

Business Development

IMMOFINANZ significantly strengthened its earning power during the 2018 financial year: Results of operations rose by 42.3% to EUR 153.1 million (2017: EUR 107.6 million), and sustainable FFO 1 (before tax) from the standing investment business more than doubled to EUR 85.0 million (2017: EUR 36.9 million). Net profit turned positive with a significant increase to EUR 217.5 million, following a previous year that was negatively influenced, above all, by the sale of the Russian portfolio (2017: EUR -537.1 million).

INCOME STATEMENT

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

All amounts in TEUR	2018	2017 ¹
Rental income	236,905	234,494
Results of asset management	174,047	150,845
Results of property sales	27,201	25,985
Results of property development	-4,332	-28,802
Other operating income	6,140	8,700
Other operating expenses	-49,949	-49,165
Results of operations	153,107	107,563
Revaluation result from standing investments and goodwill	5,955	4,066
Operating profit (EBIT)	159,062	111,629
Financial results	45,275	88,777
Earnings before tax (EBT)	204,337	200,406
Net profit for the period from continuing operations	218,332	181,013
Net profit or loss from discontinued operations	-785	-718,097
Net profit or loss	217,547	-537,084

¹ The comparative data were adjusted.

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 by 1.0% to EUR 236.9 million in 2018 (2017: EUR 234.5 million). The decline in rental income from the sale of properties which do not fit in with the corporate strategy was offset by completions and acquisitions as well as higher like-for-like rental income. At EUR 61.2 million, rental income in Q4 2018 exceeded the preceding quarters.

Property expenses were 22.8% lower year-on-year at EUR -64.0 million (2017: EUR -82.9 million). This reduction was supported, in particular, by a decline in fit-out costs (EUR -2.5 million versus EUR -9.9 million) and maintenance expenses (EUR -24.0 million versus EUR -28.9 million). Vacancy costs, which were reclassified to operating expenses, dropped to EUR -8.5 million (2017: EUR -12.1 million).

In total, the increase in rental income and decline in property expenses led to an improvement of 15.4% in the results of asset management to EUR 174.0 million (2017: EUR 150.8 million).

RESULTS OF PROPERTY SALES AND PROPERTY DEVELOPMENT

The results of property sales rose by 4.7% year-on-year to EUR 27.2 million (2017: EUR 26.0 million), whereby the increase resulted chiefly from the reclassification of foreign exchange differences. The results of property development improved to EUR -4.3 million (2017: EUR -28.8 million), but were negatively influenced by impairment losses and expenses from real estate inventories related to the transfer of commercial and residential properties in Cologne. The sale of the Cologne hotel leased to 25hours and further units was, however, finalised in January 2019. The remaining assets held for sale and real estate inventories in Cologne (EUR 1.5 million) are expected to be transferred during the first half of 2019.

RESULTS OF OPERATIONS

The results of operations improved by 42.3% to EUR 153.1 million (2017: EUR 107.6 million). Other operating expenses generally reflected the previous year at EUR -49.9 million in 2018 (2017: EUR -49.2 million) and – as reported in Q1 2018 – also included the payment of a one-time special bonus of EUR -4.0 million to the

Executive Board for the successful restructuring of the Group. Other non-recurring effects of approximately EUR -8.6 million involved one-off expenses and special projects related to the simplification of the corporate structure and preparations for the receipt of an investment grade rating and the issue of a benchmark bond. After an adjustment for the special bonus, personnel expenses were 10.5% lower year-on-year at EUR -30.2 million (2017: EUR -33.7 million).

REVALUATION

Results from the revaluation of investment property and goodwill increased to EUR 6.0 million (2017: EUR 4.1 million).

The total revaluation results recorded by IMMOFINANZ in 2018 amounted to EUR 24.9 million (2017: EUR 28.5 million). Positive effects were provided, among others, by an increase in the value of the *trivago Campus* and *FLOAT* development projects in Germany, whereby the *trivago Campus* was reclassified to investment property as of 30 June 2018.

FINANCIAL RESULTS AND TAXES

Financing costs declined substantially, as expected, by 27.9% to EUR -68.4 million as a result of the extensive refinancing measures carried out in 2017 and further optimisation in 2018 (2017: EUR -94.8 million). Other financial results improved to EUR -2.5 million, whereby the previous year (EUR -12.1 million) was negatively influenced, above all, by the valuation of derivatives and the earnings effect from the incentivised conversion of the convertible bond 2018.

