Half-Year Report 2018

H1

JAN
JUN

VONOVIA

Key Figures

(without BUWOG and without Victoria Park unless otherwise indicated)

Financial Key Figures in € million	H1 2017	H1 2018	Change in %	12M 2017
Rental income	833.2	838.8	0.7	1,667.9
Adjusted EBITDA Operations	607.6	632.6	4.1	1,224.2
Adjusted EBITDA Rental	573.5	597.0	4.1	1,150.0
Adjusted EBITDA Value-add Business	45.6	51.7	13.4	102.1
Adjusted EBITDA Other	-11.5	-16.1	40.0	-27.9
Income from disposal of properties	701.9	354.2	-49.5	1,206.4
Adjusted EBITDA Sales	44.3	48.3	9.0	110.8
Adjusted EBITDA	651.9	680.9	4.4	1,335.0
EBITDA IFRS*	651.4	692.8	6.4	1,271.8
thereof EBITDA IFRS BUWOG*	-	40.7	-	-
FFO 1	457.7	510.3	11.5	920.8
thereof attributable to Vonovia shareholders	431.1	484.7	12.4	866.2
thereof attributable to Vonovia hybrid capital investors	20.0	20.0	-	40.0
thereof attributable to non-controlling interests	6.6	5.6	-15.2	14.6
FFO 2	481.9	544.8	13.1	1,012.4
AFFO	427.2	461.2	8.0	835.1
FFO 1 per share in €**	0.96	0.98	2.5	1.90
Net income from fair value adjustments of investment properties*	1,164.7	1,372.9	17.9	3,434.1
EBT*	1,652.6	1,846.7	11.7	4,007.4
Profit for the period*	1,064.6	1,200.0	12.7	2,566.9
Cash flow from operating activities*	475.4	513.5	8.0	946.0
Cash flow from investing activities*	-1,179.0	-3,158.7	167.9	-1,350.1
Cash flow from financing activities*	-459.1	3,244.8	-	-870.5
Maintenance and modernization	456.4	542.4	18.8	1,124.8
thereof for maintenance expenses and capitalized maintenance	158.8	182.1	14.7	346.2
thereof for modernization (incl. new construction)	297.6	360.3	21.1	778.6

Key Balance Sheet Figures in € million	June 30, 2017	June 30, 2018	Change in %	Dec. 31, 2017
Fair value of the real estate portfolio*	30,830.2	41,732.3	35.4	33,436.3
Adjusted NAV*	15,771.0	20,634.4	30.8	18,671.1
Adjusted NAV per share in €**	33.10	39.83	20.3	38.49
LTV in %*	43.2	43.9	0.7 pp	39.8

Non-financial Key Figures	H1 2017	H1 2018	Change in %	12M 2017
Number of units managed*	416,282	486,531	16.9	409,275
thereof own apartments*	352,815	403,926	14.5	346,644
thereof apartments owned by others*	63,467	82,605	30.2	62,631
Number of units bought*	23,745	63,444	167.2	24,847
Number of units sold	4,484	6,115	36.4	11,780
thereof Privatize	1,160	1,030	-11.2	2,608
thereof Sell portfolio cluster	3,324	5,085	53.0	9,172
Vacancy rate in %	2.9	2.8	-0.1 pp	2.5
Monthly in-place rent in €/m²	6.12	6.41	4.7	6.27
Organic rent increase in %	3.7	4.1	0.4 pp	4.2
Number of employees (as of June 30/Dec. 31)*	8,257	9,685	17.3	8,448

EPRA Key Figures in € million	June 30, 2017	June 30, 2018	Change in %	Dec. 31, 2017
EPRA NAV*	18,702.8	24,238.3	29.6	21,284.6
EPRA NAV per share in €**	39.25	46.79	19.2	43.88

* All values without BUWOG and without Victoria Park except key figures marked separately with*.
** Based on the shares carrying dividend rights on the reporting date: June 30, 2018: 518,077,934, June 30, 2017: 476,460,248, December 31, 2017: 485,100,826.

Interim Group Management Report – Business Development in the First Half-Year of 2018

Condensed Interim Consolidated Financial Statements

Information

Interim Group Management Report – Business Development in the First Half-Year of 2018

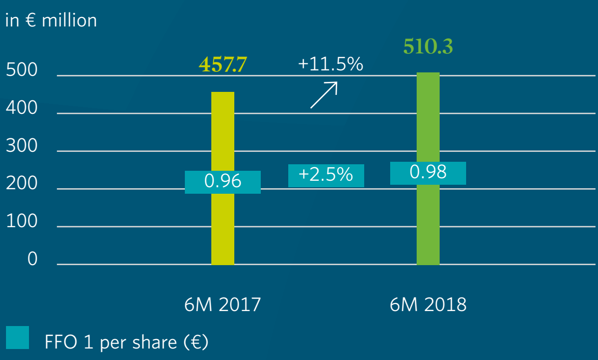
Overview

Vonovia takes positive stock of the first half of 2018. Following Vonovia's successful takeover bid to the shareholders of the Swedish housing company Victoria Park AB, Vonovia will now expand its activities on the Swedish housing market.

The implementation of the portfolio modernization investment program is going according to plan, Value-add Business was further expanded, and the integration of BUWOG is moving along well.

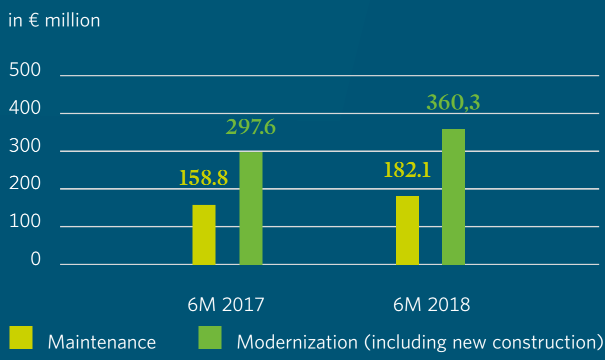
Increase in Sustained Earnings

FFO 1



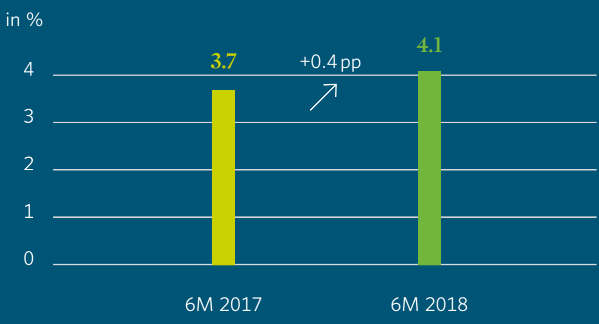
Maintenance and Modernization Expanded

Investments



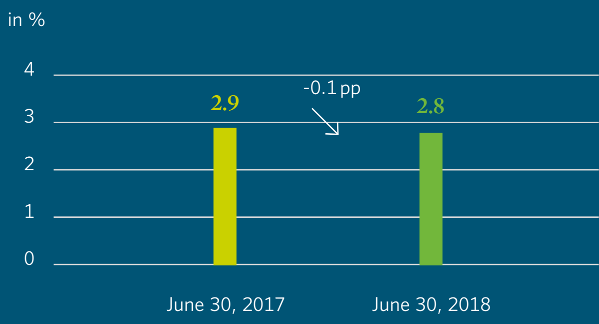
Organic Rent Growth

Organic Increase in Rent



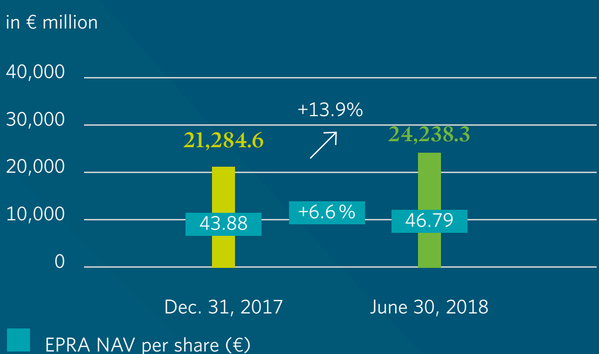
Vacancy Rate Lowered

Vacancy Rate



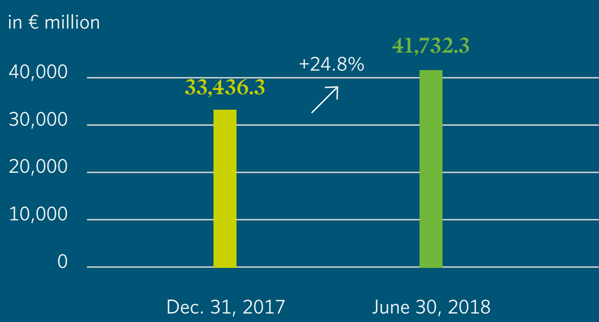
Increase in Net Assets

EPRA NAV



Growth in Property Assets Following Revaluation and Inclusion of BUWOG and Victoria Park

Fair Value of the Real Estate Portfolio



Vonovia SE in the Capital Market

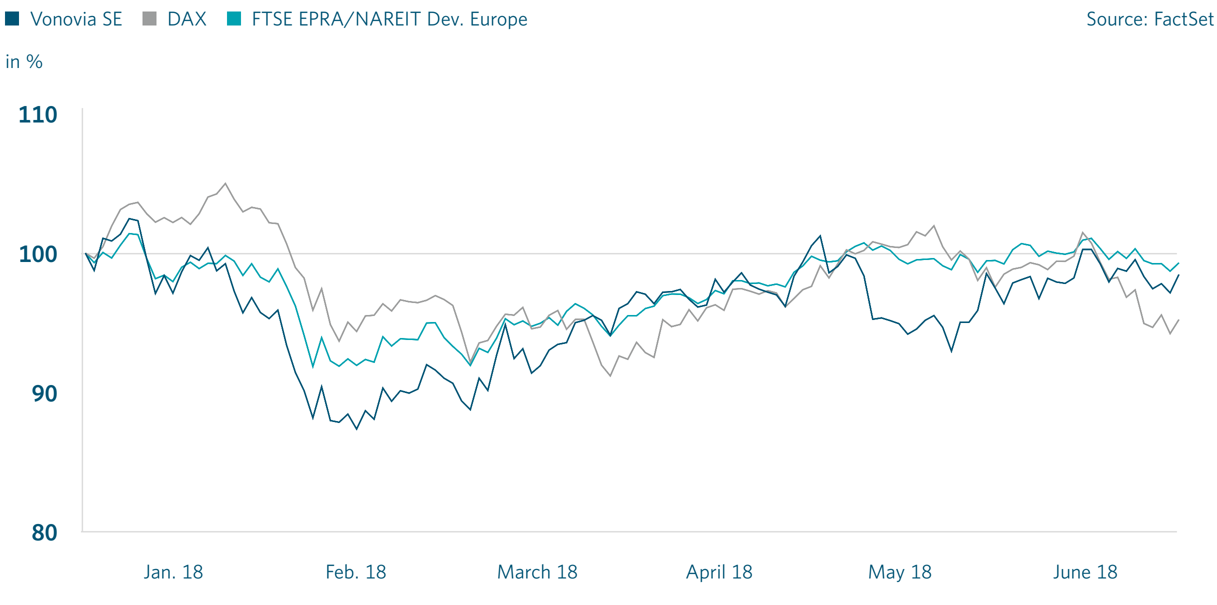
Shares in Vonovia

Pressure on international stock markets continued in the second quarter of 2018. Although there was no setback as in the first few weeks of the first quarter of 2018, overall share prices performed sideways in the second quarter of 2018. The expectation of rising interest rates, global trade conflicts and further political crises and conflicts had a negative effect on general stock market prices and thus also on European and German real estate stocks.

Yet even if the Vonovia share was somewhat subdued in the first six months of 2018, it was still above the DAX. Vonovia's stock experienced a slight loss of 1.5% as against the closing price on December 31, 2017, dropping to € 40.76, whereas the DAX 30 fell by 4.7% to 12,306.00 points during the same period. The EPRA Europe Index also closed the first six months of 2018 negatively at -0.7%.

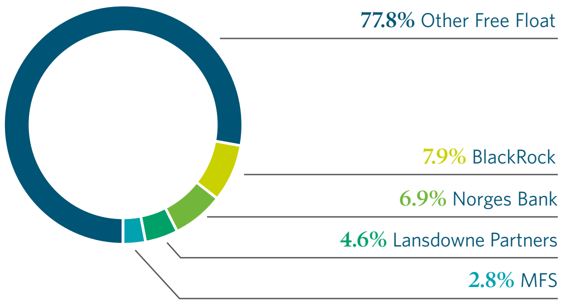
Vonovia's market capitalization amounted to around € 21.1 billion as of June 30, 2018.

Share Price Development



Shareholder Structure

Major Shareholders (as of June 30, 2018)



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 93.1% of Vonovia's shares were in free float on June 30, 2018.

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 minor shareholders, although they only represent a small proportion of the total capital.

Investor Relations Activities

In the first six months of 2018, Vonovia participated in a total of 14 investors' conferences and organized 18 roadshow days in the most important European, Asian and North American financial centers. In addition, our company representatives held numerous one-on-one meetings and conference calls with investors and analysts to keep them informed of current developments and special issues. Active participation in various shareholder association forums is also a key component of our IR work.

In order to provide information, the Investor Relations team and their colleagues from the operational areas once again gave numerous property tours to interested members of the financial community.

Capital Markets Day

The fifth Capital Markets Day, which focused on "Unlocking Potential," took place in Berlin on June 5, 2018. In three workshops on energy, neighborhood development and project development, Vonovia demonstrated to the 55 external participants the business potential that these and other topics have to offer. The event wrapped up with a property tour that made two stops. First, smaller groups of participants were given a tour of a new construction project, where they were able to experience how professional development and sustainable construction is transforming an unused property into a high-value neighborhood with condominiums and rental apartments. The participants were then shown a neighborhood development project so they could see how socially responsible neighborhood development works. By viewing two model apartments, the group was able to get an idea of how senior-friendly modernization can be successfully realized.

We will continue to communicate openly with the capital market as this year progresses. Various roadshows and conferences have already been planned. Information can be found in the Financial Calendar on our Investor Relations website.

2018 Annual General Meeting

The Annual General Meeting of Vonovia SE was held in Bochum on May 9, 2018. 69.95% of the share capital was represented. All of the agenda items were carried by a large majority, including the proposal to distribute a dividend of € 1.32 per share to the company's shareholders. The shareholders can choose whether they want to receive this in cash or as new shares.

This corresponds to a dividend yield of 3.2% in relation to the share's closing price of € 41.39 on December 31, 2017. The dividend for the 2017 fiscal year was paid out from a contribution account for tax purposes. It was therefore paid out to shareholders without capital gains tax or the solidarity surcharge being deducted.

Analyst Assessments

At the end of the second quarter of 2018, 31 national and international analysts were covering Vonovia. Two of these brokers have currently suspended their coverage of Vonovia due to the ongoing takeover of BUWOG and Victoria Park. The average target share price was € 44.86, with 64% of analysts issuing a "buy" recommendation, 32% issuing a "hold" recommendation and 4% issuing a "sell" recommendation.

BUWOG Transaction

The voluntary public takeover offer of Vonovia SE made to all shareholders of BUWOG AG has been successfully concluded. The extended acceptance deadline ended on June 18, 2018, at 5 p.m. (CEST). Vonovia now holds a total of 112,672,652 BUWOG shares, which corresponds to 90.7% of the total BUWOG shares issued as of June 30, 2018. Vonovia has requested that BUWOG's Annual General Meeting decide about the transfer to Vonovia of the shares of the minority stakeholders (squeeze-out). On August 12, 2018, BUWOG AG and Vonovia SE set the appropriate cash settlement for the minority shareholders of BUWOG who are to be excluded at € 29.05 per share.

