

Earnings, Balance Sheet and Cash Flow Analysis

General information:

> Due to the harmonisation of the financial year with the calendar year as of 31 December 2016, the comparative data is based on the respective 12-month period in the 2016 calendar year (2016*). This information represents unaudited pro-forma data. A comparison with the eight-month period in 2016A would not be representative and would distort the entire picture. Additional details on the unaudited pro-forma financial information is presented in a separate section beginning on page 102.

INCOME STATEMENT

A condensed version of the consolidated income statement is presented below:

CONSOLIDATED INCOME STATEMENT

All amounts in TEUR	2017	2016 ¹	2016A
Rental income	234,494	233,366	156,696
Results of asset management	150,845	133,070	91,009
Results of property sales	25,985	-18,912	-2,811
Results of property development	-28,802	-6,505	-18,120
Other operating income	8,700	18,964	12,951
Other operating expenses	-49,165	-52,103	-32,093
Results of operations	107,563	74,514	50,936
Other revaluation results	4,066	-135,792	-13,196
Operating profit (EBIT)	111,629	-61,278	37,740
Financial results	88,777	-107,572	-45,209
Earnings before tax (EBT)	200,406	-168,850	-7,469
Net profit for the period from continuing operations	181,013	-147,427	26,858
Net profit or loss from discontinued operations	-718,097	-274,359	-208,818
Net profit or loss	-537,084	-421,786	-181,960

¹ 12-month comparable financial year, unaudited

Net profit from continuing operations (i.e. excluding Russia) returned to the profit zone with a significant improvement to EUR 181.0 million in 2017 (2016*: EUR -147.4 million). Rental income was slightly higher at EUR 234.5 million (2016*: EUR 233.4 million) despite the continuing sale of properties which do not fit in with the corporate strategy. The results of Asset Management rose by 13.4% to EUR 150.8 million. The results of property sales were substantially higher than the previous year at EUR 26.0 million (2016*: EUR -18.9 million*), while the results of property development amounted to EUR -28.8 million (2016*: EUR -6.5 million). In total, the results of operations increased by 44.4% to EUR 107.6 million (2016*: EUR 74.5 million).

Financial results turned substantially positive at EUR 88.8 million (2016*: EUR -107.6 million), above all due to positive valuation effects from the investments in CA Immo and BUWOG and a reduction in financing costs. Net profit from continuing operations improved significantly to EUR 181.0 million in 2017 (2016*: EUR -147.4 million) and represents earnings per share of EUR 0.17 (2016*: EUR -0.15).

The results of discontinued operations (Russia) were clearly negative, as expected, at EUR -718.1 million (2016*: EUR -274.4 million). They include – as reported in connection with Q3 data – the reclassification of accumulated historical currency translation differences of EUR -540.2 million to the income statement. This reclassification has no effect on cash and does not lead to a reduction in the Group's equity or the EPRA NAV. The results from the deconsolidation of the retail portfolio Moscow amounted to EUR -524.2 million. Group net profit for the 2017 financial year (including the results of discontinued operations) totalled EUR -537.1 million (2016*: EUR -421.8 million).

* 12-month comparable financial year, unaudited

Following is a detailed analysis of the income statement:

RESULTS OF ASSET MANAGEMENT

The results of asset management include rental income, other revenues, operating income and operating costs as well as the expenses directly attributable to investment property. Rental income rose slightly to EUR 234.5 million, compared with EUR 233.4 million in the unaudited 12-month period of 2016*. The decline in revenues resulting from the sale of non-strategic properties was offset by completions and new rentals. Rental income rose by 2.5% to EUR 113.3 million in the office sector and by 1.0% to EUR 103.5 million in the retail sector.

Revenues totalled EUR 324.4 million in 2017 (2016*: EUR 323.1 million). The results of asset management improved by a sound 13.4% to EUR 150.8 million (2016*: EUR 133.1 million). Property expenses were 14.9% lower than the previous year at EUR -95.0 million (2016*: EUR -111.5 million). This decline is attributable, above all, to a reduction in maintenance costs (EUR -28.9 million versus EUR -38.9 million), operating costs charged to building owners (EUR -13.0 million versus EUR -18.1 million*) and vacancy costs (EUR -12.1 million versus EUR -13.2 million).