The share of profit/loss from equity-accounted investments amounted to EUR 108.2 million (2017: EUR 200.0 million). Included here are a book gain of EUR 66.1 million on the sale of the CA Immo shares, EUR 24.0 million for the proportional share of CA Immo earnings for the first half of 2018 and EUR 11.2 million from the S IMMO investment (EUR 36.1 million for the proportional share of Q4 2018 earnings and an impairment loss of EUR -25.1 million which was recognised as of 30 September 2018). The S IMMO investment had a book value of EUR 391.9 million, or EUR 20.1 per share, as of 31 December 2018. In 2017, the share of profit/loss from equity-accounted investments was influenced by the very positive development of the CA Immo and BUWOG share prices. Financial results for the 2018 financial year totalled EUR 45.3 million (2017: EUR 88.8 million).

Earnings before tax (EBT) increased by 2.0% to EUR 204.3 million (2017: EUR 200.4 million). Income tax totalled EUR 14.0 million (2017: EUR -19.4 million), whereby deferred taxes were the largest component at EUR 37.6 million. The finalisation of the *Gerling Quartier* included the initial recognition of deferred tax assets.

NET PROFIT

Net profit from continuing operations rose by 20.6% to EUR 218.3 million (2017: EUR 181.0 million). Total net profit for the Group improved significantly to EUR 217.5 million, following the negative effects from the sale of the retail portfolio in Russia during the previous year (2017: EUR -537.1 million). Basic earnings per share equalled EUR 1.97 (2017: EUR -5.08) and diluted earnings per share EUR 1.80 (2017: EUR -5.08).

FUNDS FROM OPERATIONS (FFO)

The development of sustainable funds from operations, an important profitability indicator for the real estate branch, underscores IMMOFINANZ's stronger earning power. FFO 1 (before tax) from the standing investment business more than doubled to EUR 85.0 million in 2018 (2017: EUR 36.9 million) and FFO 1 per share (before tax) increased by 120% to EUR 0.77. FFO 1 does not include the dividend or the economic interest in CA Immo or S IMMO. Including the dividend payment of EUR 20.6 million from CA Immo in 2018, FFO 1 would equal EUR 105.6 million or EUR 0.96 per share.

FUNDS FROM OPERATIONS (FFO)

All amounts in TEUR	P&L 2018	Adjustments	FFO 2018	FFO 2017 (adjusted)
Results of asset management	174,047	328	174,375	151,287
Results of property sales	27,201	-27,201		
Results of property development	-4,332	4,332		
Other operating income	6,140	-621	5,519	5,354
Other operating expenses	-49,949	12,625	-37,324	-43,910
Results of operations	153,107	-10,537	142,570	112,730
Other revaluation results	5,955	-5,955		
Operating profit (EBIT)	159,062	-16,492	142,570	112,730
Financing costs	-68,374			
Financing income	7,941			
Foreign exchange differences	95			
Other financial results	-2,548			
Net profit or loss from equity-accounted investments	108,161			
Financial results	45,275	-102,811	-57,536	-75,862
Earnings before tax (EBT) / FFO 1 before tax (excl. CA Immo / S IMMO)	204,337	-119,303	85,034	36,868
Dividends received from CA Immo (2017 incl. BUWOG)			20,552	17,177
FFO 1 before tax adjusted			105,586	54,045
Number of shares (according to EPS calculation)			110,243,185	105,183,761
FFO 1 per share before tax			0.77	0.35
FFO 1 per share before tax adjusted			0.96	0.51

Other operating expenses were adjusted for non-recurring effects which included the special bonus granted to the Executive Board in Q1 for the restructuring of the Group as well as costs related to the simplification of the corporate structure and preparations for the receipt of an investment grade rating and the issue of a benchmark bond. The adjustments to financial results involve, above all, the contributions from CA Immo and S IMMO which are included under the net profit or loss from equity-accounted investments.

