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 period in the 2016 calendar year (Q1–3 2016).

- The retail portfolio Moscow, which was presented as a discontinued operation for the first time in IMMOFINANZ's consolidated financial statements as of 31 December 2016, is also included in these (new) comparative figures in accordance with IFRS 5 – i.e. through the separate presentation of the retail portfolio Moscow as a discontinued operation in the consolidated income statement. This entire portfolio was sold through a purchase contract which was signed on 13 November 2017. The transaction is expected to close during December 2017.

INCOME STATEMENT

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

All amounts in TEUR	Q1–3 2017	Q1–3 2016
Rental income	174,059	174,027
Results of asset management	**122,584**	**110,152**
Results of property sales	**2,683**	**-28,383**
Results of property development	**-26,146**	**18,356**
Other operating income	6,990	10,278
Other operating expenses	-39,919	-36,514
Results of operations	**66,192**	**73,889**
Other revaluation results	**-836**	**-145,833**
Operating profit (EBIT)	**65,356**	**-71,944**
Financial results	**88,618**	**-143,933**
Earnings before tax (EBT)	**153,974**	**-215,877**
Net profit for the period from continuing operations	**116,273**	**-217,794**
Net profit or loss from discontinued operations[1]	-175,401	-191,709
Net profit or loss	**-59,128**	**-409,503**

1) Due to the sale of the Russian portfolio, the earnings contribution from Russia is reported under net profit or loss from discontinued operations.

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 remained stable during the first three quarters of 2017 at EUR 174.1 million (Q1–3 2016: EUR 174.0 million). The decline in rental income resulting from the sale of properties was offset by completions and new rentals. Rental income in the office sector rose by 2.4% to EUR 85.4 million. The retail sector generated rental income of EUR 75.2 million, which roughly matched the previous year due to portfolio adjustments in Austria.

Revenues totalled EUR 241.9 million (Q1–3 2016: EUR 239.2 million). The results of asset management rose by a sound 11.3% to EUR 122.6 million (Q1–3 2016: EUR 110.2 million). Property expenses amounted to EUR -60.2 million (Q1–3 2016: EUR -71.4 million) and were 15.8% lower than the previous year. This decline resulted primarily from a reduction in maintenance costs (EUR -16.0 million versus EUR -20,7 million), operating costs charged to building owners (EUR -8.3 million versus EUR -12.9 million) and vacancy costs (EUR -8.9 million versus EUR -10.0 million). In contrast, fit-out costs for newly rented space increased to EUR -8.2 million (Q1–3 2016: EUR -5.1 million) following the conclusion of large-scale rental contracts.

RESULTS OF PROPERTY SALES

The results of property sales turned positive at EUR 2.7 million for the first three quarters of 2017 Q1–3 2016: EUR -28.4 million) and were influenced by the ongoing portfolio optimisation. Valuation effects (foreign exchange-adjusted and foreign exchange-related) totalled EUR -4.4 million (Q1–3 2016: EUR -23.2 million), whereby positive valuation effects from the sale of properties in Germany *(Gerling Quartier)* and non-core countries were contrasted by negative effects from the sale of non-strategic or smaller properties in Austria, the Czech Republic and Romania. These transactions had a combined sales volume of EUR 152.3 million (EUR 135.6 million of asset deals and EUR 16.7 million of share deals).

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. The results of property development fell to EUR -26.1 million in the first three quarters of 2017 (Q1–3 2016: EUR 18.4 million) despite clearly positive valuation effects from the development projects in Germany (EUR 24.1 million), above all the *trivago, FLOAT* and *Cluster Produktionstechnik.* This loss is attributable – as reported in the second quarter – primarily to additional costs for real estate inventories in the *Gerling Quartier* as well as outstanding obligations related to the transfer, repair of deficiencies and completion of the Cologne properties.

RESULTS OF OPERATIONS

The results of operations equalled EUR 66.2 million compared with EUR 73.9 million in the first three quarters of the previous year. Other operating expenses rose by 9.3% to EUR -39.9 million (EUR -36.5 million). This increase was related, among others, to the roll-out of various special projects that are designed to sustainably improve efficiency, for example in the IT area (EUR -2.6 million versus EUR -1.4 million).

