | | | | -23.3 |
| Income from other investments | | | | | | | | -21.6 |
| Financial income | | | | | | | | 26.8 |
| Financial expenses | | | | | | | | -200.9 |
| EBT | | | | | | | | 1,846.7 |
| Income taxes | | | | | | | | -646.7 |
| **Profit for the period** | | | | | | | | **1,200.0** |

* The income for the Rental, Value-add, Recurring Sales and Development segments constitutes income that is regularly reported to the Management Board as the chief operating decision-maker and that reflects Vonovia's sustainable business. The income/costs in the "Other" and "Consolidation" columns are not part of the Management Board's segment management. The Sales segment reported on in the previous year has been split into Recurring Sales and Non-core Disposals (shown under "Other") and the costs incurred by the holding area „transaction" have been allocated to the Rental segment.

The following table gives a detailed list of the non-recurring items for the reporting period:

| in € million | Jan. 1–June 30, 2018 | Jan. 1–June 30, 2019 |
|---|---|---|
| Acquisition costs incl. integration costs* | 30.0 | 11.6 |
| Severance payments/pre-retirement part-time work arrangements | 13.3 | 8.9 |
| Business model optimization/development of new field of business | 7.4 | 0.6 |
| Refinancing and equity measures | -0.2 | 4.2 |
| **Total non-recurring items** | **50.5** | **25.3** |

* Including takeover costs and one-time expenses in connection with acquisitions, such as HR measures relating to the integration process.

Figures for the previous year shown in line with the current reporting structure.

The breakdown of non-Group revenue from contracts with customers (pursuant to IFRS 15.114f.) and its allocation to the segments referred to above is as follows:

| in € million | Rental | Value-add | Recurring Sales | Development | Other | Total |
|---|---|---|---|---|---|---|
| **Jan. 1–June 30, 2019** | | | | | | |
| Revenue from ancillary costs (IFRS 15) | 314.7 | 0.2 | – | 0.1 | – | 315.0 |
| Income from the disposal of investment properties | – | – | 86.0 | – | 24.4 | 110.4 |
| Income from disposal of real estate inventories (Development) | – | – | – | 124.9 | – | 124.9 |
| Other revenue from contracts with customers | 7.2 | 27.9 | – | 0.1 | – | 35.2 |
| **Revenue from contracts with customers** | **321.9** | **28.1** | **86.0** | **125.1** | **24.4** | **585.5** |
| thereof over time | | | | 97.7 | | 97.7 |
| thereof at a point in time | 321.9 | 28.1 | 86.0 | 27.4 | 24.4 | 487.8 |
| Income from rental income (IFRS 16) | 1,014.8 | 1.0 | – | 0.4 | – | 1,016.2 |
| Revenue from ancillary costs (IFRS 16)* | 65.7 | – | – | – | – | 65.7 |
| Income from sale of assets held for sale (IFRS 5) | – | – | 88.9 | – | 27.4 | 116.3 |
| **Other revenue** | **1,080.5** | **1.0** | **88.9** | **0.4** | **27.4** | **1,198.2** |
| **Revenues** | **1,402.4** | **29.1** | **174.9** | **125.5** | **51.8** | **1,783.7** |

* Includes land tax and buildings insurance.

| in € million | Rental | Value-add | Recurring Sales | Development | Other | Total |
|---|---|---|---|---|---|---|
| **Jan. 1–June 30, 2018** | | | | | | |
| Revenue from ancillary costs (IFRS 15) | 310.3 | 0.6 | – | – | – | 310.9 |
| Income from the disposal of investment properties | – | – | 156.3 | – | 102.2 | 258.5 |
| Income from disposal of real estate inventories (Development) | – | – | – | 73.5 | – | 73.5 |
| Other revenue from contracts with customers | 6.4 | 17.9 | – | – | – | 24.3 |
| **Revenue from contracts with customers** | **316.7** | **18.5** | **156.3** | **73.5** | **102.2** | **667.2** |
| thereof over time | | | | 33.4 | | 33.4 |
| thereof at a point in time | 316.7 | 18.5 | 156.3 | 40.1 | 102.2 | 633.8 |
| Income from rental income (IFRS 16) | 890.7 | 1.8 | – | – | – | 892.5 |
| Revenue from ancillary costs (IFRS 16)* | 55.2 | – | – | – | – | 55.2 |
| Income from sale of assets held for sale (IFRS 5) | – | – | – | – | 127.9 | 127.9 |
| **Other revenue** | **945.9** | **1.8** | **–** | **–** | **127.9** | **1,075.6** |
| **Revenues** | **1,262.6** | **20.3** | **156.3** | **73.5** | **230.1** | **1,742.8** |

* Includes land tax and buildings insurance.