Victoria Park Transaction

The public takeover offer of Vonovia SE made to the shareholders of the Swedish housing company Victoria Park AB was also successful. Vonovia exceeded the minimum acceptance threshold of over 50% of the voting rights (on a fully diluted basis and considering the call options) that was specified for the completion of the takeover offer for Victoria Park within the original acceptance deadline. This means that all conditions for the completion of the offer were fulfilled. With the end of the extended acceptance deadline on July 3, 2018, Vonovia controls a total of 66.1% of the share capital via its wholly-owned subsidiary Deutsche Annington Acquisition Holding GmbH and thus 61.1% of all voting rights of Victoria Park on a fully diluted basis and considering the call options.

http://investoren.vonovia.de

Share Information

First day of trading	July 11, 2013
Subscription price	€ 16.50
Total number of shares	518,077,934
Share capital in €	€ 518,077,934
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, 2018	DAX (1.8%) Stoxx Europe 600 (0.2%) MSCI Germany (1.7%) GPR 250 World (1.7%) FTSE EPRA/NAREIT Europe Index (9.0%)

Development of the Economic Environment

Development of the Economy and the Industry

Germany

The German economy is continuing to experience a boom, although the experts at the IfW Kiel (IfW) recorded an economic slowdown at the beginning of the year. Expansion forces can, however, be expected to regain strength and carry the upswing beyond the year 2018. Economic momentum decreased notably in the first half of the current year. Gross domestic product (GDP) growth decreased in the first quarter of 2018 to 0.3%, and according to the IfW a strong increase in economic activity is again not to be expected in the second quarter of 2018 on account of subdued production figures and decreasing incoming industry orders. According to the IfW, overall economic production capacity was already very tense at the beginning of the year and capacity utilization in the manufacturing sector – already at a high level – eased in the second quarter of 2018 for the first time in two years. Nevertheless, the experts at the IfW do not believe that this means the limit of overutilization and the upper turning point in the economic cycle has been reached. Local absorption increased significantly, especially because private consumption and investment in construction again increased notably. Special effects on the side of production were also responsible for the decreases in production in the first quarter of 2018, and according to the IfW the economic climate has also cooled in other countries where capacity is less strongly utilized. The main causes of the lower economic momentum in Germany were obstacles to production and international business. Business expectations may have clouded overall, but based on information from the IfW, they correspond to assessments of the situation that are close to their historically high values. The situation on the labor market improved further. According to information supplied by the German Federal Statistical Office (Statistisches Bundesamt), the number of employed people rose in April and May 2018 by 37,000 each month when adjusted for seasonal work. Based on the information provided by the German Federal Employment Agency (Bundesagentur für Arbeit), the unemployment rate based on the total civilian labor force came to 5.0% in June 2018, down by 0.5 percentage points compared with the previous year. Compared with the same month a year earlier, the inflation rate as measured by the consumer price index was 1.6% in April, 2.2% in May and 2.1% in June. In May 2018, the European Central Bank (ECB) announced that it would stop its bond-buying program this year, and it continued to leave its key interest rate in the first half of 2018 at the record low of 0.0% where it has been since March 2016.

Rents and Prices for Apartments Continue to Increase – Sustained Dynamic Development in the Residential Investment Market

In the second quarter of 2018, home prices continued to rise, 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 compared to the previous quarter by 0.8% (for new construction, the increase was also 0.8%). The increase in the quoted prices for condominiums was once again more pronounced. The price index for condominiums (all years of construction) increased compared to the previous quarter by 1.7% (new construction 1.9%). In several German cities, the purchase prices for residential real estate have experienced an unusually significant increase over recent years in relation to income and rents, and also compared to other large European cities, as reported by the International Monetary Fund (IMF) in its current country report on Germany. In these hot spots, prices are above the level that would be expected given the fundamental data, which points to an overvaluation, according to the IMF. In Germany overall, the development of residential real estate prices does not give cause for concern. According to the IMF, the causes of the price increases are increasing income, increased immigration and lower interest rates. In addition, supply remains limited by relatively strict provisions and increasing utilization in the construction sector. New housing policies intended to improve affordability should have no notable effects on prices, according to the IMF. According to DB Research, the price pressure can not be expected to ease for now. In 2017, the number of building permits was 350,000, while the number of completions was only 284,800. Given the low growth dynamic of completions over the past three years, DB Research expects that it will not be until 2022, when supply exceeds the yearly demand of at least 350,000 apartments, that the excess demand of what will then be significantly more than 1 million apartments will begin to gradually decrease.

In the first half of 2018, residential building bundles and residential developments of 50 units or more accounted for a total transaction volume of around € 10.6 billion in the German residential investment market, according to the real estate service provider CBRE. Compared to the previous year's period, the transaction volume increased by 45%. According to CBRE, more and more existing portfolios are finding their way to portfolio holders pursuing a long-term approach, which is why product shortages continue to rise and interest in project developments, student apartments and micro-apartments continues to grow. These developments resulted overall in a further price increase compared to the previous year's period. As far as 2018 as a whole is concerned, CBRE expects a transaction volume of approximately € 17.5 billion on the German residential real estate market.

Austria

In Austria, the economy also showed strong growth in the first quarter of 2018, as reported by the Austrian Institute of Economic Research (WIFO) in June 2018. GDP showed a quarter-on-quarter increase of 0.8% in seasonally adjusted terms (fourth quarter of 2017: 0.9%). The period of economic boom is thus continuing, according to the WIFO. Growth was driven in particular by domestic demand and foreign trade. According to the WIFO, the leading indicators continue to provide a positive outlook, even if the picture has become slightly less positive in recent months. A new acceleration of growth, however, is not to be expected in the coming quarters. The positive economic development is also manifest in the labor market. The number of non-self-employed people in active employment was 2.8% higher than in the previous year in May. Unemployment continued to decrease compared to the previous year. According to the WIFO, the seasonally adjusted unemployment rate based on the national definition was 7.7% in June. In the view of the WIFO, the price increase is still unusually restrained. According to Statistik Austria, the inflation rate as measured by the consumer price index was 1.8% in April, 1.9% in May and 2.0% in June.

The values of the DSS OeNB residential real estate price index – the price index of the Austrian central bank (OeNB) on the basis of new and used condominiums and single-family residences – show an increase in Austria in the first quarter of 2018 of 7.3% compared to the previous year's period. In Vienna, prices increased compared to the previous year by 3.5%. In the rest of Austria, price development was significantly higher; excluding Vienna, the increase in Austria in the same period was 10.0%. According to the consumer price index, apartment rents (excluding ancillary costs) rose by 4.1% in Austria in the first quarter of 2018 compared to the previous year's period. According to the OeNB, residential construction overcame a prolonged period of weakness in 2017 and showed increasing momentum in the last two quarters. Building permits point toward a further expansion. In the face of rising population figures and an increasing shortage of land, CBRE reports that (residential) high-rise buildings are becoming more of a focal point among developers and investors. According to the CBRE, the volume of investment in residential real estate amounted to € 550 million in 2017, which was significantly higher than in the previous year. The Austrian real estate investment market continues to be strong. According to EHL Real Estate, a volume of € 2.16 billion was traded in the first half of 2018; of this, 11% consist of institutional investments in the residential sector.

Sweden

Sweden's economy saw relatively strong growth in the first quarter of 2018 with a GDP increase of 0.7%, according to the National Institute of Economic Research (NIER). The institute also says that the economy has been operating above capacity since 2016, and the output gap widened further in the first quarter of this year. The vigorous growth was attributable to a number of temporary factors, such as high energy consumption due to cold weather. Exports of goods also stagnated in the first quarter of 2018, and recent data indicates that this weak performance continued in the second quarter of 2018. Along with falling housing investment, this will likely result in a slowdown of GDP growth to 0.3% in the second quarter of 2018 even though the NIER Economic Tendency Survey indicates a still stronger than normal business climate. Employment saw a strong increase in the first quarter of 2018. However, labor market indicators suggest lower employment growth in the second quarter of 2018. Seasonally adjusted and smoothed data shows an unemployment rate of 6.2% in June 2018. Compared with the same month a year earlier, the inflation rate as measured by the consumer price index was 1.7% in April, 1.9% in May and 2.1% in June.

Following the relatively sharp price increases in the Swedish housing market in recent years, home prices faltered in the fall of 2017 – as measured by the Valueguard HOX price index, which reflects the price development of typical condominiums and single-family homes – and fell in the last quarter of the year. In the view of NIER experts, however, the downturn is only temporary, and the macroeconomic effects are expected to be minor. Consistent with this, seasonally adjusted home prices remained stable during the first quarter of 2018, according to SEB (Skandinaviska Enskilda Banken) experts. Measured against the HOX, this stabilizing development continued in the second quarter of 2018, and in June 2018, the index was 0.5% higher than three months ago. The reasons for the cooling prices at the end of 2017 are probably due to higher mortgage restrictions and an increase in supply coming to the market. However, Newsec says the latter are often built in a market segment that is too expensive. According to SABO, the Swedish Association of Public Housing Companies, the housing market is under significant pressure. Much of Sweden is facing a housing shortage, primarily in its metropolitan regions. The population has seen strong growth in recent years and is expected to continue expanding rapidly. New construction has not been able to keep up with this population growth. In its most recent forecast of June 2018, the Swedish National Board of Housing, Building and Planning (Boverket) therefore expects an annual construction demand of 93,000 units by 2020.

Economic Development in the First Half of 2018

Takeover Offer Made to the Shareholders of Victoria Park AB, Sweden

On May 3, 2018, Vonovia SE (subsequently Vonovia) announced its intention, as part of its internationalization strategy, to make a public cash offering via a subsidiary to the shareholders of Victoria Park AB, Malmö, Sweden (subsequently Victoria Park), a Swedish listed company, for the purchase of all shares at a price of SEK 38.00 for each class A and class B share, and SEK 316.00 for each preference share. The value of this offer equals SEK 9,555 million for 100% of the shares, or approximately € 900 million.

As a leading housing company in Sweden, Victoria Park operates in an environment that is very similar to the German housing market. As does Vonovia, Victoria Park pursues a long-term company strategy guided by social criteria with the aim of offering its tenants attractive living spaces and thereby creating value. The company owns and manages a high-quality real estate portfolio of approximately 14,000 apartments with a focus in the metropolitan regions of Stockholm, Malmö and Gothenburg. The shares of Victoria Park are listed in the mid-market segment of the Nasdaq Stockholm stock exchange.

As of June 18, 2018, the last day of the acceptance deadline, the shareholders of Victoria Park had accepted the offer for a total of 34,056,463 class A shares, 97,962,486 class B shares, and 663,172 preference shares, equal to 54.4% of the share capital or 46.5% of the voting rights. Vonovia was furthermore granted two call options totaling 10.0% of the capital, or 12.4% of the voting rights. These call options can be exercised between May 15 and May 29, 2019.

Including the shares that were granted for Vonovia call options, this amounts to around 63.8% of the share capital and 58.7% of all voting rights in Victoria park (on a fully diluted basis), or 53.9% and 46.4% excluding the call options. The offer was completed on June 28, 2018.

Moreover, Vonovia extended the tender period until July 3, 2018, to give shareholders who had not accepted the offer the possibility of doing so. During the extended acceptance deadline, an additional 1.8% of the share capital or 2.0% of the voting rights were tendered to Vonovia. In addition, Vonovia acquired shares in the market at up to the offer price amounting to 0.6% of the share capital or 0.3% of the voting rights.

The offer for the shares tendered during the extended acceptance deadline was completed on July 11, 2018. At the end of the extended tender period and the acquisitions on the market, Vonovia possesses 56.7% of the share capital and 48.9% of the voting rights. Including the two call options, the share of equity equaled 66.8% or 61.2% of the voting rights.

Although Vonovia has less than 50% of the voting rights as of June 30, 2018, in accordance with IFRS 10.B41–B43, de facto control must be assumed, since it holds a majority of votes present at the Annual General Meeting.

With the completion of the transaction at the end of June 2018 and the resulting assumption of control, Victoria Park was included in the half-yearly financial statements with the balance sheet as of June 30, 2018, and solely with a preliminary purchase price allocation. This means that Victoria Park is included in the portfolio-based figures, e.g. balance sheet items, whereas the earnings contribution will only be visible from the third quarter of 2018.

Takeover of BUWOG AG

On December 18, 2017, Vonovia published notice of its intention to make a voluntary public takeover offer, in accordance with the Austrian Takeover Act (ÜbG), to the shareholders of BUWOG AG (subsequently BUWOG), Vienna, Austria, for the acquisition of all shares in BUWOG. As part of this offer, all BUWOG shareholders were offered € 29.05 in cash for each share in BUWOG.

The stated goal of the BUWOG takeover is to consolidate the complementary real estate portfolios of both companies and merge Vonovia's housing stock with that of BUWOG (around 48,300 apartments). The integration of BUWOG is expected to allow synergy potential to be harnessed, in particular by way of the joint administration and management of the German and Austrian housing units, the further modernization of the portfolio, the expansion of the value chain and the optimization of cost structures. The Vonovia and BUWOG portfolios are a good geographical fit for each other and also complement each other strategically. The successful takeover of conwert Immobilien Invest SE in March 2017 allowed Vonovia not only to expand its real estate portfolio in Germany, but also to add properties in Austria for the first time to what had, to date, been a purely German portfolio. The takeover of BUWOG therefore allowed Vonovia to acquire not only a complementary real estate portfolio in Germany, but also an attractive real estate portfolio in Austria in order to merge these portfolios. The joint German and Austrian real estate portfolio of Vonovia and BUWOG was strengthened considerably as a result of this merger.

At the end of the first tender phase on March 12, 2018, the majority of the shares in BUWOG, namely 82,844,967 shares or 73.8%, had been tendered to Vonovia. The takeover of the shares from the first tender phase in return for payment of € 2,752.5 million and the resulting assumption of control were completed on March 26, 2018.

The second obligatory tender phase in accordance with the Austrian Takeover Act started on March 16, 2018, and ended at 5 p.m. CEST on June 18, 2018. In addition, Vonovia acquired BUWOG shares on the market at up to the offer price. With the conclusion of this second mandatory tender period, a further 15,281,786 shares were tendered to Vonovia, meaning that, with the completion of the transaction and the purchases as well as the exchange of convertible bonds, Vonovia possessed more than 90.7% of the share capital of BUWOG as of June 30, 2018. On June 20, 2018, Vonovia requested a squeeze-out process according to the Austrian Act on the Squeeze-out of Minority Shareholders (Gesellschafterausschlussgesetz) to be held at the next ordinary General Meeting.

Due to the assumption of control on March 26, 2018, BUWOG is included in Vonovia's consolidated financial statements as of June 30, 2018, with an earnings contribution of three months.

Presentation of 2018 Acquisitions in the Present Half-Year Financial Statements

Due to the completion of the transaction on June 28, 2018, Victoria Park is included in the 2018 half-year financial statements solely with the balance sheet as of June 30, 2018. Due to the completion of the transaction on March 26, 2018, BUWOG is included with the balance sheet as of June 30, 2018, and the earnings contribution for the second quarter of 2018.

All balance sheet figures, portfolio key figures and key figures derived from the balance sheet, such as EPRA NAV, thus include the components of BUWOG and Victoria Park as of June 30, 2018. Until a decision has been made regarding a future management system, all performance key figures in the present half-yearly financial statements include only the key figures that concern Vonovia on a stand-alone basis. Excluded from this are the key figures EBITDA IFRS, and of course the key figures of the consolidated income statement such as valuation results, earnings before tax, profit for the period and cash flow key figures.

Until a final decision is made regarding the future management system including BUWOG and Victoria Park, BUWOG has been grouped for now into the segment "Other (Consolidation)" in segment reporting.

Based on discussions in the Supervisory Board, Vonovia plans to introduce the new management system with the reporting as of the third quarter of 2018.

Vonovia SE Carries Out Capital Increase against Cash Contributions in the Form of Accelerated Bookbuilding

On May 11, 2018, with the agreement of the Supervisory Board's Finance Committee, Vonovia SE increased the share capital in return for a cash contribution, partially using the 2016 authorized capital and excluding a subscription right, by € 26,000,000.00 from € 485,100,826.00 to € 511,100,826.00.

The 26,000,000 new no-par-value registered shares were placed with institutional investors in the scope of a private placement by means of an accelerated bookbuilding procedure and carry dividend rights as of January 1, 2018.

The shares were granted at a placement price of € 38.30 per share, delivering issue proceeds to Vonovia SE in the amount of € 995.8 million before commission and expenses. The net issue proceeds from the capital increase is planned, among other things, for the purchase price payments in connection with the announced takeover offer made to the shareholders of Victoria Park AB.

Results of Operations

The following key figures provide an overview of Vonovia's results of operations and their drivers in the first half of 2018. In the following sections of the chapter "Results of Operations," all key figures are reported without BUWOG and Victoria Park except those that are explicitly marked otherwise. The earnings contribution of BUWOG to the Group in the first half of 2018 is represented together in one sum as EBITDA IFRS BUWOG. Victoria Park was consolidated for the first time as of June 30, 2018, meaning that no earnings contributions are included yet in the first half of 2018.

in € million	H1 2017	H1 2018	Change in %	12M 2017
Income from property management	1,192.4	1,200.2	0.7	2,391.6
thereof rental income	833.2	838.8	0.7	1,667.9
Adjusted EBITDA Operations	607.6	632.6	4.1	1,224.2
Adjusted EBITDA Rental	573.5	597.0	4.1	1,150.0
Adjusted EBITDA Value-add Business	45.6	51.7	13.4	102.1
Adjusted EBITDA Other	-11.5	-16.1	40.0	-27.9
FFO 1	457.7	510.3	11.5	920.8
Income from disposal of properties	701.9	354.2	-49.5	1,206.4
Adjusted EBITDA Sales	44.3	48.3	9.0	110.8
EBITDA IFRS*	651.4	692.8	6.4	1,271.8
thereof EBITDA IFRS BUWOG*	-	40.7	-	-
Adjusted EBITDA	651.9	680.9	4.4	1,335.0
Monthly in-place rent (€/m²)	6.12	6.41	4.7	6.27
Average area of own apartments in the reporting period (in thou. m²)	22,226	21,557	-3.0	22,056
Average number of own units (number of units)	355,570	344,685	-3.1	352,848
Vacancy rate in %	2.9	2.8	-0.1 pp	2.5
Maintenance expenses and capitalized maintenance (€/m²)	7.14	8.45	18.3	15.70
Number of units bought*	23,745	63,444	167.2	24,847
Number of units sold	4,484	6,115	36.4	11,780
thereof Privatize	1,160	1,030	-11.2	2,608
thereof Sell portfolio	3,324	5,085	53.0	9,172
Number of employees (as of June 30/December 31)*	8,257	9.685	17.3	8,448

* All values without BUWOG and without Victoria Park except key figures marked separately with *.