RESULTS OF PROPERTY SALES

The results of property sales turned clearly positive at EUR 26.0 million (2016*: EUR -18.9 million), in particular based on a contribution of EUR 32.9 million (2016*: EUR 5.8 million) from deconsolidations. This contribution resulted almost entirely from the non-cash reclassification of accumulated historical currency translation differences to the income statement following the sale of a Ukrainian land-owning company. The revaluation of properties sold and held for sale (adjusted for and resulted from foreign exchange effects) amounted to EUR -4.8 million (2016*: EUR -10.5 million) and is a consequence, among others, of the portfolio optimisation in the Austrian retail sector.

RESULTS OF PROPERTY DEVELOPMENT

The results of property development cover the sale of real estate inventories as well as the valuation of development projects completed in 2017 or currently in progress. In spite of substantial positive valuation effects from the development projects in Germany (EUR 35.2 million) – above all *trivago*, *FLOAT* and the *Cluster Produktionstechnik* which was completed during the reporting year – the results of property development were negative at EUR -28.8 million (2016*: EUR -6.5 million). As reported in the second quarter of 2017, this loss was caused primarily by added costs for real estate inventories in the *Gerling Quartier* and by outstanding obligations related to the transfer, repair of deficiencies and completion of the Cologne properties. The *Gerling Quartier* has already been sold, and the transaction is expected to close in 2018.

RESULTS OF OPERATIONS

The results of operations rose significantly from EUR 74.5 million* in the comparable prior year period to EUR 107.6 million in 2017. Other operating expenses were reduced by 5.6% to EUR -49.2 million (2016*: EUR -52.1 million), among others due to a decline in legal, audit and consulting expenses.

REVALUATION, FINANCIAL RESULTS AND EBT

The foreign exchange-adjusted revaluation of investment property totalled EUR 6.5 million (2016*: EUR -109.8 million). Financial results turned clearly positive at EUR 88.8 million (2016*: EUR -107.6 million). The refinancing carried out in 2017 reduced financing costs by 13.8% to EUR -94.9 million (2016*: EUR -110.0 million). Key measures included the interest savings from the incentivised conversion of 43.4% of the convertible bond 2018 at the beginning of the year (coupon: 4.25%) and the issue of the new convertible bond 2024 (coupon: 2.0%) as well as refinancing at the property level. The 5.25%, EUR 100 million corporate bond was also redeemed during the past year.

Financial results include foreign exchange effects of EUR -8.4 million (2016*: EUR 0.6 million), which resulted primarily from subsidiaries whose functional currency is not the Euro. Other financial results of EUR -12.1 million (2016*: EUR 13.1 million) are attributable chiefly to the valuation of derivatives at EUR 8.2 million and to the earnings effect from the incentivised conversions of the convertible bond 2018 at EUR -37.7 million. Positive contributions to earnings were made by a revaluation of EUR 11.3 million to the remaining BUWOG shares and a revaluation of EUR 2.9 million to shares in real estate funds.

The share of profit/loss from equity-accounted investments rose substantially to EUR 200.0 million (2016*: EUR -19.8 million) and comprises the following: EUR 61.5 million from the proportional share of earnings from CA Immo and EUR 91.9 million from an increase in the value of the CA Immo shares as well as a profit of EUR 18.1 million on the sale of 4.5 million BUWOG shares and EUR 25.8 million from the market-based valuation of the remaining BUWOG shares following the termination of equity accounting. The book price of the CA Immo share equalled EUR 26.55 as of 31 December 2017 (31 December 2016: EUR 21.02). All of the remaining BUWOG shares were tendered to the German Vonovia after the end of the reporting year in connection with the takeover offer.