BALANCE SHEET

The condensed balance sheet is shown below:

All amounts in TEUR	31 Dec. 2018	in %	31 Dec. 2017	in %
Investment property	3,893,568		3,729,519	
Property under construction	397,540	75.3%	404,064	73.6%
Real estate inventories	46,932		61,221	
Assets held for sale	57,162		265,148	
Other assets	107,413	1.8%	73,702	1.2%
Equity-accounted investments	397,671	6.8%	685,984	11.3%
Trade and other receivables	305,628	5.2%	365,137	6.0%
Cash and cash equivalents	631,754	10.8%	477,889	7.9%
Assets	5,837,668	100.0%	6,062,664	100.0%
Equity	2,800,341	48.0%	2,808,043	46.3%
Liabilities from convertible bonds	284,638	4.9%	313,217	5.2%
Financial liabilities	2,140,884	36.7%	2,306,418	38.0%
Trade and other payables	199,025	3.4%	242,656	4.0%
Other liabilities	74,050	1.3%	67,218	1.1%
Deferred tax liabilities	338,730	5.8%	325,112	5.4%
Equity and liabilities	5,837,668	100.0%	6,062,664	100.0%

The value of the property portfolio amounted to EUR 4.4 billion and represented 75.3% of total assets as of 31 December 2018. 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. Of the properties classified as held for sale as of 31 December 2017, 12 office properties and three retail properties were sold during 2018. These transactions reduced the balance of held-for-sale properties to EUR 57.2 million as of 31 December 2018.

The balance of equity-accounted investments declined during the reporting year following the sale of the CA Immo investment, which closed during the third quarter. The investment of 29.14% in S IMMO is carried at EUR 391.9 million (for details see note 4.4 and 5.8 in the *consolidated financial statements*).

The following properties were transferred from property under construction to investment property during the reporting period: the *trivago Campus* and *Parkhaus Cluster Produktionstechnik* in Germany, two STOP SHOP retail parks in Serbia and the expansion of a Polish VIVO! shopping center.

Financial liabilities declined by 7.2% during the reporting year to EUR 2.1 billion as of 31 December 2018. This is a result, among others, of the repayment of EUR 250.0 million in credit financing related to the CA Immo investment and the repayment of financing for sold properties. New borrowings included external financing of EUR 140.0 million for the purchase of the shares in S IMMO, which was repaid in Q1 2019.

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

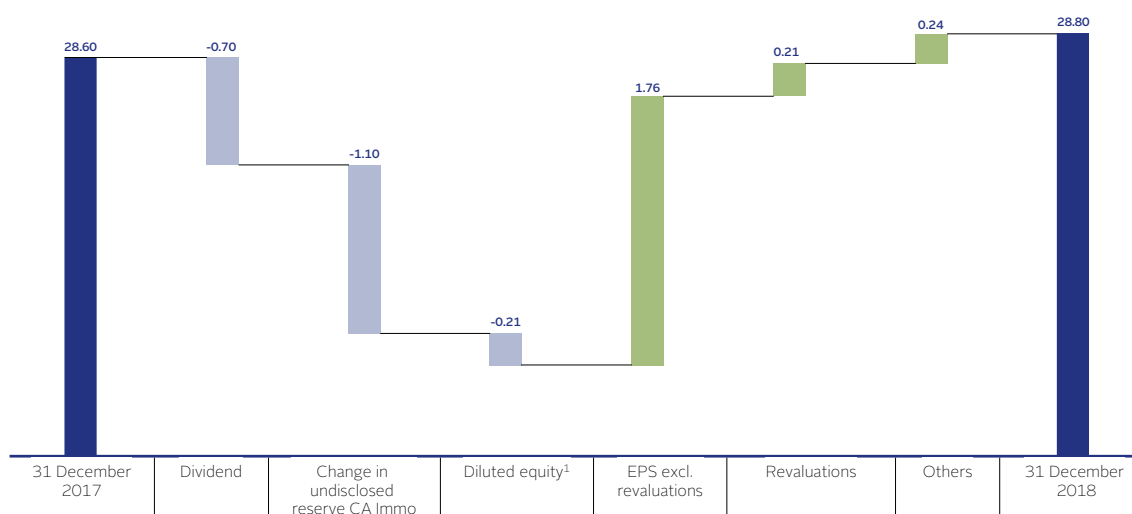
	30 December 2018		31 December 2017	
	in TEUR	in EUR per share	in TEUR	in EUR per share
Equity excl. non-controlling interests	2,816,934		2,821,521	
Diluting effects of convertible bonds	0		19,121	
Diluted equity excl. non-controlling interests after an adjustment for convertible bonds and the exercise of options	2,816,934		2,840,642	
Undisclosed reserves in the investments	0		123,993	
Undisclosed reserves in real estate inventories	202		74	
Fair value of derivative financial instruments	12,515		7,375	
Deferred taxes on investment property	283,502		274,977	
Deferred taxes on real estate inventories and derivative financial instruments	-2,641		-1,643	
Goodwill resulting from deferred taxes	-24,507		-24,848	
Number of shares excl. treasury shares (in 1,000)		107,143		111,617
Potential shares (in 1,000)		0		989
EPRA NAV	3,086,005	28.80	3,220,570	28.60
Fair value of derivative financial instruments	-12,515		-7,375	
Effect of fair value measurement of financial liabilities	-15,499		5,737	
Deferred taxes on derivative financial instruments and the fair value measurement of financial liabilities	6,485		197	
Deferred taxes on investment property	-16,793		-17,495	
EPRA NNNAV	3,047,683	28.44	3,201,634	28.43