Income from property management amounted to € 1,200.2 million in the first half of 2018, up 0.7% from the prior-year value of € 1,192.4 million in the first half of 2017. The increase was mainly due to the development in rental income in the Rental segment, which rose by 0.7% from € 833.2 million to € 838.8 million.

As of June 30, 2018, Vonovia had a real estate portfolio comprising 344,685 residential units, 120,538 garages and parking spaces and 5,479 commercial units. Of those, 45,761 residential units are attributable to BUWOG and conwert in Germany, 23,215 residential units to Austria and 14,052 apartments to Victoria Park in Sweden. We also manage 82,605 residential units for other owners.

The following key figures provide an overview of the development in FFO 1 (the Group without BUWOG and without Victoria Park) and other value drivers in the reporting period.

FFO 1

in € million	H1 2017	H1 2018	Change in %	12M 2017
Rental income	833.2	838.8	0.7	1,667.9
Maintenance expenses	-127.3	-131.6	3.4	-258.0
Operating expenses	-132.4	-110.2	-16.8	-259.9
Adjusted EBITDA Rental	**573.5**	**597.0**	**4.1**	**1,150.0**
Revenue Value-add Business	483.8	610.4	26.2	1,170.5
thereof external revenue	80.1	88.3	10.2	161.6
thereof internal revenue	403.7	522.1	29.3	1,008.9
Operating expenses	-438.2	-558.7	27.5	-1,068.4
Adjusted EBITDA Value-add Business	**45.6**	**51.7**	**13.4**	**102.1**
Adjusted EBITDA Other	**-11.5**	**-16.1**	**40.0**	**-27.9**
Adjusted EBITDA Operations	**607.6**	**632.6**	**4.1**	**1,224.2**
FFO 1 interest expense	-138.0	-114.3	-17.2	-287.5
Current income taxes FFO 1	-11.9	-8.0	-32.8	-15.9
FFO 1	**457.7**	**510.3**	**11.5**	**920.8**

In the reporting period, the primary key figure for the sustained earnings power of the core business, FFO 1, was increased by € 52.6 million or 11.5% compared with the first half of 2017, from € 457.7 million to € 510.3 million. This trend was once again fueled primarily by the positive development in adjusted EBITDA Operations, which increased by 4.1% from € 607.6 million to € 632.6 million in the first half of 2018.

As of the end of June 2018, our apartments were virtually fully occupied. The apartment vacancy rate of 2.8% was down slightly on the value of 2.9% seen at the end of the first half of 2017. Rental income in the **Rental segment** rose by 0.7% from € 833.2 million in the first half of 2017 to € 838.8 million in the same period of 2018, meaning that rent increases more than compensated for the disposals due to portfolio adjustments. Overall, the increase in rent due to market-related factors came to 1.5%. We were also able to achieve an increase in rent of 2.5% thanks to property value improvements achieved as part of our modernization program. 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 4.1% in total. The corresponding like-for-like increase in rent came to 4.0% in the first half of 2018. The average monthly in-place rent in Vonovia's portfolio without BUWOG and Victoria Park came to € 6.41/m² at the end of June 2018 compared to € 6.12/m² at the end of June 2017.

In the 2018 reporting period, we continued to successfully implement our modernization and maintenance strategy and expanded the volume from € 456.4 million in the first half of 2017 to € 542.4 million in the first half of 2018. This was driven by an increase in the modernization volume including new construction, bringing it up from € 297.6 million in the first half of 2017 to € 360.3 million in the first half of 2018 (an increase of € 62.7 million).

Maintenance and Modernization

in € million	H1 2017	H1 2018	Change in %	12M 2017
Maintenance expenses	127.3	131.6	3.4	258.0
Capitalized maintenance	31.5	50.5	60.3	88.2
Modernization measures (including new construction)	297.6	360.3	21.1	778.6
Total cost of modernization and maintenance*	**456.4**	**542.4**	**18.8**	**1,124.8**

* Incl. intra-Group profits for H1 2017: € 28.8 million (thereof € 1.0 million capitalized maintenance and € 10.2 million modernization); H1 2018: € 31.5 million (thereof € 1.4 million capitalized maintenance and € 14.6 million modernization).

Operating expenses in the Rental segment in the 2018 reporting period were down by 16.8% on the figures for 2017, from € 132.4 million to € 110.2 million. This development is primarily due to the realization of synergies from the takeover of conwert. All in all, adjusted EBITDA Rental increased by 4.1% from € 573.5 million in the 2017 reporting period to € 597.0 million in the first half of 2018.

As planned, we continued to develop our business in the **Value-add Business segment.** The increase in the output of our craftsmen's organization significantly contributed to this trend and allowed us to once again continue our investments in improving our portfolio. In addition, we also continued to expand our business activities in the areas of condominium administration, the provision of cable television to our tenants, metering services and insurance and residential environment services in the 2018 reporting period. As a leading real estate service provider, Vonovia Immobilien Treuhand now provides services to a total of around 106,000 units, 82,605 of which are apartments managed by third parties.

External revenue from our Value-add Business activities with our end customers in the first half of 2018 rose by 10.2% as against the same period of 2017, from € 80.1 million to € 88.3 million. Intragroup revenue rose by 29.3%, from € 403.7 million to € 522.1 million in the same period. Overall, this results in a 26.2% increase in the revenue from the Value-add Business from € 483.8 million in the 2017 reporting period to € 610.4 million in the first half of 2018. The adjusted EBITDA Value-add Business was up 13.4% year-on-year to € 51.7 million in the first half of 2018.

The EBITDA margin of the core business, calculated based on the adjusted EBITDA Operations in relation to rental income within the Group, once again showed positive development in the current reporting period. For Vonovia, it increased to 75.3% in the first half of 2018 from 72.7% in the same period of 2017.

We continued our selective sales strategy in the **Sales segment** in the first half of 2018. The segment covers all business activities relating to the sale of single residential units (Privatize) and the sale of entire buildings or land and commercial units (Sell portfolio cluster).

In the first half of 2018, income from the disposal of properties came to € 354.2 million, down by 49.5% on the value for the first half of 2017 (€ 701.9 million). This development is primarily due to the sale of a large commercial real estate package by conwert in the first quarter of 2017. We sold a total of 6,115 apartments in the 2018 reporting period (first half of 2017: 4,484). 1,030 of these apartments were attributable to the Privatize portfolio (first half of 2017: 1,160) and 5,085 were attributable to the Sell portfolio cluster (first half of 2017: 3,324).

Adjusted EBITDA Sales came in at € 48.3 million in the 2018 reporting period, up by 9.0% on the value of € 44.3 million seen in the same period of 2017. In the first half of 2018, the fair value step-up in the Privatize portfolio came to 30.5%, down on the value of 31.3% seen in the first half of 2017. This was due to the higher property values in the 2017 fiscal year. In addition, 168 privatizations were achieved as part of block sales. If these sales are left out of the equation, the fair value step-up in the Privatize portfolio comes to 33.4%.

At 15.4%, the fair value step-up in the Sell portfolio cluster was higher than for the same period in the previous year (by 4.3%). This increase was primarily due to a block sale in Zwickau with above-average margins and the sale of commercial properties in Berlin.

Adjusted EBITDA Sales

in € million	H1 2017	H1 2018	Change in %	12M 2017
Income from disposal of properties	701.9	354.2	-49.5	1,206.4
Fair value of properties sold adjusted to reflect effects not relating to the period from assets held for sale	-644.8	-294.5	-54.3	-1,065.5
Adjusted profit from disposal of properties	**57.1**	**59.7**	4.6	140.9
thereof Privatize	34.0	29.0	-14.7	75.3
thereof Sell portfolio cluster	23.1	30.7	32.9	65.6
Selling costs	-12.8	-11.4	-10.9	-30.1
Adjusted EBITDA Sales	**44.3**	**48.3**	**9.0**	**110.8**

In the 2018 reporting period, the **non-recurring items** eliminated in the adjusted EBITDA as a whole came to € 50.5 million, up 9.1% on the prior-year value of € 46.3 million in the first half of 2017.

Non-recurring Items

in € million	H1 2017	H1 2018	Change in %	12M 2017
Business model optimization/development of new fields of business	9.4	7.7	-18.1	23.3
Acquisition costs incl. integration costs*	28.9	29.7	2.8	48.1
Refinancing and equity measures	0.9	-0.2	–	1.6
Severance payments/pre-retirement part-time work arrangements	7.1	13.3	87.3	13.9
Total non-recurring items**	**46.3**	**50.5**	**9.1**	**86.9**

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

** Vonovia Group original non-recurring items from BUWOG and Victoria Park. Includes acquisition and integration costs for BUWOG and Victoria Park that accrue to the Vonovia Group without BUWOG and Victoria Park.

The financial result in the first half of 2018 came to € -195.7 million, considerably lower than the comparable figure for the previous year of € -148.6 million due to acquisitions. FFO 1 interest expense is derived from the financial result as follows:

Reconciliation of Financial Result/FFO 1 Interest Expense

in € million	H1 2017	H1 2018	Change in %	12M 2017
Income from loans	0.9	1.3	44.4	1.6
Interest income	23.4	3.9	-83.3	25.1
Interest expense	-172.9	-200.9	16.2	-353.0
Financial result*	-148.6	-195.7	31.7	-326.3
Adjustments:				
Transaction costs	6.2	8.4	35.5	7.9
Prepayment penalties and commitment interest	2.9	3.6	24.1	16.4
Effects from the valuation of non-derivative financial instruments	-16.7	7.7	–	-8.8
Derivatives	-4.7	10.1	-314.9	-3.9
Interest accretion to provisions	4.4	3.9	-11.4	9.0
Accrued interest	25.4	37.8	48.8	3.1
Other effects	3.8	7.3	92.1	2.6
Net cash interest	-127.3	-116.9	-8.2	-300.0
Accrued interest adjustment	-25.4	-37.8	48.8	-3.1
Adjustments income from investments in other real estate companies	12.9	13.9	7.8	13.0
Interest payment adjustment due to taxes	1.8	0.7	-61.1	2.6
Adjustments FFO interest expense FFO 1 BUWOG	–	25.8	–	–
FFO 1 interest expense	**-138.0**	**-114.3**	**-17.2**	**-287.5**

* Excluding income from other investments.

Due to refinancing and lower interest rates, FFO 1 interest expense came to € -114.3 million in the first half of 2018, down by 17.2% on the value for the prior-year period of € -138.0 million.

The profit for the 2018 reporting period came to € 1,200.0 million, up 12.7% on the value of € 1,064.6 million reported in the same period of 2017. In the first half of 2018, BUWOG made an overall earnings contribution EBITDA IFRS of € 40.7 million to the Group's profit for the period.

Reconciliation of Profit for the Period/FFO

in € million	H1 2017	H1 2018	Change in %	12M 2017
Profit for the period*	1,064.6	1,200.0	12.7	2,566.9
Financial result**	148.6	195.7	31.7	326.3
Income taxes*	588.0	646.7	10.0	1,440.5
Depreciation and amortization*	14.9	23.3	56.4	372.2
Income from fair value adjustments of investment properties*	-1,164.7	-1,372.9	17.9	-3,434.1
= EBITDA IFRS*	651.4	692.8	6.4	1,271.8
EBITDA IFRS BUWOG	-	-40.7	-	-
Non-recurring items	46.3	50.5	9.1	86.9
Total period adjustments from assets held for sale	-32.9	-7.8	-76.3	-10.7
Financial income from investments in other real estate companies	-12.9	-13.9	7.8	-13.0
= Adjusted EBITDA	651.9	680.9	4.4	1,335.0
Adjusted EBITDA Sales	-44.3	-48.3	9.0	-110.8
= Adjusted EBITDA Operations	607.6	632.6	4.1	1,224.2
FFO 1 interest expense***	-138.0	-114.3	-17.2	-287.5
Current income taxes FFO 1	-11.9	-8.0	-32.8	-15.9
= FFO 1	457.7	510.3	11.5	920.8
Capitalized maintenance	-30.5	-49.1	61.0	-85.7
= AFFO	427.2	461.2	8.0	835.1
Current income taxes Sales	-20.1	-13.8	-31.3	-19.2
FFO 2 (FFO 1 incl. adjusted EBITDA Sales/current income taxes Sales)	481.9	544.8	13.1	1,012.4
FFO 1 per share in €****	0.96	0.98	2.5	1.90
AFFO per share in €****	0.90	0.89	-0.8	1.72

* All values without BUWOG and without Victoria Park except key figures marked with *.
** 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, 2017: 476,460,248, June 30, 2018: 518,077,934 and December 31, 2017: 485,100,826.

Assets

At the end of the first half of 2018, the adjusted NAV per share came to € 39.83, up by 20.3% on the value for the first half of 2017 of € 33.10 and 3.5% above the value of € 38.49 at the end of 2017. This is mainly due to the revaluation and the addition of BUWOG and Victoria Park in 2018. The EPRA NAV per share rose from € 39.25 at the end of the first half of 2017 to € 46.79 at the end of the first half of 2018, which puts it at around 6.6% higher than the value of € 43.88 seen at the end of 2017.

Net Asset Value (NAV) Based on Application of IAS 40

in € million	June 30, 2017	June 30, 2018	Change in %	Dec. 31, 2017
Equity attributable to Vonovia shareholders	13,368.0	16,916.2	26.5	15,080.8
Deferred taxes on investment properties/assets held for sale	5,307.9	7,253.8	36.7	6,185.7
Fair value of derivative financial instruments*	39.0	93.4	139.5	26.9
Deferred taxes on derivative financial instruments	-12.1	-25.1	107.4	-8.8
EPRA NAV	18,702.8	24,238.3	29.6	21,284.6
Goodwill	-2,931.8	-3,603.9	22.9	-2,613.5
Adjusted NAV	**15,771.0**	**20,634.4**	**30.8**	**18,671.1**
EPRA NAV PER SHARE IN €**	**39.25**	**46.79**	**19.2**	**43.88**
Adjusted NAV PER SHARE IN €**	**33.10**	**39.83**	**20.3**	**38.49**

* Adjusted for effects from cross currency swaps.
** Based on the number of shares on the reporting date June 30, 2017: 476,460,248 and June 30, 2018: 518,077,934 and December 31, 2017: 485,100,826.

Consolidated Balance Sheet Structure

	Dec. 31, 2017		June 30, 2018	
	in € million	in %	in € million	in %
Non-current assets	36,719.6	97.9	45,757.8	95.8
Current assets	796.7	2.1	2,029.8	4.2
Assets	**37,516.3**	**100.0**	**47,787.6**	**100.0**
Equity	16,691.2	44.5	18,875.3	39.5
Non-current liabilities	18,585.2	49.5	25,141.1	52.6
Current liabilities	2,239.9	6.0	3,771.2	7.9
Equity and liabilities	**37,516.3**	**100.0**	**47,787.6**	**100.0**

The Group's total assets increased by € 10,271.3 million as against December 31, 2017, rising from € 37,516.3 million to € 47,787.6 million. This increase results primarily from a € 7,809.4 million increase in investment properties to € 40,992.2 million, of which € 6,330.0 million results from the integration of the BUWOG Group and the Victoria Park Group and € 1,372.9 results from the half-year valuation. In addition, assets rose on the back of an increase in goodwill of € 990.5 million to € 3,603.9 million due to the first-time consolidation of the BUWOG Group and Victoria Park. For the BUWOG Group brand name, a value of € 66.6 million was recognized in connection with its development business in the framework of the purchase price allocation. Goodwill and trademark rights comprise 7.7% of the total assets. Total current assets increased mainly through an increase in trade receivables and real estate inventories due to the integration of BUWOG's development business. Furthermore, cash and cash equivalents increased by € 599.6 million.

The gross asset value (GAV) of Vonovia's property assets came to € 41,718.8 million as of June 30, 2018, which corresponds to 87.3% of total assets compared with € 33,424.9 million or 89.1% at the end of 2017.

The € 2,184.1 million increase in equity to € 18,875.3 million results in particular from the capital increase in the amount of € 1,257.4 million and the profit for the period of the first half of 2018 in the amount of € 1,200.0 million. The change in minority interests from the integration of the BUWOG Group amounts to € 290.0 million. The minority interests of Victoria Park are reported as a put option due to the second tender period, which was still open as of June 30, 2018.

This brings the equity ratio to 39.5% compared with 44.5% at the end of 2017.