Earnings before tax (EBT) improved significantly to EUR 200.4 million (2016*: EUR -168.9 million). Income tax expense totalled EUR -19.4 million for the 2017 financial year (2016*: EUR 21.4 million).

RESULTS OF DISCONTINUED OPERATIONS (RUSSIA)

The results of discontinued operations totalled EUR -718.1 million (2016*: EUR -274.4 million) and resulted primarily from the reclassification of accumulated historical currency translation differences of EUR -540.2 million to the income statement. These differences were recorded directly in equity through other comprehensive income (OCI) in previous years in accordance with IAS 21. The reclassification has no effect on cash and does not lead to a reduction in the Group's equity or the EPRA NAV. The negative currency translation differences resulted from IMMOFINANZ's entry into the Russian market at a time, based on the current EUR/RUB exchange rate, when the Ruble was much stronger. Also included here is a negative valuation effect of EUR -160.6 million which resulted from the sale of the retail portfolio Moscow to the FORT Group.

The purchase agreement with the FORT Group was signed on 13 November 2017, and the transaction closed on 6 December 2017. As previously announced, the purchase price of up to RUB 15.0 billion for the net assets includes three components: a cash purchase price of RUB 5.0 billion (converted: approximately EUR 72.0 million) which has already been paid, a guaranteed payment in January 2022 of RUB 1.0 billion (converted at a fixed EUR/RUB exchange rate of 68.9655: EUR 14.5 million with a present value of EUR 9.4 million on the closing date) and an earn-out of up to RUB 9.0 billion which is based on revenues in 2012 but is payable in 2022 and has not yet been recognised by IMMOFINANZ. IMMOFINANZ can also participate with up to RUB 0.8 billion in the possible realisation of contingent receivables from tax refund proceedings which are currently in progress. Details on the transaction are provided in section 2.4 to the *consolidated financial statements*.

NET PROFIT

The net profit from continuing operations improved substantially to EUR 181.0 million (2016*: EUR -147.4 million) and represents earnings per share of EUR 0.17 (2016*: EUR -0.15). Total net profit (including the results of discontinued operations) amounted to EUR -537.1 million (2016*: EUR -421.8 million) and represents earnings per share of EUR -0.51 (2016*: EUR -0.43).

BALANCE SHEET

The condensed balance sheet is shown below:

CONSOLIDATED BALANCE SHEET

All amounts in TEUR	31 December 2017	in %	31 December 2016	in %
Investment property	3,729,519		3,531,379	
Property under construction	404,064	73.6%	379,036	80.0%
Real estate inventories	61,221		93,100	
Assets held for sale	265,148		1,602,428	
Other tangible assets	1,719	0.0%	2,243	0.0%
Intangible assets	25,056	0.4%	25,955	0.4%
Equity-accounted investments	685,984	11.3%	739,254	10.6%
Trade and other receivables	365,137	6.0%	414,190	5.9%
Other financial assets	32,015	0.5%	10,493	0.1%
Deferred tax assets	5,291	0.1%	4,385	0.1%
Income tax receivables	9,621	0.2%	11,626	0.2%
Cash and cash equivalents	477,889	7.9%	189,287	2.7%
Assets	6,062,664	100.0%	7,003,376	100.0%
Equity	2,808,043	46.3%	2,650,616	37.8%
Liabilities from convertible bonds	313,217	5.2%	530,265	7.6%
Financial liabilities	2,306,418	38.0%	2,114,794	30.2%
Trade and other payables	242,656	4.0%	270,168	3.9%
Income tax liabilities	5,704	0.1%	12,973	0.2%
Provisions	58,853	1.0%	50,773	0.7%
Deferred tax liabilities	325,112	5.4%	312,414	4.5%
Financial liabilities held for sale	2,661	0.0%	1,061,373	15.2%
Equity and Liabilities	6,062,664	100.0%	7,003,376	100.0%

Assets totalled EUR 6.1 billion as of 31 December 2017 (31 December 2016: EUR 7.0 billion) and comprise non-current assets of EUR 5.0 billion and current assets of EUR 1.1 billion.