The EPRA NAV totalled EUR 3,086.0 million as of 31 December 2018. The EPRA NAV per share equalled EUR 28.80 after the distribution of a EUR 0.70 dividend in May 2018 (31 December 2017: EUR 28.60). The EPRA NNNAV per share equalled EUR 28.44 (31 December 2017: EUR 28.43).

The EPRA NAV and EPRA NNNAV calculations as of 31 December 2018 did not include any potential diluting effects from the conversion of the IMMOFINANZ convertible bond 2024 because the bond was not "in the money" as of that date.

The book value per share rose to EUR 26.29 as of 31 December 2018 (31 December 2017: EUR 25.28).

EPRA NAV BRIDGE



1 Through a diluting effect on the number of shares from conversions of the convertible bond 2018

EPRA EARNINGS PER SHARE

All amounts in TEUR	2018	2017 ¹
Weighted average number of shares (in 1,000)	110,243	105,184
Net profit or loss from continuing operations excl. non-controlling interests	218,046	183,484
Revaluation of investment properties and development properties	-23,337	-33,329
Results of property sales	-27,203	-25,983
Goodwill impairment, negative differences and earn-out effects on income	100	867
Changes in fair value of financial instruments	3,845	-24,305
Acquisition costs on share deals	22	0
Taxes in respect of EPRA adjustments	4,994	7,755
EPRA adjustment in respect of joint ventures and non-controlling interests	-5,633	3,482
EPRA earnings	170,834	111,971
EPRA earnings per share	1.55	1.06
Company-specific adjustments		
Result from termination of equity accounting of BUWOG AG	0	-25,841
Impairment loss/reversal CA IMMO Group	0	-91,850
Sale CA Immo	-66,067	0
Result from incentivised conversion of the convertible bond 2018	19	37,661
One-time effects in other operating expenses	12,207	0
Impairment loss S IMMO	25,129	0
Foreign exchange gains and losses	-95	8,447
Deferred taxes in respect of company-specific adjustments	7,238	-4,864
Company-specific adjusted earnings	149,264	35,524
EPRA earnings per share after company-specific adjustments	1.35	0.34

¹ The comparative data were adjusted.

EPRA earnings per share equalled EUR 1.55, respectively EUR 1.35 per share after company-specific adjustments.

EPRA NET INITIAL YIELD

All amounts in TEUR	2018	2017
Investment property	3,924,486	3,862,140
Investment property – proportional share of joint ventures	54,508	46,268
Less undeveloped land	-180,507	-182,924
Less undeveloped land – proportional share of joint ventures	-1,690	-1,283
Total property portfolio	3,796,797	3,724,201
Allowance for estimated purchasers' costs	72,139	67,036
Gross value of total property portfolio	3,868,936	3,791,237
Annualised cash rental income	248,734	241,031
Annualised cash rental income – proportional share of joint ventures	1,992	1,815
Non-recoverable property operating expenses	-34,628	-42,037
Non-recoverable property operating expenses – proportional share of joint ventures	-92	-55
Annualised net rental income	216,005	200,755
EPRA net initial yield	5.6%	5.3%

The EPRA net initial yield increased from 5.3% in the previous year to 5.6%.