REVALUATION, FINANCIAL RESULTS AND EBT

The foreign exchange-adjusted revaluation of investment property amounted to EUR 1.4 million (Q1–3 2016: EUR -119.5 million). Financial results turned positive at EUR 88.6 million (Q1–3 2016: EUR -143.9 million). Financing costs fell by 8.2% to EUR -75.0 million (Q1–3 2016: EUR -81.7 million), above all due to interest savings which resulted from the incentivised conversion of 43.4% of the convertible bond 2018 (coupon: 4.25%) at the beginning of the year and the issue of the new convertible bond 2024 (coupon: 2.0%). In addition, the 5.25%, EUR 100 million corporate bond was redeemed at the beginning of the third quarter.

Other financial results of EUR -10.1 million (Q1–3 2016: EUR -20.4 million) were related primarily to the valuation of derivatives at EUR -10.3 million and the earnings effect of EUR -12.6 million from the incentivised conversion of the convertible bond 2917. The valuation of the BUWOG shares at the market price on 30 September 2017 contributed a further EUR 10.0 million.

The share of profit/loss from equity-accounted investments increased substantially to EUR 175.1 million (Q1–3 2016: EUR -43.4 million) and consisted primarily of the following: EUR 38.8 million for the proportional share of earnings from CA Immo, a valuation gain of EUR 91.9 million on the CA Immo shares, a gain of EUR 18.0 million on the sale of 4.5 million BUWOG shares and a gain of EUR 25.8 million on the valuation of the BUWOG shares at the market price following the termination of equity accounting. The book price of the CA Immo share equalled EUR 25.67 as of 30 September 2017 (31 December 2016: EUR 21.02).

Earnings before tax (EBT) improved significantly to EUR 154.0 million (Q1–3 2016: EUR -215.9 million), and income tax equalled EUR -37.7 million for the reporting period (Q1–3 2016: EUR -1.9 million).

RESULTS OF DISCONTINUED OPERATIONS

The results of discontinued operations totalled EUR -175.4 million and represent the discontinued core market Russia (Q1–3 2016: EUR -184.7 million). These results were influenced primarily by a negative valuation effect of EUR -157.8 million which resulted from the sale of the retail portfolio Moscow to the FORT Group. The negative valuation effect is related to goodwill (EUR -56.1 million) as well as to investment property (EUR -123.8 million) and was contrasted by effects of EUR 22.2 million from deferred taxes.

The purchase contract with the FORT Group was signed on 13 November 2017, and the transaction is expected to close during December 2017. As previously announced, the purchase price for the net assets equals up to RUB 15 billion and comprises three purchase components: a cash purchase price of RUB 5.0 billion (converted at a forward EUR/RUB exchange rate of 69.5730: EUR 71.9 million), 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) and a non-recognisable earn out of up to RUB 9.0 billion which is based on the revenue from the shopping centers in 2021 and also payable in 2022. IMMOFINANZ can also participate with up to RUB 1.0 billion from the potential realisation of contingent receivables from tax refund proceedings which are current in progress. Details on the transaction are provided in the consolidated interim financial statements under note 8, *Subsequent events*, on page 78.

NET PROFIT

Net profit from continuing operations rose substantially to EUR 116.3 million in the first three quarters of 2017 (Q1–3 2016: EUR -217.8 million). Net profit (including the results of discontinued operations) also improved significantly to EUR -59.1 million (Q1–3 2016: EUR -409.5 million). Diluted earnings per share equalled EUR -0.05 (Q1–3 2016: EUR -0.41).

BALANCE SHEET

The condensed balance sheet is shown below:

All amounts in TEUR	30 Sep. 2017	in %	31 Dec. 2016	in %
Investment property	3,740,483	78.9%	3,531,379	80.0%
Property under construction	380,946		379,036	
Real estate inventories	58,021		93,100	
Assets held for sale	1,121,892		1,602,428	
Other tangible assets	1,823	0.0%	2,243	0.0%
Intangible assets	25,216	0.4%	25,955	0.4%
Equity-accounted investments	662,559	9.9%	739,254	10.6%
Trade and other receivables	338,240	5.0%	414,190	5.9%
Other financial assets	131,000	1.9%	10,493	0.1%
Deferred tax assets	8,157	0.1%	4,385	0.1%
Income tax receivables	10,685	0.2%	11,626	0.2%
Cash and cash equivalents	242,219	3.6%	189,287	2.7%
ASSETS	**6,721,241**	**100.0%**	**7,003,376**	**100.0%**
Equity	**2,606,423**	**38.8%**	**2,650,616**	**37.8%**
Liabilities from convertible bonds	591,119	8.8%	530,265	7.6%
Financial liabilities	2,105,773	31.3%	2,114,794	30.2%
Trade and other payables	254,416	3.8%	270,168	3.9%
Income tax liabilities	12,793	0.2%	12,973	0.2%
Provisions	48,115	0.7%	50,773	0.7%
Deferred tax liabilities	344,229	5.1%	312,414	4.5%
Financial liabilities held for sale	758,373	11.3%	1,061,373	15.2%
EQUITY AND LIABILITIES	**6,721,241**	**100.0%**	**7,003,376**	**100.0%**

Assets totalled EUR 6.7 billion (31 December 2016: EUR 7.0 billion) and comprise non-current assets of EUR 5.1 billion and current assets of EUR 1.6 billion.