Liabilities rose by € 8,087.2 million from € 20,825.1 million to € 28,912.3 million. The amount of non-derivative financial liabilities thereby rose by € 5,714.1 million, of which € 2,843.8 million were due to the integration of Victoria Park and BUWOG and € 2,855.9 resulted from the net increase in acquisition financing. Moreover, liabilities include financing contributions from tenants – a liabilities position in relation to tenants that is typical for Austria and is based on fixed earlier payments tenants have made toward maintenance and financing. The increase in current liabilities was primarily influenced by the tender rights reported as put options in the scope of the second tender period still open as of June 30, 2018, for the public takeover offer regarding Victoria Park.

Fair Values

Major market developments and valuation parameters that have an impact on the fair values of Vonovia are assessed every quarter. Due to the market momentum recognized across Germany in the first half of 2018, Vonovia arranged for a new valuation to be performed on around two-thirds of the portfolio. This led to net income from fair value adjustments of investment properties of € 1,372.9 million. The recognition and valuation of investment properties are explained in detail in the Notes to the consolidated financial statements (note [13]).

Financial Position

Cash Flow

The following table shows the Group cash flow:

Key Data from the Statement of Cash Flows

in € million	H1 2017	H1 2018
Cash flow from operating activities	475.4	513.5
Cash flow from investing activities	-1,179.0	-3,158.7
Cash flow from financing activities	-459.1	3,244.8
Net changes in cash and cash equivalents	-1,162.7	599.6
Cash and cash equivalents at the beginning of the period	1,540.8	266.2
Cash and cash equivalents at the end of the period	**378.1**	**865.8**

Cash flow from operating activities comes to € 513.5 million for the first half of 2018 compared with € 475.4 million for the same period in 2017. The increase is mainly due to the improvement in the operating result (EBITDA IFRS), which itself in turn increased due to the first-time inclusion of BUWOG. The low payouts in net current assets continued to have a positive effect on operating cash flow.

The cash flow from investing activities shows a payout balance of € 3,158.7 million for the first half of 2018, which is mainly due to the net purchase price payment for the shares of BUWOG and Victoria Park in the total amount of € 2,934.2 million. The additional payouts for acquisitions and modernization of the real estate portfolio came to € 544.5 million, whereas income from portfolio sales in the amount of € 361.8 million was collected. In addition, cash flow from investment activities includes payouts for the construction of Vonovia's new main administration office and its furniture and office equipment.

Cash flow from financing activities includes cash inflows from the cash capital increase in the amount of € 995.8 million. The additional proceeds result primarily from EMTN drawdowns in connection with the takeover of BUWOG in a total amount of € 3,486.8 million. On the other hand, payouts were made through scheduled and unscheduled repayments in the amount of € 630.9 million. Payouts for transaction and financing costs amounted to € 48.5 million, and interest payments in the first half of the year amounted to € 121.0 million. Dividend payments in the first half of 2018 amounted to € 385.6 million. Finally, cash flow from financing activities includes payouts for the separate later purchase of shares in the amount of € 68.0 million, of which € 60.7 million alone was for BUWOG shares.

The net increase in cash and cash equivalents in the first half of 2018 came to € 599.6 million.

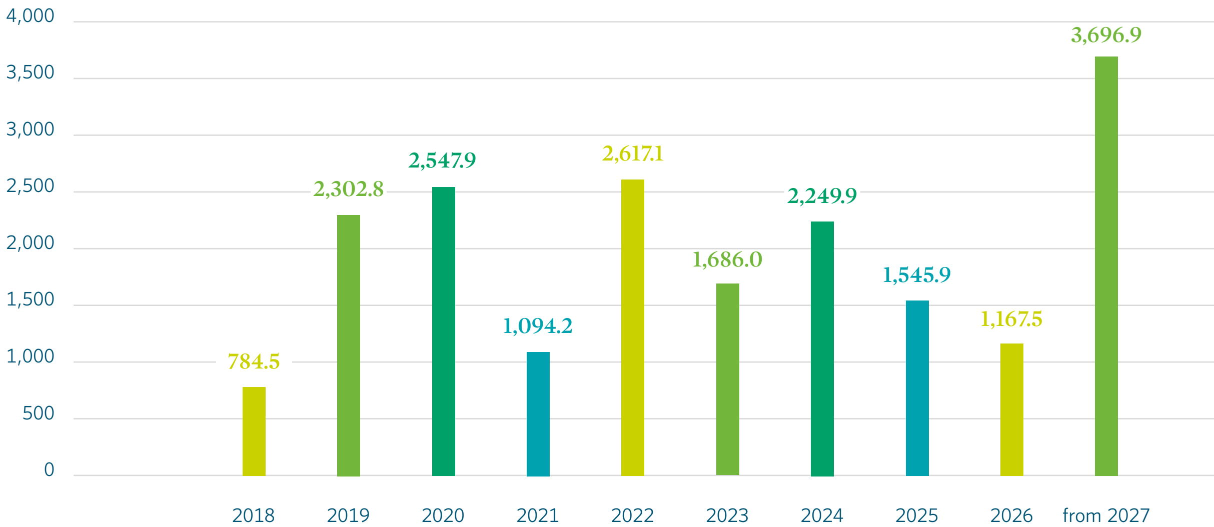
Financing

According to publications dated May 7, 2018, and August 2, 2018 (which already include the acquisitions of BUWOG and Victoria Park), Vonovia's credit rating as awarded by the agency Standard & Poor's is unchanged at 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+.

The debt maturity profile of Vonovia's financing was as follows as of June 30, 2018:

Maturity Profile

as of June 30, 2018, in € million



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

in € million	June 30, 2017	June 30, 2018	Change in %	Dec. 31, 2017
Non-derivative financial liabilities	14,257.6	19,774.6	38.7	14,060.5
Foreign exchange rate effects	-137.2	-29.6	-78.4	-23.5
Cash and cash equivalents	-378.1	-865.8	129.0	-266.2
Net debt	13,742.3	18,879.2	37.4	13,770.8
Sales receivables/advance payments from sales	-180.0	-239.8	33.2	-201.2
Adjusted net debt	13,562.3	18,639.4	37.4	13,569.6
Fair value of the real estate portfolio	30,830.2	41,732.3	35.4	33,436.3
Shares in other real estate companies	564.6	734.5	30.1	642.2
Adjusted fair value of the real estate portfolio	**31,394.8**	**42,466.8**	**35.3**	**34,078.5**
LTV	**43.2%**	**43.9%**	**0.7 pp**	**39.8%**

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

in € million	June 30, 2017	June 30, 2018	Change in %	Dec. 31, 2017
Non-derivative financial liabilities	14,257.6	19,774.6	38.7	14,060.5
Total assets	**35,521.0**	**47,787.6**	**34.5**	**37,516.3**
LTV bond covenants	**40.1%**	**41.4%**	**1.2 pp**	**37.5%**

Opportunities and Risks

For the purposes of the interim financial statements as of June 30, 2018, 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 2017 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.

The existing risk management organization and risk management process continue to apply unchanged.

Expected Development in the Remainder of the Fiscal Year

Economy and the Industry

Germany

Primarily due to a damper in production at the beginning of the year, the IfW Kiel (IfW) revised its forecast for the current year and now expects GDP growth of 2.0% in 2018 instead of 2.5%. Since the economic weakness at the beginning of the year resulted from causes that were more temporary in nature, production is expected to again accelerate over the remainder of the year. The IfW is thus standing by its GDP growth forecast of 2.3% for 2019. In its spring projection, the German federal government forecast economic growth of 2.3% for 2018 and 2.1% in 2019. According to the IfW, the German economy is again approaching its limit. While capacities are already being overutilized, production is growing more strongly than production potential. Given the continuation of the good situation in the labor market and high growth in the income of private households, private consumer spending can be expected to increase significantly. Impetus is also coming from the construction industry. Despite noticeable capacity bottlenecks and increasing construction prices, investments in construction can be expected to remain on an upward trend according to the IfW. The robust global economy is supporting exports. However, according to the IfW, despite the high capacity utilization being experienced by companies and the good business climate, corporate investments can be expected to grow only moderately since the fragile international political environment is having a negative effect. The unemployment rate is expected to drop back from 5.7% in 2017 to 5.2% in 2018 and 4.9% in 2019. The IfW also expects to see consumer price inflation of 2.0% in both 2018 and 2019, and substantial public-sector budget surpluses due to the economic situation. Exceptionally favorable financing conditions are to be expected over the entire forecast period. In June, the ECB decided to continue its bond purchases at the current level through the end of September 2018. After that, the scope will first be reduced and then the purchases will be discontinued at the end of 2018. The ECB's Governing Council expects that ECB key interest rates will remain at their current level at least through the summer of 2019 and, in any case, as long as necessary. The interest rate for main refinancing operations of the ECB is currently 0.0%. Significant risks and uncertainties for the current economic situation and forecast come, among other things, from the foreign trade policy and security policy of the United States and from uncertainties in the European Union. In addition, according to the IfW, forecasts are marked by particular uncertainty as we approach an economic turning point.

Housing Market: Rent and Prices Expected to Rise Again in 2018

According to the analytic company bulwiengesa, the German real estate market continues to be in a good condition. The economic conditions remain favorable. The trend toward urbanization is drawing people into cities and the demand for new apartments is, in these areas in particular, above the level that the construction industry can produce every year. According to bulwiengesa, the high price momentum that has continued for years mainly reflects the high demand relative to supply with a concurrent lack of investment alternatives. Experts at DB Research assume that the goal of the German federal government of building 1.5 million new apartments during this legislative period will hardly be achieved. Obstacles for the construction industry such as a lack of land, a strict regulatory environment and high utilization of capacity may dampen new construction for years. At the same time, the demand for living space remains high. In light of the current economic conditions, DB Research expects prices and rents to continue to show a high level of development in the coming years. According to forecasts by DB Research, prices for apartments in the 126 largest cities in Germany can be expected to increase by an average of approximately 5% a year, and rents to increase by approximately 4% a year. At the same time, however, the risk of overvaluation is also increasing. Prices increased notably in the first few months of 2018 according to DB Research, albeit with significantly weaker momentum in comparison to the strong growth in rents and prices in 2017. According to the Association of German Pfandbrief Banks (vdp), increasing nominal interest rates can be expected to dampen demand for residential property overall, and the strong development of prices in the German real estate market can be expected to slow noticeably. According to Helaba, mortgage rates will increase only slowly in 2018, representing no real danger for the German housing market over the short term. A price correction is not expected in 2018 and is not likely in 2019, even though prices in cities are currently excessively high in the eyes of Deutsche Bundesbank. bulwiengesa also believes there will not be any large price corrections in the real estate market in the near future; the market is stable and a bubble is unlikely. The empirica bubble index for Germany surpassed the "zero threshold" for the first time in 13 years in the third quarter of 2017, as against the "bubble-free" reference year of 2004. As of the second quarter of 2018, the overall index is continuing to increase in both growth regions and shrinking regions. Rents and purchase prices in 265 out of 402 administrative districts and self-governing cities are no longer developing in tandem. According to empirica, too many apartments are being built in 17 districts. The bubble index indicates a medium to high risk for 211 districts. Residential property remains affordable according to DB Research, but this affordability will presumably decrease somewhat in 2018. There are also pronounced regional differences as far as affordability is concerned.

In addition to the overall goal of housing policy to build 1.5 million apartments, the new German federal government plans to introduce a housing subsidy for families with children as part of a housing initiative, with the intention of helping families purchase residential property, making the rent ceiling more transparent, limiting and simplifying the modernization allocation, and the subvention of new apartment construction through special depreciations.

Austria

Austria's economy is in a period of economic boom and should continue to grow strongly according to the WIFO. The economy expanded by 3.0% in 2017, and the WIFO expects real GDP growth of 3.2% for 2018. Despite lively investment activity, the high level of utilization will likely continue to increase and the existing macroeconomic capacity bottlenecks will become more severe. According to WIFO, leading indicators point to the fact that the peak of the upswing has now been reached. For this reason, the economy can be expected to lose momentum and GDP to grow noticeably slower in 2019 at +2.2%. In its spring projection, the European Commission forecast economic growth of 2.8% for 2018 and 2.2% in 2019. According to WIFO, the growth is supported both by domestic demand – especially equipment investments and private consumption – and by foreign trade. At the same time, the expansion in exports can be expected to flatten somewhat during the forecast period in alignment with the world economy. The positive development on the labor market will likely continue, and the number of non-self-employed people in active employment will rise further. Labor supply can simultaneously be expected to increase noticeably, meaning that the reduction in unemployment will be rather subdued. Based on the national definition, the unemployment rate is expected to drop from 8.5% in 2017 to 7.6% in 2018 and 7.2% in 2019. The WIFO expects a rate of inflation of 2.0% in both 2018 and 2019.

According to the OeNB, the residential construction segment overcame a prolonged period of weakness in 2017, and the strong momentum in granting building permits points toward a further acceleration. According to CBRE, the dynamic population growth in metropolitan areas and the diminishing availability of land approved for construction will reinforce the trend toward more concentrated residential construction in the form of residential high-rise buildings. According to the RE/MAX Real Estate Future Index – which consolidates the expert opinions of around 560 real estate professionals throughout Austria – demand on the real estate market is expected to increase at a faster rate than supply in 2018. The prices for residential real estate are expected to continue to increase slightly in 2018. Purchase prices for apartments will show a more pronounced increase than rents. According to the real estate service provider EHL, the marked increase in new construction activity in Vienna is helping to stabilize the price level, which is therefore expected to remain consistently stable over the next few years. In 2018, 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 3%. The fundamental price indicator of the OeNB for residential real estate shows a slight increase in possible overvaluation for Vienna and

Austria in the first quarter of 2018 compared with the previous quarter.

Sweden

Economic researchers at NIER estimate that the Swedish economy will peak this year. After economic growth of 2.3% in 2017, the NIER expects GDP growth at market prices of 2.4% in 2018 and 1.9% in 2019. Growth in domestic demand will soften in 2019, especially as a result of a decline in housing investment. GDP growth will then be bolstered by increasing demand for Swedish exports. However, according to the NIER, resource utilization in the overall economy will continue to decrease slightly. Given the ongoing significant shortage of workers with the desired skills, it also anticipates a further increase in the wage growth rate. The disposable income of households is expected to grow relatively quickly in 2018. The rapid rise in employment will slow down this year, which will result in a drop in unemployment from 6.7% in 2017 to 6.2% in 2018 and stay at this level in 2019. Measured against the consumer price index, the NIER expects an inflation rate of 1.8% (2.2%) in 2018 (2019). NIER experts also expect the Swedish Riksbank, the Swedish central bank, to wait until core inflation – as measured by the CPIF ex energy – increases to around 2% in spring 2019 before raising the repo rate.

Following the drop in home prices at the end of 2017, short-term indicators like the housing price indicator of financial services provider SEB point to stable or slightly increasing prices in the months ahead. According to the property consultancy company Pangea, the drop in prices had a significant impact on new construction. Existing old stock is less affected. While the SEB believes the probability of a soft landing for home prices has increased the short term, there are still uncertainties about the longer-term price trend, e.g., due to large-scale construction in major cities. Along with the risk of oversupply in some niches of the residential market, Pangea also mentions general risks from higher interest rates. According to Newsec, the housing shortage is not diminishing because a large number of the new apartments are built in a market segment that is too expensive. Consequently, many apartments have not been sold or rented at asking price because they are too expensive for the vast majority of the population. At the same time, the continuous population growth creates an immediate demand for living space. While SEB expects construction starts to decrease from 65,000 in 2017 to around 50,000 a year in 2018/2019, Sweden's National Board of Housing, Building and Planning anticipates an annual construction demand of 93,000 units by 2020. CBRE believes the expected cooling or weakening of the residential property market could result in an increase in the supply of rental units, which in turn gives investors the opportunity to increase their exposure in this area. Furthermore, CBRE sees the rent-regulated housing market as remaining stable and a viable alternative to the bond market. Pangea reports that in the regulated rental housing market, large scale renovation schemes are lifting rents and it also expects rising interest from international buyers to invest in rental apartments and residential construction.

Business Outlook

For Vonovia, the first half of the 2018 fiscal year was very successful overall, as described above. We were systematic in the implementation of our corporate strategy: internationalization, the expansion of our investment program, the further improvements to efficiency when managing our properties and the expansion of the Value-add Business. With the acquisitions of BUWOG and Victoria Park, we were able to further expand our leading market position.

We expect these positive business developments to continue in the 2018 fiscal year and that we will achieve our forecast figures. Given the dynamic development of the German real estate market, we expect to see a further increase in value in our investment properties and with this a further boost to NAV.

Our current forecast is based on the outlook for the Vonovia Group as a whole, which includes the original overall plans for the 2018 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

2017 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.

