

Business Development

IMMOFINANZ significantly strengthened its earning power in the first three quarters of 2018: The results of operations more than doubled to EUR 149.7 million (Q1-3 2017: EUR 66.2 million), sustainable FFO 1 from the standing investment business rose by 100.0% to EUR 63.0 million or EUR 0.57 per share and net profit turned positive with a significant increase to EUR 135.0 million (Q1-3 2017: EUR -59.1 million).

INCOME STATEMENT

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

All amounts in TEUR	Q1-3 2018	Q1-3 2017
Rental income	175,667	174,059
Results of asset management	134,534	122,584
Results of property sales	28,118	2,683
Results of property development	23,748	-26,146
Other operating income	4,306	6,990
Other operating expenses	-41,018	-39,919
Results of operations	149,688	66,192
Other revaluation results	425	-836
Operating profit (EBIT)	150,113	65,356
Financial results	32,328	88,618
Earnings before tax (EBT)	182,441	153,974
Net profit for the period from continuing operations	135,775	116,273
Net profit or loss from discontinued operations	-771	-175,401
Net profit or loss	135,004	-59,128

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 0.9% to EUR 175.7 million in the first three quarters of 2018 (Q1-3 2017: EUR 174.1 million). Rental income amounted to EUR 56.7 million in Q3 2018 and was lower than the comparable prior year value (EUR 59.2 million) and previous quarters due to the sale of properties (among others, office properties in Cologne).

Property expenses were 20.4% lower year-on-year at EUR -47.9 million (Q1-3 2017: EUR -60.2 million). This decline resulted primarily from a reduction in the costs for fit-outs (EUR -1.2 million versus EUR -8.2 million) and vacancies (EUR -6.6 million versus EUR -8.9 million). Maintenance costs totalled EUR -16.3 million in Q1-3 2018 (including EUR -8.5 million in Q3) and were slightly higher than the prior year level of EUR -16.0 million. This reflects the increase expected in the second half of 2018 compared with the first half-year. The growth in rental income combined with the reduction in property expenses led to an increase of 9.7% in the results of asset management to EUR 134.5 million (Q1-3 2017: EUR 122.6 million).

RESULTS OF PROPERTY SALES AND PROPERTY DEVELOPMENT

The results of property sales improved substantially from EUR 2.7 million in the first three quarters of the previous year to EUR 28.1 million, whereby this increase was primarily attributable to the reclassification of foreign exchange differences. The results of property development turned positive at EUR 23.7 million following a loss in the previous year (Q1-3 2017: EUR -26.1 million) and resulted, in particular, from positive revaluation effects on development projects in Germany during the first half-year.

RESULTS OF OPERATIONS

The results of operations more than doubled to EUR 149.7 million (Q1-3 2017: EUR 66.2 million). Other operating expenses rose slightly to EUR -41.0 million (Q1-3 2017: EUR -39.9 million) – as reported in Q1 2018 – among others due to 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 -6.3 million involved one-off expenses and special projects related to the simplification of the corporate structure. After an adjustment for the special bonus, personnel expenses were 8.6% lower year-on-year at EUR -22.6 million (Q1-3 2017: EUR -24.8 million).

REVALUATION

The revaluation of investment property (foreign exchange-adjusted and foreign exchange-based) totalled EUR 0.5 million for the reporting period (Q1-3 2017: EUR -0.1 million).

In contrast, the total revaluation results recorded by IMMOFINANZ in Q1-3 2018 were clearly positive at EUR 31.2 million (Q1-3 2017: EUR 11.3 million). This amount includes EUR 16.4 million (Q1-3 2017: EUR 7.9 million) of foreign exchange-adjusted revaluations. Positive effects were provided, among others, by an increase in the value of the *FLOAT* and *trivago Campus* development projects in Germany, whereby the latter was reclassified to investment property as of 30 June 2018, and by two office properties, the *myhive Metrooffice* in Bucharest and the *Polus Towers* in Bratislava. The start of modernisation in the *VIVO! Cluj* shopping center had a temporary negative valuation effect. The foreign exchange-based revaluations totalled EUR 14.8 million for the reporting period (Q1-3 2017: EUR 3.4 million) and were related to properties in non-core countries whose functional currency is not the Euro.

FINANCIAL RESULTS AND TAXES

Financing costs declined, as expected by 31.5% to EUR -51.3 million (Q1-3 2017: EUR -75.0 million) as a result of the extensive refinancing measures carried out in 2017. Other financial results turned positive at EUR 4.3 million, whereby the comparable prior year period (EUR -10.1 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 72.6 million (Q1-3 2017: EUR 175.1 million). Included here are a book gain of EUR 66.2 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 an impairment loss of EUR -25.1 million to the investment in S IMMO. The S IMMO share had a market price of EUR 17.20 as of 30 September 2018, but the fair value (after the inclusion of a package premium) equalled EUR 18.72 and was therefore lower than the purchase price of EUR 20.00 per share. In the comparable prior year period, the share of profit/loss from equity-accounted investments was significantly influenced by the very positive development of the CA Immo and BUWOG share prices. Financial results totalled EUR 32.3 million for the first three quarters of 2018 (Q1-3 2017: EUR 88.6 million).