The value of the property portfolio amounted to EUR 4.5 billion and represented 73.6% of total assets as of 31 December 2017. These properties are reported on the balance sheet under the following positions: investment property, property under construction, real estate inventories and non-current assets held for sale. Non-current assets held for sale include properties as well as other assets which will be transferred to the buyer in the event of a sale.

The additions to investment property include, above all, the acquisition of nine retail parks in Slovakia, Hungary and Romania. The additions to property under construction are related, above all, to the *trivago Campus*, *FLOAT* and *Cluster Produktionstechnik* development projects in Germany and to the *VIVO! Krosno* in Poland.

The investments accounted for at equity declined from EUR 739.3 million to EUR 686.0 million. This reduction resulted from the sale of approximately 4.5 million BUWOG shares and from the recognition and measurement of the remaining BUWOG shares under other financial assets. For the investment in the CA Immo Group, proportional results of EUR 61.5 million were recorded together with an increase in value of EUR 91.9 million.

Cash and cash equivalents rose from EUR 189.3 million as of 31 December 2016 to EUR 477.9 million as of 31 December 2017 (excluding cash and cash equivalents held for sale). This increase reflected, among others, the multi-stage refinancing transaction in January which included the sale of BUWOG shares as well as the issue of a new convertible bond with a term ending in 2024 (details are provided under *Financing* on page 66). Other contributing factors were the refinancing of properties and the sale of properties which do not fit in with the corporate strategy.

Equity totalled EUR 2.8 billion as of 31 December 2017 (31 December 2016: EUR 2.7 billion) and was increased, among others, by the issue of new shares for the conversion of the convertible bonds 2018 and 2017. Equity was reduced, among others, by the dividend payment, the share buyback and the negative net profit recorded for the reporting year.

Liabilities totalled EUR 3.3 billion as of 31 December 2017 (31 December 2016: EUR 4.4 billion). The non-current component equalled EUR 2.5 billion and the current component EUR 0.8 billion. This decline resulted primarily from the sale of non-strategic properties – and here, above all, from the sale of the retail portfolio Moscow.

The equity ratio equalled 46.3% as of 31 December 2017 (31 December 2016: 37.8%).

CASH FLOW STATEMENT

The condensed cash flow statement is presented below:

CONSOLIDATED CASH FLOW STATEMENT

All amounts in TEUR	2017	2016 ¹	2016A
Gross cash flow after tax	110,868	77,550	63,093
Cash flow from operating activities	84,821	78,338	98,347
Cash flow from investing activities	196,158	334,906	-120,234
Cash flow from financing activities	-6,466	-504,112	-154,723

¹ 12-month comparable financial year, unaudited

Gross cash flow after tax amounted to EUR 110.9 million for the reporting year (2016*: EUR 77.6 million. Cash flow from operating activities increased from EUR 78.3 million to EUR 84.8 million.

FUNDS FROM OPERATIONS 1 & 2 (FFO 1 & 2)

AMOUNTS IN TEUR	2017	2016 ¹	Change absolute	Change in %
Gross cash flow before tax from continuing operations	99,540	71,485	28,055	39.2%
Dividends received from equity-accounted investments	1,666	9,151	-7,485	-81.8%
Interest and dividends received from financial instruments	2,099	4,623	-2,524	-54.6%
Interest paid	-69,177	-77,071	7,894	10.2%
Derivatives ²	-10,404	-11,328	924	8.2%
Adjustments for costs from property transactions and development projects included in gross cash flow	18,213	43,773	-25,560	-58.4%
Economic interest in FFO I of the CA Immo Group ³	29,431	12,611	16,820	≥ +100.0%
FFO 1 before tax (sustainable FFO from asset management)	71,368	53,244	18,124	34.0%
Results of property sales ⁴	25,985	-18,912	44,897	n.a.
FFO 2 (incl. results of property sales) before tax	97,353	34,332	63,021	≥ +100.0%
Cash taxes	-25,096	-39,359	14,263	36.2%
FFO 2 after tax	72,257	-5,027	77,284	n.a.
Number of shares (as per EPS calculation)	1,051,837,608	995,797,451	56,040,156	5.6%
FFO 2 per share (after tax)	0.07	-0.01	0.08	n.a.