We hereby update our forecast of the main performance indicators for the 2018 fiscal year as follows. In this forecast, all figures of the current forecast are reported including effects from the acquisitions of BUWOG and Victoria Park:

	Actual 2017	Forecast for 2018*	Current Forecast for 2018 Interim Statement Q1 2018	Current Forecast for 2018 Interim Financial Report H1 2018
Adjusted EPRA NAV/share	**€ 38.49**	**suspended**	**suspended**	**suspended**
EPRA NAV/share	€ 43.88	suspended	suspended	suspended
FFO 1	**€ 920.8 million**	**€ 960–980 million**	**€ 1,000–1,020 million**	**€ 1,050–1,070 million**
FFO 1/share**	€ 1.90	€ 1.98–2.02	€ 2.06–2.10	€ 2.03–2.07
CSI	**Increase of 1.6%**	**Similar CSI as 2017**	**Similar CSI as 2017**	**Magnitude as 2017**
Rental income	€ 1,667.9 million	€ 1,660–1,680 million	€ 1,670–1,690 million	€ 1,890–1,910 million
Organic rent increase	4.2%	Increase of 4.6–4.8%	Increase of 4.6–4.8%	Increase of approx. 4.4%
Vacancy rate	2.5%	<2.5%	<2.5%	< 2,5%
Maintenance incl.capitalized maintenance	€ 346.2 million	approx. € 360 million	approx. € 360 million	approx. € 410 million
Modernization and new construction	€ 778.6 million	approx. € 1,000 million	approx. € 1,000 million	approx. € 1,000 million
Number of units sold Privatize	2,608	approx. 2,300	approx. 2,300	approx. 2,800
Step-up Privatize	32.6%	approx. 30%	approx. 30%	30%–35%
Number of units sold Sell portfolio cluster	9,172	continue opportunistic sales	continue opportunistic sales	up to 14,000
Step-up Sell portfolio cluster	7.9%	> 0%	approx. 5%	10%–15%

* According to the Group management report 2017, excl. BUWOG.
** Based on the current number of shares.

Our FFO 1 forecast includes earnings contributions in the amount of approximately € 30 million from BUWOG and approximately € 20 million from Victoria Park.

Bochum, Germany, August 24, 2018

Management Board

Condensed Interim Consolidated Financial Statements

Consolidated Income Statement

in € million	Notes	Jan. 1– June 30, 2017	Jan. 1– June 30, 2018	Apr. 1– June 30, 2017	Apr. 1– June 30, 2018
Income from property letting		1,171.6	1,258.6	584.9	669.3
Other income from property management		20.8	24.3	10.8	13.6
Income from property management	5	1,192.4	1,282.9	595.7	682.9
Income from disposal of properties		701.9	386.4	209.7	272.4
Carrying amount of properties sold		-664.9	-340.5	-188.2	-234.7
Revaluation of assets held for sale		53.1	34.6	43.7	25.9
Profit on disposal of properties	6	90.1	80.5	65.2	63.6
Income from the disposal of properties (Development)		–	73.5	–	73.5
Cost of sold properties		–	-60.6	–	-60.6
Profit on the disposal of properties (Development)	7	–	12.9	–	12.9
Net income from fair value adjustments of investment properties	8	1,164.7	1,372.9	1,164.7	1,372.9
Capitalized internal expenses		199.5	255.7	114.1	150.1
Cost of materials	9	-569.5	-627.3	-295.2	-347.1
Personnel expenses		-207.6	-236.9	-105.6	-125.1
Depreciation and amortization		-14.9	-23.3	-7.8	-14.3
Other operating income		51.5	50.4	25.0	26.1
Other operating expenses		-124.4	-146.8	-64.7	-83.8
Financial income	10	43.7	26.6	36.4	17.0
Financial expenses	11	-172.9	-200.9	-88.9	-115.9
Earnings before tax		1,652.6	1,846.7	1,438.9	1,639.3
Income taxes		-588.0	-646.7	-505.0	-568.5
Profit for the period		**1,064.6**	**1,200.0**	**933.9**	**1,070.8**
Attributable to:					
Vonovia's shareholders		993.2	1,143.4	876.6	1,027.2
Vonovia's hybrid capital investors		14.8	14.8	7.4	7.4
Non-controlling interests		56.6	41.8	49.9	36.2
Earnings per share (basic and diluted) in €		**2.12**	**2.32**	**1.87**	**2.05**

Consolidated Statement of Comprehensive Income

in € million	Jan. 1– June 30, 2017	Jan. 1– June 30, 2018	Apr. 1– June 30, 2017	Apr. 1– June 30, 2018
Profit for the period	1,064.6	1,200.0	933.9	1,070.8
Cash flow hedges				
Change in unrealized gains/losses	-51.4	-3.9	-50.9	5.2
Taxes on the change in unrealized gains/losses	18.7	2.8	17.7	-0.9
Net realized gains/losses	78.4	0.3	60.7	-8.3
Taxes on the change in net realized gains/losses	-26.0	-0.1	-20.1	2.7
Total	19.7	-0.9	7.4	-1.3
Available-for-sale-financial assets				
Changes in the period	61.7	–	44.4	–
Taxes on changes in the period	-1.1	–	-0.8	–
Total	60.6	–	43.6	–
Currency translation difference				
Changes in the period	–	-1.9	–	-1.9
Items which will be recognized in profit or loss in the future	80.3	-2.8	51.0	-3.2
Equity instruments at fair value in other comprehensive income				
Changes in the period	–	83.1	–	58.8
Taxes on changes in the period	–	-1.0	–	-0.8
Total	–	82.1	–	58.0
Actuarial gains and losses from pensions and similar obligations				
Change in actuarial gains/losses, net	15.6	–	11.6	–
Tax effect	-5.2	–	-3.9	–
Total	10.4	–	7.7	–
Items which will not be recognized in profit or loss in the future	10.4	82.1	7.7	58.0
Other comprehensive income	90.7	79.3	58.7	54.8
Total comprehensive income	**1,155.3**	**1,279.3**	**992.6**	**1,125.6**
Attributable to:				
Vonovia's shareholders	1,083.7	1,222.7	935.1	1,082.0
Vonovia's hybrid capital investors	14.8	14.8	7.4	7.4
Non-controlling interests	56.8	41.8	50.1	36.2

Consolidated Balance Sheet

Assets

in € million	Notes	Dec. 31, 2017	June 30, 2018
Intangible assets	12	2,637.1	3,705.7
Property, plant and equipment		177.6	222.1
Investment properties	13	33,182.8	40,992.2
Financial assets		698.0	808.4
Other assets		13.8	18.9
Deferred tax assets		10.3	10.5
Total non-current assets		36,719.6	45,757.8
Inventories		6.2	6.6
Trade receivables		234.9	441.0
Financial assets		0.5	14.2
Other assets		98.4	193.3
Income tax receivables		47.9	44.2
Cash and cash equivalents		266.2	865.8
Real estate inventories	14	-	309.7
Assets held for sale		142.6	155.0
Total current assets		796.7	2,029.8
Total assets		37,516.3	47,787.6

Equity and liabilities

in € million	Notes	Dec. 31, 2017	June 30, 2018
Subscribed capital		485.1	518.1
Capital reserves		5,966.3	7,182.2
Retained earnings		8,471.6	8,978.8
Other reserves		157.8	237.1
Total equity attributable to Vonovia's shareholders		**15,080.8**	**16,916.2**
Equity attributable to hybrid capital investors		1,001.6	1,021.4
Total equity attributable to Vonovia's shareholders and hybrid capital investors		**16,082.4**	**17,937.6**
Non-controlling interests		608.8	937.7
Total equity	15	**16,691.2**	**18,875.3**
Provisions		607.2	603.5
Trade payables		2.4	1.0
Non-derivative financial liabilities	16	12,459.4	17,848.6
Derivatives		8.7	68.8
Liabilities from finance leases		94.7	94.5
Liabilities to non-controlling interests		24.9	31.7
Financial liabilities from tenant financing	17	–	54.7
Other liabilities	18	65.3	49.9
Deferred tax liabilities		5,322.6	6,388.4
Total non-current liabilities		**18,585.2**	**25,141.1**
Provisions		376.5	405.1
Trade payables		130.7	207.4
Non-derivative financial liabilities	16	1,601.1	1,926.0
Derivatives		4.4	362.2
Liabilities from finance leases		4.6	4.8
Liabilities to non-controlling interests		9.0	6.7
Financial liabilities from tenant financing	17	7.7	100.2
Other liabilities	18	105.9	758.8
Total current liabilities		**2,239.9**	**3,771.2**
Total liabilities		**20,825.1**	**28,912.3**
Total equity and liabilities		**37,516.3**	**47,787.6**

Consolidated Statement of Cash Flows

in € million	Notes	Jan. 1–June 30, 2017	Jan. 1–June 30, 2018
Profit for the period		1.064.6	1,200.0
Net income from fair value adjustments of investment properties	8	-1,164.7	-1,372.9
Revaluation of assets held for sale	6	-53.1	-34.6
Depreciation and amortization		14.9	23.3
Interest expenses/income		148.7	196.0
Income taxes		588.0	646.7
Results from disposals of investment properties		-37.0	-45.9
Results from disposals of other non-current assets		-0.1	0.4
Other expenses/income not affecting net income		2.2	0.5
Change in working capital		-66.1	-70.8
Income tax paid		-22.0	-29.2
Cash flow from operating activities		**475.4**	**513.5**
Proceeds from disposals of investment properties and assets held for sale		687.3	361.8
Proceeds from disposals of other assets		0.5	0.6
Payments for acquisition of investment properties	13	-422.5	-544.5
Payments for acquisition of other assets		-34.2	-46.5
Payments for acquisition of shares in consolidated companies, in due consideration of liquid funds	2	-1,412.9	-2,934.2
Interest received		2.8	4.1
Cash flow from investing activities		**-1,179.0**	**-3,158.7**

in € million	Notes	Jan. 1–June 30, 2017	Jan. 1–June 30, 2018
Capital contributions on the issue of new shares (including premium)	15	–	995.8
Cash paid to shareholders of Vonovia SE and non-controlling interests	15	-271.8	-385.6
Proceeds from issuing financial liabilities	15	1,161.6	3,486.8
Cash repayments of financial liabilities	16	-1,413.7	-630.9
Payments for transaction costs in relating to capital measures	16	-9.4	-45.0
Payments for other financing costs		-34.6	-3.5
Payments for the acquisition of shares in non-controlling interests		-9.0	-68.0
Proceeds for the sale of shares of consolidated companies		247.9	16.2
Interest paid		-130.1	-121.0
Cash flow from financing activities		**-459.1**	**3,244.8**
Net changes in cash and cash equivalents		**-1,162.7**	**599.6**
Cash and cash equivalents at the beginning of the period		1,540.8	266.2
Cash and cash equivalents at the end of the period [1)]		**378.1**	**865.8**

1) thereof restricted cash € 93.7 million (June 30, 2017: € 55.5 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 comprehen-sive income
As of Jan. 1, 2017	466.0	5,334.9	6,665.4	-93.2	94.7
Profit for the period			993.2		
Other comprehensive income					
Changes in the period			10.2	-32.7	60.6
Reclassification affecting net income				52.4	
Total comprehensive income			1,003.4	19.7	60.6
Capital increase	10.5				
Premium on the issue of new shares		342.1			
Transaction costs in connection with the issue of shares		-2.0			
Dividend distributed by Vonovia SE			-525.1		
Acquisition of conwert					
Changes recognized directly in equity		-1.6	-7.4		
As of June 30, 2017	**476.5**	**5,673.4**	**7,136.3**	**-73.5**	**155.3**
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**

Currency translation differences	Total	Equity attributable to Vonovia's shareholders	Equity attributable to Vonovia's hybrid capital investors	Equity attributable to Vonovia's shareholders and hybrid capital investors	Non-controlling interests	Total equity
	1.5	12,467.8	1,001.6	13,469.4	419.0	13,888.4
		993.2	14.8	1,008.0	56.6	1,064.6
	27.9	38.1		38.1	0.2	38.3
	52.4	52.4		52.4		52.4
	80.3	1,083.7	14.8	1,098.5	56.8	1,155.3
		10.5		10.5		10.5
		342.1		342.1		342.1
		-2.0		-2.0		-2.0
		-525.1		-525.1		-525.1
					129.4	129.4
		-9.0	5.0	-4.0	280.5	276.5
	81.8	**13,368.0**	**1,021.4**	**14,389.4**	**885.7**	**15,275.1**
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**

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, 2018, 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 and include the company and its subsidiaries.

In accordance with IAS 34, the scope of Vonovia's interim consolidated financial statements as of June 30, 2018, is condensed compared with the consolidated financial statements as of December 31, 2017.

2 Business Combinations

Acquisition of BUWOG

In connection with the voluntary public takeover offer that Vonovia SE made on December 18, 2017, to the shareholders of BUWOG AG, Vienna, Austria (BUWOG), a total of 82,844,967 shares had been tendered after the end of the acceptance deadline on March 12, 2018, at a price of € 29.05 per share. In addition, 2,988 BUWOG convertible bonds, which account for 99.6% of the total par value of the convertible bonds, were tendered at a price of € 115,753.65.

The acquisition date at which Vonovia SE obtained control of the BUWOG Group is March 26, 2018. This was the date on which the offer was settled. This transaction shall be treated as a business combination in accordance with IFRS 3.

The second extended tender phase in accordance with Section 19 (3) 3 of the Austrian Takeover Act (UebG) started on March 16, 2018, and ended at 5 p.m. CEST on June 18, 2018. With the conclusion of this second extended tender period, a further 15,281,786 shares were tendered to Vonovia. Furthermore, the 2,988 convertible bonds that were tendered during the first tender period, in addition to ten that were tendered in the second tender period, were converted into 11,904,382 shares. Since the acquisition of shares and the conversion were effected under exactly the same conditions as in the first acceptance deadline and were related in terms of content and timing, a linked transaction can be assumed. Taking the second acceptance period into account along with the 550,000 shares acquired on the market as of March 26, 2018, Vonovia possessed 89.1% of the share capital of BUWOG as of the acquisition date.

As of June 30, 2018, Vonovia acquired another 2,091,517 shares on the market, which was nevertheless presented as a separate purchase since the price was below the tender price. Overall, Vonovia thus possessed more than 90.7% of the share capital of BUWOG as of June 30, 2018. On June 20, 2018, Vonovia requested a squeeze-out process according to the Austrian Act on the Squeeze-out of Minority Shareholders (Gesellschafterausschlussgesetz) to be held at the next ordinary General Meeting.

The provisional consideration comprises the following:

in € billion	
Net cash purchase price component	2.9
Convertible bonds	0.3
Total consideration	**3.2**

The provisional allocation of the total purchase price to the acquired assets and liabilities (PPA) of the BUWOG Group as of the date of first-time consolidation is based on the updated quarterly figures of BUWOG as of January 31, 2018, and on the adjustments to the fair values of the assets and liabilities that are necessary according to currently available information.

The assets and liabilities assumed in the course of the business combination had the following preliminary fair values as of the date of first-time consolidation:

in € billion	
Investment properties	4.6
Cash and cash equivalents	0.3
Real estate inventories	0.3
Trade receivables	0.2
Fair value of other assets	0.1
Total assets	**5.5**
Non-controlling interests	0.3
Non-derivative financial liabilities	1.9
Deferred tax liabilities	0.3
Fair value of other liabilities	0.5
Total liabilities	**3.0**
Fair value net assets	**2.5**
Consideration	3.2
Goodwill	**0.7**

The goodwill represents synergies from the future integration of the BUWOG Group, in particular by way of the joint administration and management of the German and Austrian housing units, the further modernization of the portfolio, the expansion of the value chain and the optimization of cost structures.

Since April 2018, the BUWOG Group has recognized income from property management in the amount of € 82.7 million and as an earnings contribution in terms of earnings before fair value adjustments of investment properties, interest, taxes, depreciation and amortization (EBITDA IFRS) of € 40.7 million. If the BUWOG Group had already been fully included in the consolidated Group as of January 1, 2018, it would have contributed to the income from property management in the amount of € 166.0 million and to EBITDA IFRS in the amount of € 71.4 million.

Out of the trade receivables that were acquired, an amount of € 5.1 million is likely to have been uncollectible at the time of acquisition. The gross amount of the acquired trade receivables was € 162.8 million. The net carrying amount, which corresponds to the fair value, was € 157.7 million.

In the 2018 fiscal year, transaction costs related to the acquisition of the BUWOG Group of € 25.0 million have been recognized with effect on net income, with € 19.0 million recognized in other operating expenses and € 6.0 million in financial expenses.

A total of 89 domestic and 39 foreign companies of the BUWOG Group will be newly included in the scope of consolidation as of the date of acquisition.

Acquisition of Victoria Park

In connection with the voluntary public takeover offer that Vonovia SE made on May 3, 2018, via its subsidiary Deutsche Annington Acquisition Holding GmbH (DA Acquisition) to the shareholders of Victoria Park AB (publ), Malmö, Sweden (Victoria Park), a total of 34,056,463 class A shares, 97,962,486 class B shares and 663,172 preference shares had been tendered after the end of the acceptance deadline on June 18, 2018. The offer price for class A and class B shares was SEK 38.00, and for preference shares SEK 316.00.