External revenue and non-current assets, excluding financial instruments, deferred taxes, post-employment benefits and rights under insurance contracts, are distributed among Vonovia's country of origin and other countries as follows. Revenue is allocated based on the registered office of the unit providing the service.

| | External revenue | | Assets | |
|---|---|---|---|---|
| In € million | June 30, 2018 | June 30, 2019 | June 30, 2018 | June 30, 2019 |
| Germany | 1,605.7 | 1,504.2 | 41,369.9 | 42,920.8 |
| Austria | 110.5 | 213.3 | 2,687.3 | 2,929.0 |
| Sweden | | 66.0 | 1,641.5 | 2,501.1 |
| France | | | | 87.0 |
| Other countries | 26.6 | 0.2 | 48.6 | 74.0 |
| **Total** | **1,742.8** | **1,783.7** | **45,747.3** | **48,511.9** |

## 18 Subsequent Events

With effect from July 1, 2019, Vonovia implemented a revised regional structure in the management system of the German Rental segment. This has changed the composition of the cash-generating units that are relevant for impairment testing purposes, meaning that the goodwill has to be reallocated as of the effective date. At the same time, the determination of the recoverable amount and the carrying amount of each cash-generating unit has to be adjusted in the context of the impairment test, too. This results in a likely impairment loss of around € 200 million for the goodwill attributed to the Rental segment in Germany. This will be reflected in the quarterly financial statements as of September 30, 2019.

On July 25, 2019, Vonovia repaid the subordinate bond of € 600 million issued by Vonovia Finance B.V. in full.

Bochum, Germany, July 22, 2019

Rolf Buch
(CEO)

Arnd Fittkau
(CRO)

Helene von Roeder
(CFO)

Daniel Riedl
(CDO)

# Review Report

To Vonovia SE, Bochum

We have reviewed the condensed interim consolidated financial statements – comprising Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity and Selected Explanatory Notes to the condensed interim consolidated financial statements – together with the interim group management report of Vonovia SE, Bochum, for the period from January 1 to June 30, 2019 that are part of the half year financial report according to § 115 WpHG [„Wertpapierhandelsgesetz": „German Securities Trading Act"]. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with the International Standard on Review Engagements "Review of interim Financial information performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Düsseldorf, July 31, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

| | |
|---|---|
| Ufer | Bornhofen |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# Responsibility Statement

"To the best of our knowledge and in accordance with the applicable reporting principles, the interim consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the combined Group management report includes a fair view of the business development including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remainder of the fiscal year."

Bochum, Germany, July 22, 2019

| | | | |
|---|---|---|---|
| Rolf Buch<br>(CEO) | Arnd Fittkau<br>(CRO) | Helene von Roeder<br>(CFO) | Daniel Riedl<br>(CDO) |

# Portfolio Information

## Vonovia manages its own real estate portfolio with a fair value of € 47.4 billion as of June 30, 2019. The majority of our apartments are located in regions with positive economic and demographic development prospects.

### Portfolio Structure

| | Fair value* | | | | |
|---|---|---|---|---|---|
| June 30, 2019 | (in € million) | (in €/m²) | Residential units | Vacancy (in %) | In-place rent (in €/m²)** |
| Strategic | 36.752,6 | 1.789 | 323.491 | 2,8 | 6,65 |
| Operate | 9.225,5 | 1.784 | 75.046 | 2,6 | 6,92 |
| Invest | 27.527,1 | 1.791 | 248.445 | 2,8 | 6,56 |
| Recurring Sales | 3.771,5 | 1.920 | 28.686 | 3,2 | 6,79 |
| Non-core Disposals | 556,4 | 1.231 | 5.263 | 7,0 | 6,11 |
| **Vonovia Germany** | **41.080,4** | **1.789** | **357.440** | **2,9** | **6,65** |
| Vonovia Austria | 2.563,0 | 1.394 | 22.661 | 4,8 | 4,59 |
| Vonovia Sweden | 2.260,1 | 1.738 | 16.638 | 1,6 | 9,20 |
| **Total** | **45.903,5** | **1.759** | **396.739** | **2,9** | **6,64** |

In order to boost transparency among the portfolios, we show our extended portfolio in **15 regional markets.** These markets are core towns/cities and their surroundings, mainly metropolitan areas. Our decision to focus on the regional markets that are particularly relevant to Vonovia is our way of looking ahead to the future and provides an overview of our strategic core portfolio in Germany.