The value of the property portfolio amounted to EUR 5.3 billion and represented 78.9% of total assets as of 30 September 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 during the reporting period include, in particular, the acquisition of nine retail parks in Slovakia, Hungary and Romania.

The investments accounted for at equity declined from EUR 739.3 million to EUR 662.6 million following the sale of approximately 4.5 million BUWOG shares and the recognition of the remaining BUWOG shares as other financial assets. In addition to the proportional share of CA Immo results for the first nine months of 2017 (EUR 38.8 million), this position also includes a revaluation gain of EUR 91.9 million on the CA Immo investment.

Cash and cash equivalents increased from EUR 189.3 million on 31 December 2016 to EUR 242.2 million on 30 September 2017. This is a result, among others, of the multi-stage refinancing transaction carried out in January, which included the sale of the BUWOG shares as well as the issue of a new convertible bond with a term extending to 2024 (see the section *Financing* on page 31). Cash and cash equivalents rose to roughly EUR 580.0 million by the end of November 2017, i.e. after the end of the reporting period, following the conclusion of refinancing agreements and the sale of non-strategic properties.

Equity totalled EUR 2.6 billion as of 30 September 2017 (31 December 2016: EUR 2.7 billion) and was increased, above all, by the issue of new shares for the incentivised conversion of the convertible bond 2018. Equity was reduced, among others, by the dividend payment, the share buyback and the negative net profit recorded for the reporting period.

Liabilities totalled EUR 4.1 billion (31 December 2016: EUR 4.4 billion). The non-current component equalled EUR 2.1 billion and the current component EUR 2.0 billion. The corporate bond 2012-2017 with a nominal value of EUR 100.0 million was redeemed in full at the beginning of July 2017.

The equity ratio equalled 38.8% as of 30 September 2017 (31 December 2016: 37.8%).

CASH FLOW STATEMENT

The condensed cash flow statement is presented below:

All amounts in TEUR	Q1–3 2017	Q1–3 2016
Gross cash flow after tax	105,324	87,501
Cash flow from operating activities	67,137	76,325
Cash flow from investing activities	105,916	268,245
Cash flow from financing activities	-131,137	-207,541

Gross cash flow before tax totalled EUR 128.4 million (Q1–3 2016: EUR 110.2 million), and cash flow after tax equalled EUR 105,3 million (Q1–3 2016: EUR 87.5 million). Cash flow from operating activities amounted to EUR 67.1 million (Q1–3 2016: EUR 76.3 million).

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

All amounts in TEUR	Q1–3 2017	Q1–3 2016	Change	Change in %
Gross cash flow before tax	128,439	110,235	18,204	16.5%
Gross cash flow before tax from discontinued operations	-41,940	-24,705	-17,235	-69.8%
Gross cash flow before tax from continuing operations	**86,499**	**85,530**	**969**	**1.1%**
Ancillary costs for property sales (included in gross cash flow, recognised through profit or loss)	237	3,430	-3,193	-93.1%
Results of property development (included in gross cash flow, recognised through profit or loss)	901	9,981	-9,080	-91.0%
Dividends received from equity-accounted investments	1,666	0	1,666	n.a.
Economic interest in FFO I of the CA Immo Group [1]	23,366	0	23,366	n.a.
Interest and dividends received from financial instruments	1,990	4,531	-2,541	-56.1%
Interest paid	-55,507	-62,138	6,631	10.7%
Derivatives	-10,532	-22,036	11,504	52.2%
FFO 1	**48,620**	**19,298**	**29,322**	**≥ +100.0%**
Results of property sales	2,683	-28,383	31,066	n.a.
FFO 2	**51,303**	**-9,085**	**60,388**	**n.a.**

1 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 over a nine-month period – similar to the recognition of the net profit or loss from equity-accounted investments.