Furthermore, call options were granted to DA Acquisition by the shareholders that allow Vonovia to purchase 10,235,198 class A shares and 14,264,946 class B shares in Victoria Park (call option shares) between May 15 and May 29, 2019. Including the shares tendered as of June 18, 2018, this corresponds to approximately 63.8% of the share capital and 58.7% of all voting rights in Victoria Park (on a fully diluted basis).

Although Vonovia has less than 50% of the voting rights as of June 30, 2018, in accordance with IFRS 10.B41–B43, de facto control must be assumed, since it holds a majority of votes present at the Annual General Meeting.

The acquisition date at which Vonovia SE obtained control of the Victoria Park Group is June 28, 2018. This was the date on which the offer was settled. This transaction shall be treated as a business combination in accordance with IFRS 3.

On June 18, 2018, DA Acquisition Holding GmbH announced that it would extend the offer period until July 3, 2018, at 5 p.m. (CEST) in order to give shareholders who had not accepted the offer the possibility of doing so. The settlement of the offer for shares tendered during the extended acceptance deadline through June 25, 2018, occurred on July 3, 2018. For shares that were tendered in the extended acceptance deadline after June 25, 2018, the settlement occurred on July 11, 2018.

The provisional consideration comprises the following:

in € billion	
Cash and cash equivalents	0.5
Purchase price liability from call option shares	0.1
Put option	0.3
Consideration for the acquisition of shares	**0.9**

The provisional allocation of the total purchase price to the acquired assets and liabilities (PPA) of the Victoria Park Group as of the date of first-time consolidation is based on the quarterly figures of Victoria Park as of June 30, 2018, and on the adjustments to the fair values of the acquired assets and liabilities that are necessary according to currently available information.

The assets and liabilities assumed in the course of the business combination had the following preliminary fair values as of the date of first-time consolidation:

in € billion	
Investment properties	1.6
Cash and cash equivalents	0.1
Total assets	**1.7**
Non-derivative financial liabilities	0.9
Deferred tax liabilities	0.1
Fair value of other liabilities	0.1
Total liabilities	**1.1**
Fair value net assets	**0.6**
Consideration	0.9
Goodwill	**0.3**

Goodwill represents benefits from the future cooperation between Victoria Park and Vonovia through the partial transfer of Vonovia's business strategy, in particular regarding its property and portfolio management strategy for the administration and management of the housing units, the utilization of Vonovia's modernization process know-how to further modernize the portfolio and the value-add strategy with a focus on expanding the value chain.

If the Victoria Park Group had already been fully included in the consolidated Group as of January 1, 2018, it would have contributed to the income from property management in the amount of € 54.9 million and to EBITDA IFRS in the amount of € 24.2 million.

Out of the trade receivables that were acquired, an amount of € 0.9 million is likely to have been uncollectible at the time of acquisition. The gross amount of the acquired trade receivables was € 3.3 million. The net carrying amount, which corresponds to the fair value, was € 2.4 million.

In the 2018 fiscal year, transaction costs related to the acquisition of Victoria Park Group in the amount of € 11.8 million were recognized in other operating expenses affecting net income.

A total of 71 foreign companies, two of which are valued using the equity method, will be newly included in the scope of consolidation as of the date of acquisition.

3 Currency Translation

Vonovia applies the concept of functional currency translation in accordance with IAS 21 Effects of Changes in Foreign Exchange Rates to its consolidated financial statements. The functional currency of Vonovia SE and the reporting currency of the Vonovia Group is the euro.

Foreign currency transactions involving Group companies are converted into the functional currency, in accordance with the temporal method, at the exchange rate that applies on the day of the transaction. Monetary balance sheet items denominated in a foreign currency are converted at the exchange rate that applies on each reporting date. Any resulting exchange differences are recognized affecting net income. Non-monetary items that are measured in terms of historical cost are recorded on the reporting date at the exchange rate on the date they were first recognized. Non-monetary items that are measured at fair value are translated on the reporting date using the exchange rate on the date the fair value was determined. Exchange differences relating to non-monetary items are recognized affecting net income insofar as a profit or loss on the corresponding line item is also recognized affecting net income. Otherwise, they are disclosed in other comprehensive income.

The main foreign subsidiaries included in the consolidated financial statements operate their business independently in line with functional theory. The annual financial statements of those subsidiaries whose functional currency is not the euro are converted into the reporting currency using the exchange rate prevailing on the reporting date. The functional currency of individual foreign units is always the respective local currency. Any resulting exchange differences are disclosed as a separate item in other comprehensive income. When a foreign subsidiary leaves the scope of consolidation, the cumulative exchange differences are reversed and recognized in profit or loss.

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

	Closing rate		Average for period	
basis: € 1	**Dec. 31, 2017**	**June 30, 2018**	**Jan. 1– June 30, 2017**	**Jan. 1 – June 30, 2018**
HUF – Hungarian forint	310.33	329.77	309.89	314.11
SEK – Swedish krona	9.84	10.45	9.60	10.31
UAH – Ukrainian hryvnia	33.58	30.52	29.20	32.36
USD – US dollar	1.20	1.17	1.13	1.21

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 2017 fiscal year. Due to the takeover of the BUWOG Group, the provisions set out in IFRS 15 relating to revenue recognition are also to apply to Vonovia as part of the development business in 2018.

The development business related to the acquisition refers to subsidized or independently financed condominiums that are under construction or have already been completed. These properties are not held with the aim of generating rental income or achieving increases in value within the meaning of IAS 40, but rather are developed and constructed to be sold at a later date, meaning that they are reported in the consolidated balance sheet as real estate inventories in accordance with IAS 2.

Due to IFRS 15, revenue is to be recorded either over time or at a point in time depending on the transfer of control to the customer. In cases of development properties for which control, within the meaning of IFRS 15.35(c), already passes to the customer at the time at which the certified purchase agreement is concluded, revenue is to be recognized as of this point in time based on the degree of completion of the construction project. Reporting of the contract assets that fall within the scope of IFRS 15 occurs on a net basis with the corresponding advance payments received under trade receivables.

In the context of the initial application of IFRS 9, Vonovia exercised an irrevocable option, whenever financial investments are categorized as equity instruments, to state future changes to the fair value under other comprehensive income in equity. Gains or losses recognized in other comprehensive income are never reclassified from equity to the income statement on their disposal.

The application of IFRS 9 will result in a change in the calculation processes for the risk classification of receivables from property letting, for updates to historical credit losses and for calculating the need for impairments taking forward-looking information into account. This change has not had any material impact in terms of the amount.

In addition, Vonovia has opted to continue to apply the hedge accounting provisions set out in IAS 39 as opposed to the provisions of IFRS 9; in particular, the hedge documentation and effectiveness range remains unchanged between 80% and 125% (corridor).

There were no seasonal or economic influences that had an impact on Vonovia's business activities in the reporting period.

Notes to the Consolidated Income Statement

5 Income from Property Management

in € million	Jan. 1–June 30, 2017	Jan. 1–June 30, 2018
Rental income	835.4	892.6
Ancillary costs	336.2	366.0
Income from property letting	1,171.6	1,258.6
Other income from property management	20.8	24.3
	1,192.4	**1,282.9**

6 Profit on Disposal of Properties

in € million	Jan. 1–June 30, 2017	Jan. 1–June 30, 2018
Income from disposal of investment properties	251.6	258.5
Carrying amount of investment properties sold	-214.6	-212.6
Profit on disposal of investment properties	37.0	45.9
Income from sale of assets held for sale	450.3	127.9
Retirement carrying amount of assets held for sale	-450.3	-127.9
Revaluation of assets held for sale	53.1	34.6
Profit on disposal of assets held for sale	53.1	34.6
	90.1	**80.5**

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 € 34.6 million as of June 30, 2018 (first half of 2017: € 53.1 million).

7 Profit on Disposal of Real Estate Inventories (Development)

Income from the sale of real estate inventories (Development) in the amount of € 73.5 million (first half of 2017: € 0.0 million) consisted of € 33.4 million (first half of 2017: € 0.00 million) in period-related income from disposal of real estate inventories together with € 40.1 million (first half of 2017: € 0.00 million) in time-related income from the disposal of real estate inventories. As of June 30, 2018, contract assets of € 127.2 million (first half of 2017: € 0.00 million) are recognized within trade receivables in connection with the period-related revenue recognition.

8 Net Income from Fair Value Adjustments of Investment Propertiess

The measurement of the investment properties led to a gain as of June 30, 2018, of € 1,372.9 million (first half of 2017: € 1,164.7 million) (see explanatory information in note [13] Investment Properties).

9 Cost of Materials

in € million	Jan. 1– June 30, 2017	Jan. 1– June 30, 2018
Expenses for ancillary costs	317.5	334.1
Expenses for maintenance	204.0	247.4
Other cost of purchased goods and services	48.0	45.8
	569.5	**627.3**

10 Financial Income

in € million	Jan. 1– June 30, 2017	Jan. 1– June 30, 2018
Income from other investments	19.4	21.4
Income from non-current securities and non-current loans	0.9	1.3
Other interest and similar income	23.4	3.9
	43.7	**26.6**

The income from other investments comprises € 13.9 million (first half of 2017: € 12.9 million) in financial income from investments in other real estate companies and also € 7.5 million (first half of 2017: € 6.3 million) in financial income from the collection of the profit share in AVW GmbH & Co. KG, Hamburg, for the previous fiscal year in each case.

11 Financial Expenses

in € million	Jan. 1– June 30, 2017	Jan. 1– June 30, 2018
Interest expense from non-derivative financial liabilities	153.8	155.6
Swaps (current interest expense for the period)	1.7	5.4
Effects from the valuation of non-derivative financial instruments	-16.7	7.7
Effects from the valuation of swaps	9.9	11.3
Transaction costs	6.2	8.4
Prepayment penalties and commitment interest	2.9	3.6
Interest expenses purchase price liabilities from put options/rights to reimbursement	7.6	-
Interest accretion to provisions	4.6	4.4
Other financial expenses	2.9	4.5
	172.9	**200.9**

Notes to the Consolidated Balance Sheet

12 Intangible Assets

The increase in intangible assets from € 2,637.1 million as of December 31, 2017, to € 3,705.7 million as of June 30, 2018, mainly results from the goodwill in the amount of € 691.0 million that arose from the acquisition of the BUWOG Group and from the goodwill in the amount of € 299.5 million that arose from the acquisition of Victoria Park.

Additionally, the brand name BUWOG Group for the development business was identified within the framework of the purchase price allocation for the BUWOG Group as a material asset with indefinite useful life and recognized at a value of € 66.6 million.

13 Investment Properties

in € million	
As of Jan. 1, 2018	33,182.8
Additions due to business combinations	6,214.7
Additions	118.7
Capitalized modernization costs	423.2
Grants received	-2.5
Transfer from property, plant and equipment	0.8
Transfer from assets held for sale	24.4
Transfer to assets held for sale	-164.7
Disposals	-212.6
Net income from fair value adjustments of investment properties	1,372.9
Revaluation of assets held for sale	34.6
Revaluation from currency effects	-0.1
As of June 30, 2018	**40,992.2**
As of Jan. 1, 2017	26,980.3
Additions due to business combinations	2,469.6
Additions	307.2
Capitalized modernization costs	771.8
Grants received	-0.6
Transfer from property, plant and equipment	18.0
Transfer to property, plant and equipment	-12.9
Transfer from assets held for sale	2.5
Transfer to assets held for sale	-471.4
Disposals	-396.5
Net income from fair value adjustments of investment properties	3,434.1
Revaluation of assets held for sale	81.1
Revaluation from currency effects	-0.4
As of Dec. 31, 2017	**33,182.8**

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 2017.

This information shows that Vonovia values its portfolio using 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.

Due to the market momentum recognized across Germany in the first half of 2018, Vonovia decided to perform a new valuation on the 20 German locations that account for the largest fair value shares. This list was extended to the portfolio of conwert in Vienna and six other locations where more significant changes in value were observed. The selection includes the majority of the portfolio, accounting for more than two-thirds of the total fair value.

As for the purposes of the annual financial statements, Vonovia determined the fair values as of June 30, 2018, in its in-house valuation department on the basis of the methodology described above. The property assets are also 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 2017 is applied again, with updates to reflect capitalization.

As far as the portfolio of BUWOG and the non-German real estate of the conwert portfolio are concerned, the result of the valuation of the external appraiser CBRE was applied to the interim financial statements. For the portfolio of Victoria Park, the result of the external appraiser Savills was applied to the interim balance sheet. The fair values of the BUWOG portfolio and the Victoria Park portfolio were also calculated using a DCF procedure. For the valuation of the BUWOG portfolio in Austria, sales strategies for the individual privatization of apartments have been assumed for a subportfolio. The recoverable amounts were recognized in line with the comparative value method and reported appropriate to the period in the DCF model. The conwert properties in Austria were also valued using the gross rental method. This involved calculating the value of a property by multiplying the net income (income that can be generated in the long term less property management costs that cannot be passed on, the risk of loss of rent and maintenance measures) by a multiplier. This multiplier depends on the capitalized interest rate and the remaining useful life.

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 inheritable building rights granted was € 41,732.3 million as of June 30, 2018 (December 31, 2017: € 33,436.3 million). This corresponds to a net initial yield for the developed land of 3.5%* (December 31, 2017: 3.6%). For Germany, this results in an in-place-rent multiplier of 20.4 for the portfolio (December 31, 2017: 19.7) and a fair value per m² of € 1,546 (December 31, 2017: € 1,475). For the portfolio in Austria, the in-place-rent multiplier is 22.8 and the fair value per m² is € 1,299; for Sweden it is 14.0 and the fair value is € 1,462 per m².

* Overall portfolio including Austria and Sweden.

The material valuation parameters for the investment properties (level 3) in the real estate portfolio are as follows as of June 30, 2018, broken down by regional markets:

June 30, 2018 Regional Market	Valuation results* Fair Value (in € million)	thereof Assets held for sale (in € million)	thereof Owner-occupied properties (in € million)	thereof Investment properties (in € million)
Berlin	6,327.9	3.4	5.5	6,319.1
Rhine Main Area	3,650.4	6.6	5.9	3,637.8
Rhineland	3,376.2	2.8	7.8	3,365.7
Southern Ruhr Area	3,124.4	4.2	4.0	3,116.2
Dresden	2,980.0	0.0	5.3	2,974.8
Hamburg	2,347.6	0.4	3.1	2,344.1
Munich	1,901.6	10.2	2.5	1,888.9
Stuttgart	1,825.9	1.6	2.5	1,821.8
Kiel	1,815.6	0.0	2.9	1,812.7
Hanover	1,510.9	1.7	1.4	1,507.8
Northern Ruhr Area	1,442.0	2.2	3.8	1,436.0
Bremen	1.036.1	0.0	3.6	1,032.5
Leipzig	808.5	0.0	5.3	803.2
Westphalia	723.2	0.0	1.1	722.1
Freiburg	554.1	0.3	1.9	551.9
Other Strategic Locations	2,347.7	2.7	4.5	2,340.5
Total Strategic Locations	**35,772.3**	**36.2**	**61.0**	**35,675.1**
Non-Strategic Locations	687.3	111.5	0.7	575.1
Vonovia Germany	**36,459.6**	**147.6**	**61.7**	**36,250.3**
Vonovia Austria**	2,468.3	1.6	0.0	2,466.7
Vonovia Sweden***	1,599.0	0.0	0.0	1,599.0

* Fair value of the developed land excluding € 1,205.4 million (previous year: € 331.4 million) in development, undeveloped land, inheritable building rights granted and other, thereof € 676.2 million in investment properties.
** The valuation methods for the properties in Austria provided only partially comparable valuation parameters.
*** Administrative and maintenance expenses are not shown separately for Sweden.

The inflation rate applied to the DCF procedure is 1.6%. This led to net income from fair value adjustments of investment properties of € 1,372.9 million in the first half of 2018 (2017 fiscal year: € 3,434.1 million). For the Austrian BUWOG portfolio, a sales strategy with an average selling price of € 1,932 per m² was assumed for 55.0% of the properties.

Explanatory information on the prior-year figures can be found in the 2017 Annual Report of Vonovia SE.