In order to present the sustainable FFO from the standing investments, the results of property sales and property development were deducted.

¹ 12-month comparable financial year, unaudited

² Excluding non-recurring effects from premature termination following the sale or refinancing of properties

³ The economic interest in the CA Immo Group is based on the investment held by IMMOFINANZ in relation to the number of CA Immo shares outstanding – similar to the recognition of the net profit or loss from equity-accounted investments.

⁴ The results from property sales represent the comparable income statement position and include non-cash components and foreign exchange effects.

EPRA INDICATORS

NET ASSET VALUE (NAV) AND TRIPLE NET ASSET VALUE (NNNAV)

Net asset value (NAV) is calculated in accordance with the Best Practices Recommendations issued by the European Public Real Estate Association (EPRA). The EPRA NAV concept is used to present the fair value of equity on a long-term basis in order to give investors an overview of a company's sustainable asset position. The calculation of EPRA NAV also includes the undisclosed reserves in real estate inventories as well as the (negative) fair value of derivative financial instruments. Undisclosed reserves are not included in carrying amounts in accordance with IFRS accounting rules, while the (negative) fair values of derivative financial instruments regularly serve as a means of hedging long-term financing so these gains or losses will remain hypothetical as of the balance sheet date. The deferred taxes on these items are included. In accordance with the EPRA NAV concept, the calculation should include the deferred taxes that would be realised on the sale of property. Goodwill, which arises as a technical figure due to the recognition of deferred taxes on business combinations, is deducted.

Triple net asset value (NNNAV) is also calculated in accordance with the EPRA's Best Practices Recommendations. The calculation of EPRA NNNAV involves an adjustment to reverse the (negative) fair value of derivative financial instruments from the NAV calculation. In addition, financial liabilities are restated at their fair value. This calculation also includes the deduction of the deferred taxes expected from the sale of properties. Asset deals generally result in the full realisation of deferred taxes, while the assumption for sales through share deals is that IMMOFINANZ will (economically) bear 50% of the deferred tax liabilities.

The EPRA NNNAV calculation also includes the deferred taxes from the adjustments to derivative financial instruments and from the fair value measurement of financial liabilities. The objective is to give investors an overview of the current value of all assets and liabilities.

The calculation of EPRA NAV and EPRA NNNAV as of 31 December 2017 includes diluting effects which could result from potential conversions of the IMMOFINANZ convertible bond 2018. These effects were included for the first time as of 30 June 2017 because the convertible bond 2018 was "in the money" as of 30 June and 31 December and rational investors would therefore be expected to convert their bonds.

The number of shares underlying the calculation of the EPRA NAV per share and EPRA NNNAV per share rose by 16.6% to 1,126,066,583 as of 31 December 2017.

The results of the NAV and NNNAV calculations are shown below:

EPRA NET ASSET VALUE (NAV)

	31 December 2017		31 December 2016	
	in TEUR	in EUR per share	in TEUR	in EUR per share
Equity excl. non-controlling interests	2,821,521		2,660,300	
Diluting effects of convertible bonds 2018	19,121		0	
Diluted equity excl. non-controlling interests after an adjustment for convertible bonds and the exercise of options	2,840,642		2,660,300	
Undisclosed reserves in the investment in the CA Immo Group	123,993			
Undisclosed reserves in real estate inventories	74		336	
Fair value of derivative financial instruments	7,375		30,455	
Deferred taxes on investment property	274,977		421,067	
Deferred taxes on real estate inventories and derivative financial instruments	-1,643		-7,032	
Goodwill excl. deferred taxes	-24,848		-90,935	
Number of shares excl. treasury shares (in 1,000)		1,116,174		965,956
Potential shares (in 1,000)		9,893		
EPRA NAV	3,220,570	2.86	3,014,190	3.12
Fair value of derivative financial instruments	-7,375		-30,455	
Effect of fair value measurement of financial liabilities	5,737		-38,757	
Deferred taxes on derivative financial instruments and the fair value measurement of financial liabilities	197		16,476	
Deferred taxes on investment property	-17,495		-93,596	
EPRA NNNAV	3,201,634	2.84	2,867,859	2.97