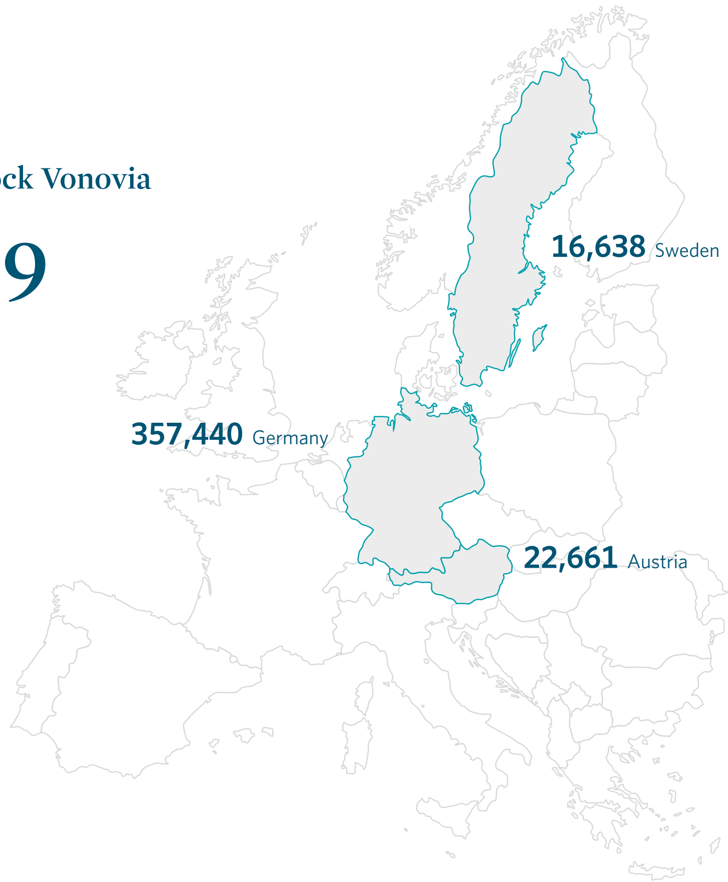
### Breakdown of Strategic Housing Stock by Regional Market

| | Fair value* | | | | |
|---|---|---|---|---|---|
| June 30, 2019 | (in € million) | (in €/m²) | Residential units | Vacancy (in %) | In-place rent (in €/m²)** |
| Regional market | | | | | |
| Berlin | 7,171.0 | 2,594 | 42,042 | 1.6 | 6.73 |
| Rhine Main Area | 4,191.3 | 2,346 | 27,530 | 1.6 | 8.17 |
| Rhineland | 3,610.3 | 1,839 | 28,803 | 2.6 | 7.11 |
| Southern Ruhr Area | 3,579.3 | 1,326 | 43,382 | 3.5 | 6.04 |
| Dresden | 3,432.3 | 1,499 | 38,485 | 3.8 | 6.09 |
| Hamburg | 2,566.6 | 2,003 | 19,829 | 2.0 | 7.03 |
| Munich | 2,170.2 | 3,322 | 9,661 | 1.2 | 8.12 |
| Stuttgart | 2,051.5 | 1,473 | 23,373 | 2.3 | 6.25 |
| Kiel | 2,007.6 | 2,254 | 13,797 | 1.9 | 7.89 |
| Hanover | 1,773.4 | 1,694 | 16,310 | 3.3 | 6.59 |
| Northern Ruhr Area | 1,579.6 | 974 | 26,009 | 3.6 | 5.70 |
| Bremen | 1,134.2 | 1,533 | 11,862 | 3.9 | 5.74 |
| Leipzig | 910.5 | 1,465 | 9,188 | 4.3 | 6.00 |
| Westphalia | 860.6 | 1,381 | 9,494 | 3.6 | 6.04 |
| Freiburg | 630.2 | 2,263 | 4,033 | 2.0 | 7.37 |
| Other strategic locations | 2,673.2 | 1,536 | 26,808 | 3.2 | 6.64 |
| **Total strategic locations Germany** | **40,341.9** | **1,802** | **350,606** | **2.8** | **6.66** |

* Fair value of the developed land excluding € 1,545.6 million, of which € 405.6 million for undeveloped land and hereditary building rights granted, € 414.0 million for assets under construction, € 495.5 million for development and € 230.5 million for other.
** Shown based on the country-specific definition.