Sensitivity Analyses

The sensitivity analyses performed on Vonovia's real estate portfolio show the impact of the value drivers susceptible to the market. In particular, those are the market rents and their development, the amount of recognized administrative and maintenance expenses,

	Valuation parameters investment properties (Level 3)						
	Management costs residential (€ per residential unit p.a.)	Maintenance costs residential (in € per m² p.a.)	Market rent residential (in € per m²/month)	Market rent increase residential	Stabilized vacancy rate residential	Discount rate total	Capitalized interest rate total
	249	14.47	7.19	1.5%	1.4%	4.3%	2.7%
	273	14.11	8.50	1.4%	1.2%	5.0%	3.5%
	269	13.65	7.57	1.3%	2.0%	5.1%	3.8%
	266	13.03	6.32	1.2%	2.5%	5.4%	4.3%
	240	14.80	6.66	1.3%	2.1%	5.4%	4.3%
	258	14.51	7.80	1.3%	1.4%	4.8%	3.7%
	261	13.90	10.81	1.5%	0.7%	4.8%	3.3%
	271	14.31	8.50	1.4%	1.5%	5.1%	3.7%
	259	14.69	6.64	1.1%	1.7%	5.1%	4.1%
	259	14.07	6.85	1.3%	2.0%	5.2%	3.9%
	265	13.30	5.79	0.9%	3.6%	5.8%	5.1%
	263	13.37	6.14	1.4%	2.4%	4.9%	3.6%
	254	14.44	6.24	1.4%	3.7%	5.1%	3.8%
	263	13.56	6.38	1.2%	1.9%	5.3%	4.2%
	268	14.44	7.72	1.4%	1.0%	4.6%	3.2%
	265	14.29	6.89	1.2%	2.2%	5.4%	4.2%
	260	**14.04**	**7.11**	**1.3%**	**2.0%**	**5.0%**	**3.7%**
	273	14.21	5.93	1.0%	3.7%	5.8%	4.9%
	260	**14.04**	**7.08**	**1.3%**	**2.1%**	**5.1%**	**3.7%**
	n.a.	n.a.	5.96	n.a.	n.a.	n.a.	n.a.
	n.a.	n.a.	8.83	2.0%	0.7%	6.2%	4.2%

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 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, 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 housing stock, in seller and buyer behavior, political decisions and developments in 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.

	Change in value as a percentage under varying parameters		
June 30, 2018	Management costs residential	Maintenance costs residential	cost increase/inflation
Regional Market	-10%/+10%	-10%/+10%	-0.5%/+0.5% points
Berlin	0.6/-0.6	2.0/-2.0	5.0/-5.0
Rhine Main Area	0.5/-0.5	1.7/-1.7	3.2/-3.4
Rhineland	0.6/-0.6	1.9/-1.9	3.6/-3.7
Southern Ruhr Area	0.9/-0.9	2.6/-2.6	4.5/-4.6
Dresden	0.8/-0.8	2.4/-2.4	4.1/-4.2
Hamburg	0.6/-0.6	1.9/-1.9	3.6/-3.7
Munich	0.4/-0.4	1.3/-1.3	3.3/-3.5
Stuttgart	0.5/-0.5	1.7/-1.7	3.3/-3.4
Kiel	0.8/-0.8	2.2/-2.2	2.9/-3.1
Hanover	0.7/-0.7	2.2/-2.2	3.9/-4.0
Northern Ruhr Area	1.1/-1.1	3.1/-3.1	4.7/-4.8
Bremen	0.9/-0.9	2.6/-2.6	5.7/-5.8
Leipzig	0.8/-0.8	2.5/-2.5	5.1/-5.2
Westphalia	0.8/-0.8	2.7/-2.7	4.5/-4.6
Freiburg	0.6/-0.6	1.9/-1.9	4.0/-4.1
Other Strategic Locations	0.7/-0.7	2.2/-2.2	3.5/-3.7
Total Strategic Locations	**0.9/-1.0**	**2.8/-2.8**	**3.5/-3.6**
Non-Strategic Locations	0.7/-0.7	2.1/-2.1	4.0/-4.1
Vonovia Germany	**0.7/-0.7**	**2.1/-2.1**	**4.0/-4.1**
Vonovia Austria*	n.a.	n.a.	n.a.
Vonovia Sweden**	n.a.	n.a.	1.5/-1.5

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

	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
	-2,0% / +2,0%	-0.2% / +0.2% points	-1% / +1% points	-0.25% / +0.25% points
	-2.4/2.3	-8.6/10.2	1.7/-1.8	10.4/-8.6
	-2.3/2.3	-6.4/7.3	1.3/-1.7	7.6/-6.6
	-2.3/2.2	-6.2/7.0	1.8/-1.8	7.2/-6.3
	-2.4/2.4	-6.0/6.8	2.1/-2.1	6.3/-5.6
	-2.3/2.3	-6.0/6.7	2.0/-2.0	6.5/-5.8
	-2.2/2.2	-6.5/7.5	1.4/-1.7	7.8/-6.7
	-2.0/2.0	-7.0/8.1	0.8/-1.5	8.9/-7.5
	-2.1/2.2	-6.3/7.1	1.5/-1.6	7.4/-6.5
	-2.2/2.2	-5.6/6.3	1.8/-1.8	6.6/-5.9
	-2.4/2.3	-6.1/6.9	1.9/-1.9	7.0/-6.1
	-2.6/2.6	-5.5/6.1	2.4/-2.4	5.3/-4.8
	-2.4/2.3	-7.3/8.5	2.1/-2.1	7.9/-6.8
	-2.4/2.5	-6.8/7.7	2.1/-2.1	7.3/-6.4
	-2.4/2.3	-6.0/6.8	2.0/-2.2	6.3/-5.6
	-2.4/2.3	-7.1/8.3	1.3/-1.8	8.3/-7.1
	-2.3/2.3	-5.9/6.7	1.9/-1.9	6.6/-5.9
	-2.3/2.2	**-5.2/5.8**	**1.9/-1.9**	**5.7/-5.1**
	-2.3/2.3	-6.6/7.6	1.7/-1.9	7.7/-6.6
	-2.3/2.3	**-6.6/7.6**	**1.7/-1.9**	**7.6/-6.6**
	-0,4/0,4	n.a.	n.a.	n.a.
	-3.1/3.1	-1.4/1.3	1.2/-1.9	5.4/-4.7

14 Real Estate Inventories

Recognized real estate inventories in the amount of € 309.7 million (December 31, 2017: € 0.0 million) concern all development projects that result from the inclusion of the BUWOG Group. These are projects to construct housing units planned for sale that are currently being built or that have been completed but have not yet been sold. Because of the intention to sell, valuation is not made in accordance with IAS 40 but according to IAS 2 at the amortized cost or at net realizable value, whichever is lower.

15 Equity

Development of the Subscribed Capital

in €	
As of Jan. 1, 2018	485,100,826.00
Capital increase against cash contributions on May 11, 2018 (funding Victoria Park)	26,000,000.00
Capital increase against non-cash contributions on June 12, 2018 (scrip dividend)	6,977,108.00
As of June 30, 2018	**518,077,934.00**

Development of the Capital Reserves

in €	
As of Jan. 1, 2018	5,966,315,814.06
Premium from capital increase for funding Victoria Park on May 11, 2018	969,800,000.00
Premium from capital increase for scrip dividend on June 12, 2018	254,580,716.70
Transaction costs on the issue of new shares (after allowing for deferred taxes)	-6,977,017.42
Other changes not affecting net income	-1,558,601.38
As of June 30, 2018	**7,182,160,911.96**

On May 11, 2018, with the agreement of the Finance Committee, Vonovia SE increased the share capital in return for a cash contribution, partially using the 2016 authorized capital and excluding a subscription right, by € 26,000,000.00 from € 485,100,826.00 to € 511,100,826.00.

The 26,000,000 new no-par-value registered shares were placed with institutional investors in the scope of a private placement by means of an accelerated bookbuilding procedure and carry dividend rights as of January 1, 2018.

The shares were granted at a placement price of € 38.30 per share, delivering issue proceeds to Vonovia SE in the amount of € 995.8 million before commission and expenses. The net issue proceeds from the capital increase is planned, among other things, for the purchase price payments in connection with the announced takeover offer made to the shareholders of Victoria Park AB.

Dividend

The Annual General Meeting held on May 9, 2018, resolved to pay a dividend for the 2017 fiscal year in the amount of € 1.32 per share.

As with last year, Vonovia offered its shareholders the option of choosing between being paid the dividend in cash or being granted new shares. During the subscription period, 40.9% of shareholders opted for the stock dividend as opposed to the cash dividend. As a result, 6,977,108 new shares were issued using the company's authorized capital pursuant to Section 5b of the Articles of Association ("2016 authorized capital") at a subscription price of € 37.488 per share, i.e., a total amount of € 261,557,824.70. The total amount of the dividend distributed in cash therefore came to € 378,775,265.62.

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Authorized Capital

The 2016 and 2017 authorized capital was canceled by way of a resolution passed by the Annual General Meeting on May 9, 2018, in Bochum, and a new 2018 authorized capital was created in the amount of € 242,550,413.00. Shareholder subscription rights for the 2018 authorized capital can be excluded.

16 Non-Derivative Financial Liabilities

	Dec. 31, 2017		June 30, 2018	
in € million	non-current	current	non-current	current
Non-derivative financial liabilities				
Liabilities to banks	2,602.3	602.7	4,808.5	504.7
Liabilities to other creditors	9,857.1	921.6	13,040.1	1,305.4
Deferred interest from non-derivative financial liabilities	–	76.8	–	115.9
	12,459.4	**1,601.1**	**17,848.6**	**1,926.0**

The USD bonds issued in 2013 are 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 transactions entered into, this financial liability would be € 29.6 million lower than the recognized value (December 31, 2017: € 23.5 million).

The nominal obligations of the liabilities to banks and the liabilities to other creditors developed as follows:

in € million	Dec. 31, 2017	June 30, 2018
Bonds*	600.0	600.0
Bonds (US$)*	184.9	184.9
Bonds (EMTN)*	8,750.0	11,850.0
Bond (Hybrid)*	700.0	700.0
Commercial Paper	410.2	–
Portfolio loans:		
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin)*	489.5	500.0
Berlin-Hannoversche Hypothekenbank, Landesbank Berlin und Landesbank Baden-Württemberg*	342.9	327.9
Deutsche Hypothekenbank*	167.7	165.2
Nordrheinische Ärzteversorgung	31.6	31.1
Norddeutsche Landesbank*	117.1	115.4
Mortgages	2,266.6	2,340.5
Working Capital Facility	–	100.0
BUWOG:		
Mortgages	–	1,901.8
Victoria Park:		
Bonds*	–	95.7
Mortgages	–	780.2
	14,060.5	**19,692.7**

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

Issue of Bonds under the EMTN – Tap Issuance (European Medium Term Notes Program)

Based on the tap issuance master agreement dated April 20, 2017, with supplements dated August 30, 2017, November 9, 2017, and January 5, 2018 (€ 15,000,000,000 debt issuance program), Vonovia issued two bonds worth € 500 million each via its Dutch financing company in January 2018. The bonds were issued at an issue price of 99.330%, a coupon of 0.75% and with a maturity of six years for one tranche, and at an issue price of 99.439%, a coupon of 1.50% and with a maturity of ten years for the other.

Based on the updated tap issuance master agreement dated March 14, 2018 (€ 20,000,000,000 debt issuance program), Vonovia issued bonds in four tranches worth € 2,100 million in total via its Dutch financing company in March 2018. The bonds were issued (1) in an amount of € 600 million at an issue price of 100.00%, with a coupon at three-month EURIBOR plus margin and a maturity of 4.75 years, (2) in an amount of € 500 million at an issue price of 99.188%, with a coupon of 1.50% and a maturity of eight years, (3) in an amount of € 500 million at an issue price of 98.967%, with a coupon of 2.125% and a maturity of twelve years and (4) in an amount of € 500 million at an issue price of 97.896%, with a coupon of 2.75% and a maturity of twenty years.

Commercial Paper Program

On the basis of the master commercial paper agreement of November 2017 (€ 500,000,000 Multi-Currency Commercial Paper Program), Vonovia issued debentures via its Dutch financing company, which became due in the first half of 2018.

Working Capital Facility

In December 2017, Vonovia entered into an agreement with Commerzbank AG, Frankfurt am Main, with a value of € 250 million and a term that is due to end in December 2020. This unsecured credit line is subject to interest on the basis of EURIBOR plus a mark-up, and had been drawn on in the amount of € 100.0 million as of June 30, 2018.

17 Financial Liabilities from Tenant Financing

The financial liabilities from tenant financing include € 114.2 million (December 31, 2017: € 7.7 million) in tenant financing contributions. The financing contributions relate to the contributions collected from tenants in Austria for subsidized apartments. These are reimbursed upon the termination of the rental contract following the deduction of a depreciation amount. The amount refunded can be collected again from the new tenants. As these are generally rental contracts that can be terminated at any time; these liabilities are reported as current liabilities.

In the previous year, the corresponding amounts for financial liabilities from tenant financing were reported as advance payments received within other liabilities due to their low amount.

In addition, the financial liabilities from tenant financing include € 40.7 million (December 31, 2017: € 0.0 million) in maintenance and improvement contributions deposited by tenants (EVB). These contributions are paid by tenants in Austria to finance the costs associated with modernization measures. The payment depends on the age of the building and must be used up for modernization measures within 20 years of their receipt. Otherwise, they have to be refunded to the tenant.

18 Other Liabilities

The increase in other liabilities from € 105.9 million as of December 31, 2017, to € 758.8 million as of June 30, 2018, is mainly due to the purchase price liability for tendered BUWOG shares in the amount of € 443.9 million.

Other Notes And Disclosures

19 Additional Financial Instrument Disclosures

Measurement categories and classes: in € million	Carrying amounts June 30, 2018
Assets	
Cash and cash equivalents	
Cash on hand and deposits at banking institutions	865.8
Trade receivables	
Receivables from the sale of properties	239.8
Receivables from property letting	45.3
Other receivables from trading	4.5
Receivables from sale of real estate inventories (Development)	151.4
Financial assets	
Joint ventures valued at equity	15.7
Loans to other investments	33.4
Other non-current loans	20.0
Dividends from other investments	13.5
Non-current securities	3.8
Other investments	728.1
Derivative financial assets	
Cash flow hedges (cross currency swaps)	8.1
Liabilities	
Trade payables	208.4
Non-derivative financial liabilities	19,774.6
Derivative financial liabilities	
Purchase price liabilities from put options/rights to reimbursement	359.1
Stand-alone interest rate swaps	55.2
Other swaps	16.7
Liabilities from finance leases	99.3
Liabilities to non-controlling interests	38.4

	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 June 30, 2018	Fair value hierarchy level
	865.8					865.8	1
	239.8					239.8	2
	45.3					45.3	2
	4.5					4.5	2
	151.4					151.4	2
					15.7	15.7	n.a.
	33.4					51.1	2
	20.0					20.1	2
	13.5					13.5	2
				3.8		3.8	1
				728.1		728.1	2
		-11.3	19.4			8.1	2
	208.4					208.4	2
	19,774.6					20,349.0	2
		359.1				359.1	3
		55.2				55.2	2
		1.2	15.5			16.7	2
					99.3	200.0	2
	38.4					38.4	2

Measurement categories and classes: in € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2017
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	266.2
Trade receivables		
Receivables from the sale of properties	LaR	201.2
Receivables from property letting	LaR	32.2
Other receivables from trading	LaR	1.5
Financial assets		
Joint ventures valued at equity	n.a.	7.0
Loans to other investments	LaR	33.4
Other non-current loans	LaR	4.3
Non-current securities	AfS	3.6
Other investments	AfS	644.7
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n.a.	5.5
Liabilities		
Trade payables	FLAC	133.1
Non-derivative financial liabilities	FLAC	14,060.5
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	4.2
Other swaps	n.a.	8.9
Liabilities from finance leases	n.a.	99.3
Liabilities to non-controlling interests	FLAC	33.9

Loans and Receivables	LaR
Available-for-Sale financial assets	AfS
Financial Liabilities Held-for-Trading	FLHfT
Financial Liabilities measured at Amortized Cost	FLAC

	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, 2017	Fair value hierarchy level
	266.2					266.2	1
	201.2					201.2	2
	32.2					32.2	2
	1.5					1.5	2
					7.0	7.0	n.a.
	33.4					54.0	2
	4.3					4.3	2
				3.6		3.6	1
				644.7		644.7	2
		-11.3	16.8			5.5	2
	133.1					133.1	2
	14,060.5					14,713.7	2
		4.2				4.2	3
		-1.7	10.6			8.9	2
					99.3	203.5	2
	33.9					33.9	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 € 5.0 million (Dec. 31, 2017: € 5.3 million).
> Amount by which the fair value of plan assets exceeds the corresponding obligation: € 0.6 million (Dec. 31, 2017: € 1.1 million).
> Provisions for pensions and similar obligations: € 516.0 million (Dec. 31, 2017: € 513.7 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, 2018	Level 1	Level 2	Level 3
Assets				
Investment properties	40,992.2			40,992.2
Financial assets				
Non-current securities	3.8	3.8		
Other investments	728.1	696.4	31.7	
Assets held for sale				
Investment properties (contract closed)	155.0		155.0	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	8.1		8.1	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	359.1			359.1
Cash flow hedges	16.7		16.7	
Stand-alone derivatives	55.2		55.2	

in € million	Dec. 31, 2017	Level 1	Level 2	Level 3
Assets				
Investment properties	33,182.8			33,182.8
Financial assets				
Non-current securities	3.6	3.6		
Other investments	644.7	613.3	31.4	
Assets held for sale				
Investment properties (contract closed)	142.6		142.6	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	5.5		5.5	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	4.2			4.2
Cash flow hedges	8.9		8.9	

In general, Vonovia measures its investment properties on the basis of 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.