The EPRA net asset value rose by 6.8% to EUR 3.2 billion. The EPRA NAV per share declined to EUR 2.86 (31 December 2016: EUR 3.12), whereby the change resulted primarily from the higher number of underlying shares and the negative valuation effect from the sale of the retail portfolio Moscow. The EPRA triple net asset value rose by 11.6% to EUR 3.2 billion, and the triple NAV per share equalled EUR 2.84 as of 31 December 2017 (31 December 2016: EUR 2.97).

EPRA EARNINGS PER SHARE

The calculation of EPRA earnings per share as of 31 December 2017 and 31 December 2016 was based on the weighted average number of shares outstanding and included the new shares issued for the IMMOEAST settlement. In accordance with IAS 33, the settlement led to the retroactive adjustment of earnings per share for the unaudited 12-month period in 2016. The weighted average number of shares was multiplied by a factor of 1.029 in each case. This factor reflects the ratio of the number of shares outstanding after (1,052,525,375 shares) and before (1,022,540,069 shares) the payment of the settlement.

All amounts in TEUR	2017	2016¹
Weighted average number of shares (in 1,000)	1,051,838	995,797
Net profit or loss from continuing operations excl. non-controlling interests	183,484	-151,426
Revaluation of investment properties and development properties	-33,329	75,327
Results of property sales	-25,983	18,911
Goodwill impairment, negative differences and earn-out effects on income	867	25,909
Changes in fair value of financial instruments	-24,305	-14,580
Acquisition costs on share deals	0	197
Taxes in respect of EPRA adjustments	7,755	-12,303
EPRA adjustment in respect of joint ventures and non-controlling interests	3,482	3,469
EPRA earnings	111,971	-54,496
EPRA earnings per share	0.11	-0.05
Company specific adjustments		
Increase in provision for legal proceedings related to lawsuits by investors	0	-72
Result from termination of equity accounting of BUWOG AG	-25,841	0
Result from incentivised conversion of the convertible bond 2018	37,661	0
Foreign exchange gains and losses	8,447	-653
Impairment loss/reversal CA IMMO Group	-91,850	91,850
Deferred tax in respect of the company specific adjustments	-4,864	1,012
Company-specific adjusted earnings	35,524	37,642
EPRA earnings per share after company-specific adjustments	0.03	0.04

1 12-month comparable financial year, unaudited

The EPRA earnings per share equalled EUR 0.11 in 2017, respectively EUR 0.03 per share after company-specific adjustments.

EPRA NET INITIAL YIELD

All amounts in TEUR	2017	2016¹
Investment property	3,862,140	4,894,556
Investment property – proportional share of joint ventures	46,268	49,067
Less undeveloped land	-182,924	-193,105
Less Russian portfolio	0	-1,024,050
Less undeveloped land – proportional share of joint ventures	-1,283	-1,927
Total property portfolio	3,724,201	3,724,541
Allowance for estimated purchasers' costs	67,036	67,042
Gross value of total property portfolio	3,791,237	3,791,582
Annualised cash rental income	241,031	234,707
Annualised cash rental income – proportional share of joint ventures	1,815	1,661
Non-recoverable property operating expenses	-42,037	-41,350
Non-recoverable property operating expenses – proportional share of joint ventures	-55	-136
Annualised net rental income	200,755	194,882
EPRA NIY	5.30%	5.14%

1 12-month comparable financial year, unaudited

The EPRA net initial yield rose from 5.1% in the unaudited 12-month prior period to 5.3% in 2017.