## Total Housing Stock Vonovia

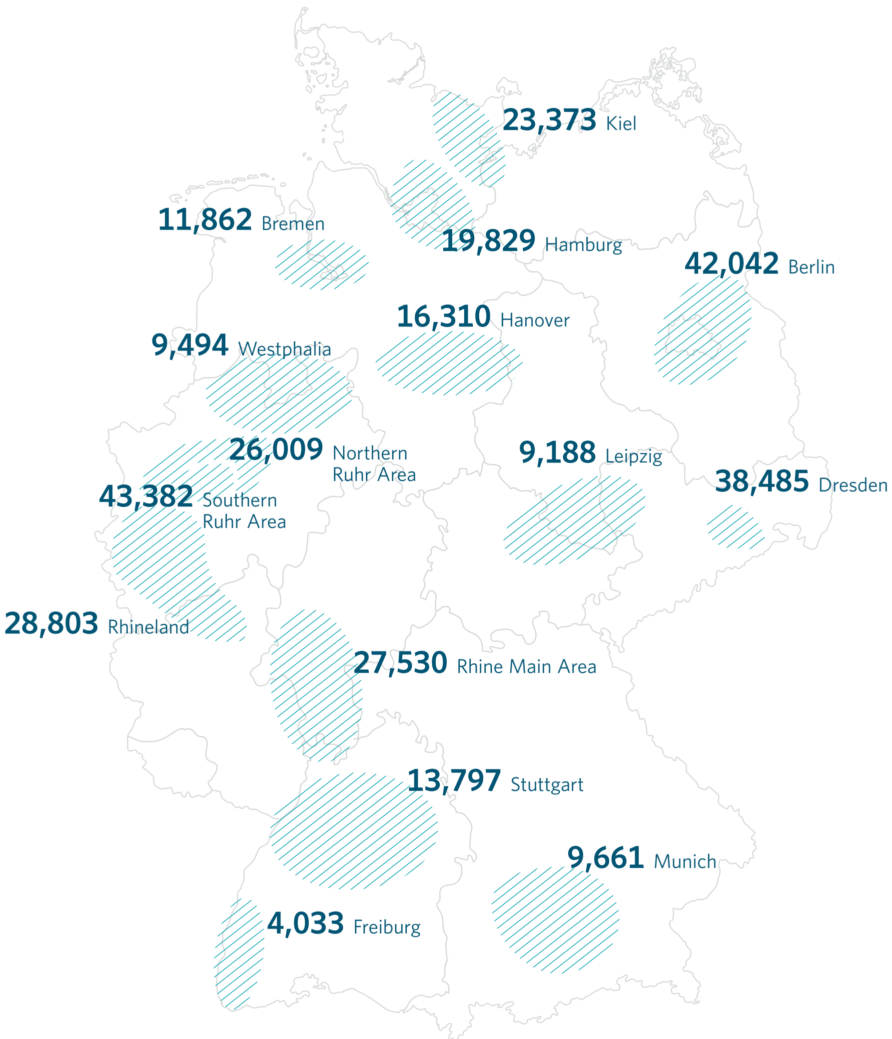
# 396,739




## Housing Stock by Regional Market

(including 26,808 units at other strategic locations)

# 350,606



# Financial Calendar

*August 2, 2019*
Publication of Half-Year Report January–June 2019

*November 5, 2019*
Publication of Interim Statement January–September 2019

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Note
This interim statement is published in German and English.
The German version is always the authoritative text. The interim statement can be found on the website at www.vonovia.de.

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Disclaimer
This interim statement contains forward-looking statements. These statements are based on current experience, assumptions and forecasts of the Management Board as well as information currently available to the Management Board. The forward-looking statements are not guarantees of the future developments and results mentioned therein. The future developments and results depend on a large number of factors. They involve certain risks and uncertainties and are based on assumptions that may prove to be inaccurate. These risk factors include but are not limited to those discussed in the risk report of the 2018 Annual Report. We do not assume any obligation to update the forward-looking statements contained in this interim statement. This interim statement does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any securities of Vonovia SE.

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