Earnings before tax (EBT) improved substantially to EUR 182.4 million (Q1-3 2017: EUR 154.0 million). Income tax amounted to EUR -46.7 million (Q1-3 2017: EUR -37.7 million) and contains EUR -29.4 million of deferred taxes for the income taxes that could become due in later financial years. These deferred taxes include, among others, EUR -10.7 million from property valuation.

NET PROFIT

Net profit improved significantly to EUR 135.0 million (Q1-3 2017: EUR -59.1 million) and represents basic earnings per share of EUR 1.23 (Q1-3 2017: EUR -0.55), respectively diluted earnings per share of EUR 1.14 (Q1-3 2017: EUR -0.55).

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 improved by 100.0% to EUR 63.0 million. In addition, FFO 1 (before tax) per share increased by 83.9% to EUR 0.57. 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 83.5 million or EUR 0.75 per share.

FUNDS FROM OPERATIONS (FFO)

All amounts in TEUR	P&L Q1-3 2018	Adjustments	FFO Q1-3 2018	FFO Q1-3 2017 (adjusted)
Results of asset management	134,534	363	134,897	123,014
Results of property sales	28,118	-28,118		
Results of property development	23,748	-23,748		
Other operating income	4,306	-873	3,433	3,841
Other operating expenses	-41,018	10,304	-30,714	-35,715
Results of operations	149,688	-42,072	107,616	91,140
Other revaluation results	425	-425		
Operating profit (EBIT)	150,113	-42,497	107,616	91,140
Financing costs	-51,336			
Financing income	6,734			
Foreign exchange differences	73			
Other financial results	4,291			
Net profit or loss from equity-accounted investments	72,566			
Financial results	32,328	-76,988	-44,660	-59,640
Earnings before tax (EBT) / FFO 1 before tax (excl. CA Immo)	182,441	-119,486	62,955	31,500
Dividends received from CA IMMO			20,552	16,699
Earnings before tax (EBT) / FFO 1 before tax adjusted			83,507	48,199
Number of shares (according to EPS calculation)			110,971,562	103,072,897
FFO 1 per share before tax			0.57	0.31
FFO 1 per share before tax adjusted			0.75	0.47

Other operating expenses were adjusted for non-recurring effects, such as the special bonus granted to the Executive Board for the restructuring of the Group, and for costs related to the simplification of the corporate structure. 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	30 Sep. 2018	in %	31 Dec. 2017	in %
Investment property	3,868,553		3,729,519	
Property under construction	358,970	75.6%	404,064	73.6%
Real estate inventories	48,079		61,221	
Assets held for sale	59,778		265,148	
Other assets	52,799	0.9%	73,702	1.2%
Equity-accounted investments	371,087	6.5%	685,984	11.3%
Trade and other receivables	286,894	5.0%	365,137	6.0%
Cash and cash equivalents	685,410	12.0%	477,889	7.9%
Assets	5,731,570	100.0%	6,062,664	100.0%
Equity	2,763,461	48.2%	2,808,043	46.3%
Liabilities from convertible bonds	281,967	4.9%	313,217	5.2%
Financial liabilities	2,092,341	36.5%	2,306,418	38.0%
Trade and other payables	175,236	3.1%	242,656	4.0%
Other liabilities	68,467	1.2%	67,218	1.1%
Deferred tax liabilities	350,098	6.1%	325,112	5.4%
Equity and Liabilities	5,731,570	100.0%	6,062,664	100.0%

The value of the property portfolio amounted to EUR 4.3 billion and represented 75.6% of total assets as of 30 September 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, nine office

properties and three retail properties were sold during the first three quarters of 2018. These transactions reduced the balance of available-for-sale properties to EUR 59.8 million as of 30 September 2018.

The balance of equity-accounted investments declined during the reporting period 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 365.1 million (for details see note 4.3 in the *consolidated interim 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 9.3% to EUR 2.1 billion since the beginning of the year. 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.

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 results of the NAV and NNNAV calculations are shown below:

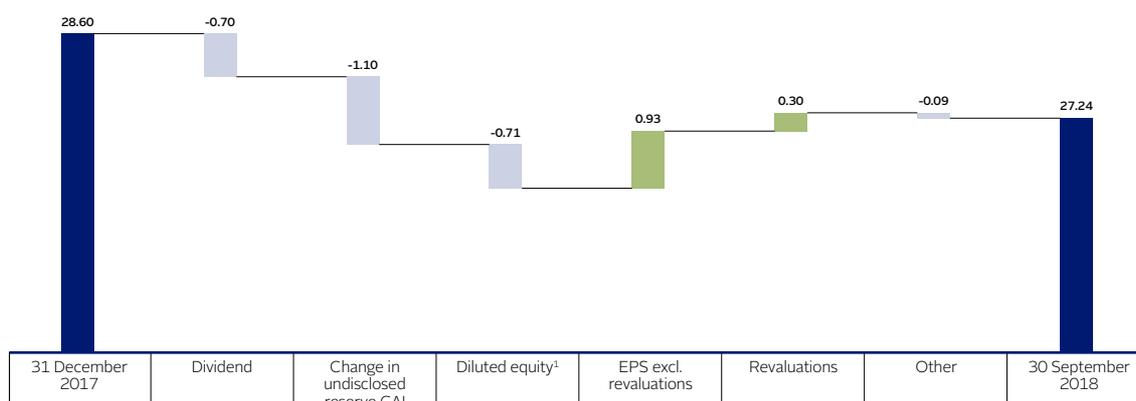
	30 September 2018		31 December 2017	
	in TEUR	in EUR per share	in TEUR	in EUR per share
Equity excl. non-controlling interests	2,784,488		2,821,521	
Diluting effects of convertible bond 2024	281,967		19,121	
Diluted equity excl. non-controlling interests after an adjustment for convertible bonds and the exercise of options	3,066,455		2,840,642	
Undisclosed reserves in the investments	0		123,993	
Undisclosed reserves in real estate inventories	74		74	
Fair value of derivative financial instruments	4,998		7,375	
Deferred taxes on investment property	288,272		274,977	
Deferred taxes on real estate inventories and derivative financial instruments	-1,188		-1,643	
Goodwill excl. deferred taxes	-24,507		-24,848	
Number of shares excl. treasury shares (in 1,000)		109,024		111,617
Potential shares (in 1,000)		13,387		989
EPRA NAV	3,334,103	27.24	3,220,570	28.60
Fair value of derivative financial instruments	-4,998		-7,375	
Effect of fair value measurement of financial liabilities	24,895		5,737	
Deferred taxes on derivative financial instruments and the fair value measurement of financial liabilities	-5,110		197	
Deferred taxes on investment property	-24,334		-17,495	
EPRA NNNAV	3,324,557	27.16	3,201,634	28.43

The calculation of the EPRA NAV and EPRA NNNAV as of 30 September 2018 includes the diluting effects which would result from the conversion of the IMMOFINANZ convertible bond 2024. These effects were included for the first time because of the convertible bond was "in the money" as of 30 September 2018 and rational investors would therefore be expected to convert their bonds.

The EPRA NAV rose by 3.5% over the level on 31 December 2017 to EUR 3,334.1 million. The EPRA NAV per share equalled EUR 27.24 after the distribution of the EUR 0.70 dividend in May and including the diluting effects of the convertible bond 2024 (31 December 2017: EUR 28.60). After an adjustment for the dilution, the EPRA NAV per share equalled EUR 28.00.

The diluted EPRA NNNAV per share equals EUR 27.16 (31 December 2017: EUR 28.43).

EPRA NAV BRIDGE



¹ Total number of shares diluted by 13.4 million shares from the convertible bond 2024, which was "in the money" as of 30 September 2018.

EPRA EARNINGS PER SHARE

All amounts in TEUR	Q1-3 2018	Q1-3 2017
Weighted average number of shares (in 1,000)	110,972	103,073
Net profit or loss from continuing operations excl. non-controlling interests	137,667	119,014
Revaluation of investment properties and development properties	-33,033	-15,715
Results of property sales	-28,118	-2,683
Goodwill impairment, negative differences and earn-out effects on income	100	733
Changes in fair value of financial instruments	-2,597	-3,462
Acquisition costs on share deals	16	0
Taxes in respect of EPRA adjustments	10,639	1,556
EPRA adjustment in respect of joint ventures and non-controlling interests	-5,482	2,770
EPRA earnings	79,194	102,214
EPRA earnings per share	0.714	0.992
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	-66,203	0
Result from incentivised conversion of the convertible bond 2018	19	12,580
One-time effect in other operating expenses	8,174	0
Impairment loss S IMMO	25,129	0
Foreign exchange gains and losses	-73	5,358
Deferred taxes in respect of company-specific adjustments	8,195	1,934
Company-specific adjusted earnings	54,436	4,394
EPRA earnings per share after company-specific adjustments	0.491	0.043

EPRA earnings per share equalled EUR 0.71, respectively EUR 0.49 per share after company-specific adjustments.

EPRA NET INITIAL YIELD

All amounts in TEUR	Q1-3 2018	Q1-3 2017 (adjusted)
Investment property	3,918,014	4,678,744
Investment property – proportional share of joint ventures	54,498	43,823
Less undeveloped land	-210,786	-199,185
Less Russian portfolio	0	-796,021
Less undeveloped land – proportional share of joint ventures	-1,690	-1,283
Total property portfolio	3,760,036	3,726,078
Allowance for estimated purchasers' costs	67,681	67,069
Gross value of total property portfolio	3,827,717	3,793,147
Annualised cash rental income	245,123	241,355
Annualised cash rental income – proportional share of joint ventures	1,966	1,793
Non-recoverable property operating expenses	-32,217	-34,235
Non-recoverable property operating expenses – proportional share of joint ventures	-105	-56
Annualised net rental income	214,767	208,858
EPRA net initial yield	5.61%	5.51%

The EPRA net initial yield rose from 5.5% in the first three quarters of the previous year to 5.6% for the reporting period.