Non-current securities 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 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 relevant for interest rate swaps. This credit risk is derived for material risks from rates observable in the capital markets and ranges of between 15 and 135 basis points, depending on the residual maturities of financial instruments. Regarding the positive market values of the cross currency swaps, a counterparty risk of 60 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 value of the purchase price liabilities from put options/rights to reimbursement granted to minority shareholders is generally based on the going concern value of the respective company; if a contractually agreed minimum purchase price is higher than this amount, this purchase price is recognized (Level 3). The unobservable valuation parameters may fluctuate depending on the going concern values of these companies. However, a major change in value is not likely, as the business model is very predictable.

The following table shows the development of the put options recognized at fair value:

		Change in	Change			
in € million	As of Jan. 1	Scope of consolidation	affecting net income	Cash effectiv	not affecting net income	As of June 30.
2018						
Purchase price liabilities from put options/rights to reimbursement	4.2	356.2	-1.3	–	–	**359.1**
2017	As of Jan. 1.					As of Dec. 31
Purchase price liabilities from put options/rights to reimbursement	**57.2**	10.1	-13.9	-1.3	-47.9	**4.2**

The addition relating to the change in the scope of consolidation relates to the acquisitions of BUWOG and Victoria Park.

As part of the first-time consolidation of BUWOG, binding share purchase offers to minority shareholders have been assumed in the amount of € 35.2 million.

The other purchase price liabilities from put options of € 321.0 million relate to transactions linked to the share purchase of Victoria Park. In the context of the extended acceptance deadline, the outstanding shareholders are granted the right to tender their shares up until July 3, 2018.

For further information, we refer to note [2] Business Combinations and note [22] Subsequent Events.

20 Financial Risk Management

Currency Risks

The cash-effective currency risks arising in connection with the still existing USD bond were eliminated by the simultaneous contracting of cross currency swaps. Fixed and expected purchase price payments in connection with the acquisition of Victoria Park were secured through the conclusion of foreign currency forwards. In addition, currency fluctuations from the operating business in Swedish kronor (SEK) are to be expected. Vonovia is subject to no other material currency risk in the scope of its usual business activities.

Further existing financial risks for Vonovia have not materially changed since December 31, 2017, and are described in detail in the consolidated financial statements as of December 31, 2017.

21 Segment Reporting

The business activities of BUWOG are currently being integrated into the Vonovia Group. For this reason, the revenue contribution from the BUWOG business is initially being assigned to the segment "Other" in the Interim Financial Report. Ultimately, the earnings contribution of BUWOG will be added as a line under Reconciliation of Profit for the Period and in total as EBITDA IFRS BUWOG. It is expected that, with the provisional conclusion of the integration of BUWOG, a new management system and thus a new structure for segment reporting will be presented within the reporting on the third quarter of 2018.

In order to ensure the reconciliation of revenue from the segments with the Group in the segment reporting, the entire revenue of BUWOG in all business areas is represented in the column "Other" and operating expenses are readjusted accordingly. This means that the reported adjusted EBITDA exclusively represents the figures for Vonovia without BUWOG.

The following table shows the segment information for the reporting period:

in € million	Rental	Value-add Business	Sales	Other*	Group
Jan. 1–June 30, 2018					
Segment income	838.8	610.4	354.2	-60.6	1,742.8
thereof external income	838.8	88.3	354.2	461.5	1,742.8
thereof internal income		522.1		-522.1	
Carrying amount of assets sold			-321.2		
Revaluation from disposal of assets held for sale			26.7		
Expenses for maintenance	-131.6				
Operating expenses	-110.2	-558.7	-11.4	44.5	
Adjusted EBITDA	597.0	51.7	48.3	-16.1	680.9
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 BUWOG**					40.7
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**					-21.4
Financial income**					26.6
Financial expenses**					-200.9
EBT**					1,846.7
Income taxes**					-646.7
Profit for the period**					**1,200.0**

in € million	Rental	Value-add Business	Sales	Other*	Group
Jan. 1–June 30, 2018					
Segment income	838.8	610.4	354.2	-60.6	1,742.8
thereof in Germany	827.0	610.4	323.4	-155.1	1,605.7
thereof in Austria	10.7		5.4	94.4	110.5
thereof in other countries	1.1		25.4	0.1	26.6

* The income for the segments Rental, Value-add Business and Sales constitutes income that is regularly reported to the Management Board as the chief operating decision-maker. The income in the column “Other” results from the onward charging of ancillary costs and consolidation effects. These are not part of the regular reporting to the Management Board and have thus been presented in the “Other” column.

** All key figures only for Vonovia Group without BUWOG and Victoria Park except key figures including BUWOG marked with **. Reporting of the overall revenue of BUWOG under “Other,” adjustment of operating expenses in “Other” in the same amount to have no effect on adjusted EBITDA.

in € million	Rental	Value-add Business	Sales	Other*	Group
Jan. 1–June 30, 2017					
Segment income	833.2	483.8	701.9	-124.6	1,894.3
thereof external income	833.2	80.1	701.9	279.1	1,894.3
thereof internal income		403.7		-403.7	
Carrying amount of assets sold			-664.9		
Revaluation from disposal of assets held for sale			20.1		
Expenses for maintenance	-127.3				
Operating expenses	-132.4	-438.2	-12.8	113.1	
Adjusted EBITDA	573.5	45.6	44.3	-11.5	651.9
Non-recurring items					-46.3
Period adjustments from assets held for sale					32.9
Income from investments in other real estate companies					12.9
EBITDA IFRS					651.4
Net income from fair value adjustments of investment properties					1,164.7
Depreciation and amortization					-14.9
Income from other investments					-19.4
Financial income					43.7
Financial expenses					-172.9
EBT					1,652.6
Income taxes					-588.0
Profit for the period					**1,064.6**

in € million	Rental	Value-add Business	Sales	Other*	Group
Jan. 1–June 30, 2017					
Segment income	833.2	483.8	701.9	-124.6	1,894.3
thereof in Germany	809.4	483.8	462.8	-132.4	1,623.6
thereof in Austria	22.7		238.6	7.7	269.0
thereof in other countries	1.1		0.5	0.1	1.7

* The income for the segments Rental, Value-add Business and Sales constitutes income that is regularly reported to the Management Board as the chief operating decision-maker. The income in the column "Other" results from the onward charging of ancillary costs as well as consolidation effects. These are not part of the regular reporting to the Management Board and have thus been presented in the "Other" column.

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

in € million	Jan. 1– June 30, 2017	Jan. 1– June 30, 2018
Business model optimisation/ development of new fields of business	9.4	7.7
Acquisition costs incl. integration costs*	28.9	29.7
Refinancing and equity measures	0.9	-0.2
Severance payments/ pre-retirement part-time work arrangements	7.1	13.3
Total Non-Recurring Items**	**46.3**	**50.5**

* Including takeover costs and one-time expenses in connection with acquisitions, such as HR measures relating to the integration process.
** Vonovia Group original non-recurring items from BUWOG and Victoria Park. Includes acquisition and integration costs for BUWOG and Victoria Park that accrue to the Vonovia Group without BUWOG and Victoria Park.

22 Subsequent Events

In connection with the public takeover offer that Vonovia SE made to the shareholders of Victoria Park AB, 63.8% of the share capital and 58.7% of the voting rights (including two call options for 9.9% of the share capital and 12.3% of the voting rights) were tendered to Vonovia by the end of the original acceptance deadline of June 18, 2018. During the extended tender period until July 3, 2018, an additional 1.8% of the share capital and 2.0% of the voting rights were tendered to Vonovia, and shares amounting to 0.6% of the share capital and 0.3% of the voting rights were acquired on the market at up to the offer price. The offer for the shares tendered during the extended acceptance deadline was completed on July 11, 2018.

Based on the updated tap issuance master agreement dated March 14, 2018, with the supplement of June 22, 2018 (€ 20,000,000,000 debt issuance program), Vonovia issued a bond in the amount of € 500 million via its Dutch financing company on July 3, 2018 (trading date: June 26, 2018). The bond was issued at an issue price of 99.437%, with a coupon of 0.875% and a maturity of five years.

On July 20, 2018, Heubeck AG published the new Heubeck 2018 G mortality tables. These are based on the most recent statistics from the German Pension Insurance and the German Federal Statistics Office. They form the generally accepted legal basis for the accounting valuation of pension obligations in Germany, and thus also at Vonovia. The considered average life expectancy has again increased, although not as much as in the past. Adjustments are recognized in the consolidated financial statements of Vonovia as a revaluation of net debt in other comprehensive income.

On August 12, 2018, BUWOG announced that the appropriate cash settlement for the minority shareholders of BUWOG who are to be excluded as part of BUWOG's squeeze-out process had been set by the management boards of BUWOG and Vonovia at € 29.05 per share. The appropriateness of the cash settlement (among other things) is still subject to an audit by the court-appointed expert auditor. The ordinary General Meeting of BUWOG at which the transfer of the shares belonging to minority shareholders to the majority shareholders, among other things, will be decided on is expected to take place on October 2, 2018.

Bochum, Germany, August 24, 2018

Rolf Buch (CEO)	Klaus Freiberg (COO)
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, 2018 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, August 29, 2018

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, August 24, 2018

Rolf Buch (CEO)	Klaus Freiberg (COO)	Helene von Roeder (CFO)	Daniel Riedl (CDO)

Portfolio Information

Vonovia manages its own real estate portfolio with a fair value of € 41.7 billion as of June 30, 2018. The vast majority of our apartments are located in regions with positive economic and demographic development prospects.

Portfolio Structure

June 30, 2018	Fair value* (in € million)	Fair value* (in €/m²)	Residential units	Vacancy (in %)	In-place rent (in €/m²)
Strategic	34,396.3	1,565	343,309	2.6	6.42
Operate	12,976.2	1,546	126,039	2.6	6.54
Invest	21,420.1	1,577	217,270	2.6	6.35
Privatize	1,477.3	1,593	13,183	4.1	6.22
Sell	586.0	864	10,167	5.1	5.34
Vonovia Germany	**36,459.6**	**1,546**	**366,659**	**2.7**	**6.38**
Vonovia Austria	2,468.3	1,299	23,215	4.2	4.56
Vonovia Sweden	1,599.0	1,462	14,052	1.4	8.83

Breakdown of Strategic Housing Stock by Regional Market**

June 30, 2018	Fair value* (in € million)	Fair value* (in €/m²)	Residential units	Vacancy (in %)	In-place rent (in €/m²)
Regional market					
Berlin	6,327.9	2,183	44,010	1.9	6.46
Rhine Main Area	3,650.4	2,022	27,821	2.4	7.83
Rhineland	3,376.2	1,650	29,699	3.0	6.91
Southern Ruhr Area	3,124.4	1,140	43,836	3.4	5.76
Dresden	2,980.0	1,275	38,576	2.8	5.88
Hamburg	2,347.6	1,796	20,095	1.7	6.80
Munich	1,901.7	2,900	9,695	0.9	7.88
Stuttgart	1,825.9	1,989	14,116	1.9	7.65
Kiel	1,815.6	1,289	23,475	2.0	6.00
Hanover	1,510.9	1,448	16,261	2.8	6.31
Northern Ruhr Area	1,442.1	873	26,394	3.6	5.49
Bremen	1,036.1	1,365	12,090	3.5	5.54
Leipzig	808.5	1,303	9,166	5.1	5.85
Westphalia	723.2	1,164	9,475	2.5	5.77
Freiburg	554.1	1,984	4,044	1.7	7.12
Other strategic locations	2,347.7	1,359	26,648	2.8	6.40
Total strategic locations Germany	**35,772.3**	**1,567**	**355,401**	**2.7**	**6.41**
Austria	2,468.3	1,299	23,215	4.2	4.56
Sweden	1,599.0	1,462	14,052	1.4	8.83

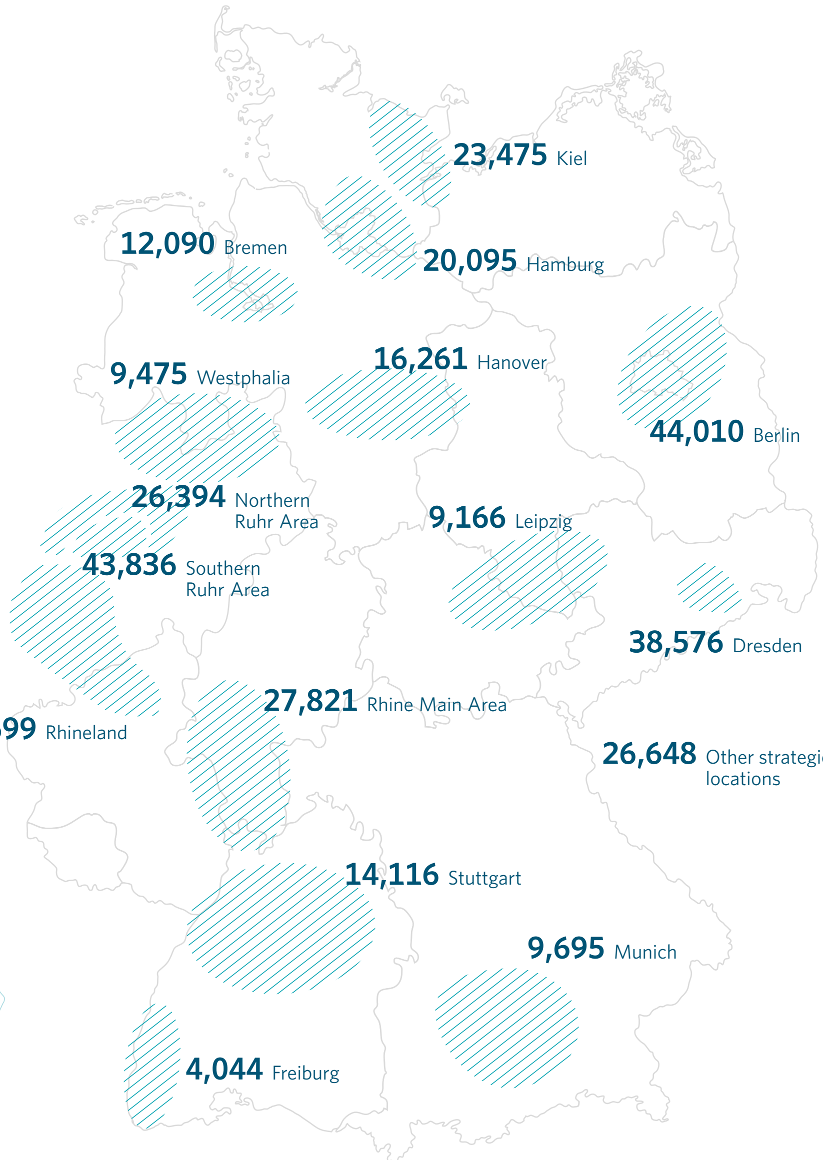
* Fair value of the developed land excluding € 1,205.4 million, of which € 461.7 million for development, € 329.4 million for undeveloped land, € 15.1 million for inheritable building rights granted, € 251.9 million for assets under constructions and € 147.3 million for other.

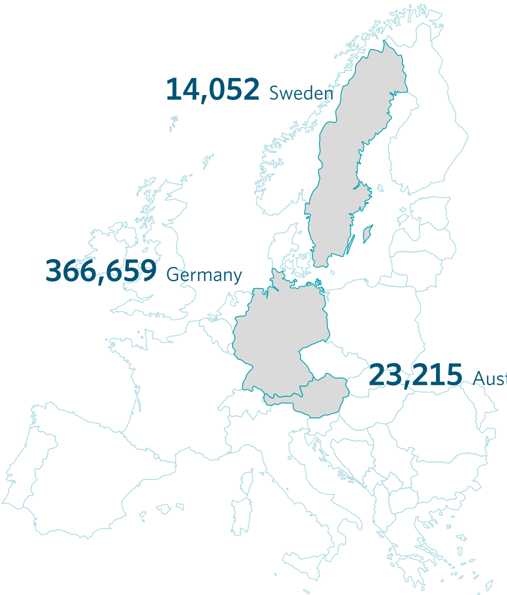
** With regard to the residential real estate market, regional markets are largely similar metropolitan areas based on the definition of the German Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). In addition to the strategic housing stock, they also include stocks for privatization in strategic locations.

Housing Stock by Regional Market

Number of Units

403,926





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Financial Calendar

August 31, 2018
Publication of the key figures for the first half of 2018

December 6, 2018
Publication of the key figures for the first nine months of 2018

Note

This Interim Financial Report is published in German and English. The German version is always the authoritative text. The Interim Financial Report can be found on the website at www.vonovia.de

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Disclaimer

This report 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 2017 Annual Report. We do not assume any obligation to update the forward-looking statements contained in this report. This financial report does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any securities of Vonovia SE.

Imprint

Published by: The Management Board of Vonovia SE

Concept and Realization: Berichtsmanufaktur GmbH, Hamburg

Translation: EnglishBusiness AG, Hamburg

As of August 2018

www.vonovia.de