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 30 September 2017 also included diluting effects that could result from the conversion of the IMMOFINANZ convertible bond 2018. These effects were initially included as of 30 June 2017 because the convertible bond 2018 was "in the money" as of 30 June and 30 September and rational investors can therefore be expected to convert their bond certificates.

The number of shares underlying the calculation of the EPRA NAV per share and the EPRA NNNAV per share rose by 16.6% to 1,126,006.000 as of 30 September 2017.

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

	30 Sep. 2017		31 Dec. 2016	
	in TEUR	in EUR per share	in TEUR	in EUR per share
Equity excl. non-controlling interests	**2,616,199**		**2,660,300**	
Diluting effects of convertible bond 2018	180,989		0	
Diluted equity excl. non-controlling interests after an adjustment for convertible bonds and the exercise of options	**2,797,188**		**2,660,300**	
Undisclosed reserves in the investment in the CA Immo Group	113,069			
Undisclosed reserves in real estate inventories	16		336	
Fair value of derivative financial instruments	10,147		30,455	
Deferred taxes on investment property	274,384		421,067	
Deferred taxes on real estate inventories and derivative financial instruments	-2,207		-7,032	
Goodwill excl. deferred taxes	-24,980		-90,935	
Number of shares excl. treasury shares (in 1,000)		**1,039,473**		**965,956**
Potential shares (in 1,000)		**86,533**		
EPRA NAV	**3,167,619**	**2.81**	**3,014,190**	**3.12**
Fair value of derivative financial instruments	-10,147		-30,455	
Effect of fair value measurement of financial liabilities	15,971		-38,757	
Deferred taxes on derivative financial instruments and the fair value measurement of financial liabilities	-1,790		16,476	
Deferred taxes on investment property	-16,427		-93,596	
EPRA NNNAV	**3,155,225**	**2.80**	**2,867,859**	**2.97**

The EPRA net asset value rose by 5.1% to EUR 3.2 billion. The higher number of shares and the valuation effect resulting from the sale of the retail portfolio Moscow led to a decline in the EPRA NAV per share to EUR 2.81 (31 December 2016: EUR 3.12). The EPRA triple net asset value rose by 10.0% to EUR 3.2 billion and the EPRA NNNAV per share declined from EUR 2.97 to EUR 2.80 as of 30 September 2017.

EPRA EARNINGS PER SHARE

The calculation of EPRA earnings per share as of 30 September 2017 and 30 September 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 first three quarters of 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	Q1–3 2017	Q1–3 2016
Weighted average number of shares	**1,030,729**	**996,306**
Net profit or loss from continuing operations excl. non-controlling interests	**119,014**	**-216,675**
Revaluation of investment properties and development properties	-15,715	79,527
Results of property sales	-2,683	28,382
Goodwill impairment, negative differences and earn-out effects on income	733	26,475
Changes in fair value of financial instruments	-3,462	16,691
Taxes in respect of EPRA adjustments	1,556	-19,227
EPRA adjustment in respect of joint ventures and non-controlling interests	2,770	-2,899
EPRA earnings	**102,214**	**-87,726**
EPRA earnings per share	**0.099**	**-0.088**
Company-specific adjustments		
Result from termination of equity accounting of BUWOG AG	-25,841	0
Result from incentivised conversion of the convertible bond 2018	12,580	0
Foreign exchange gains and losses	5,358	5,133
Reversal of impairment CA IMMO Group	-91,850	91,051
Deferred tax in respect of the company-specific adjustments	1,934	-1,034
Company-specific adjusted earnings	**4,394**	**7,424**
EPRA earnings per share after company-specific adjustments	**0.004**	**0.007**

The EPRA earnings per share equalled EUR 0.10 in the first three quarters of 2017 and EUR 0.004 after company-specific adjustments.

EPRA NET INITIAL YIELD

All amounts in TEUR	Q1–3 2017	Q1–3 2016
Investment property	4,678,744	4,974,365
Investment property – proportional share of joint ventures	43,823	49,077
Less undeveloped land	-199,185	-192,689
Less logistics portfolio	0	-11,543
Less Russian portfolio	-796,021	-1,047,354
Less undeveloped land – proportional share of joint ventures	-1,283	-1,927
Total property portfolio	**3,726,078**	**3,769,928**
Allowance for estimated purchasers' costs	67,069	67,859
Gross value of total property portfolio	**3,793,147**	**3,837,787**
Annualised cash rental income	232,635	236,972
Annualised cash rental income - proportional share of joint ventures	1,793	1,376
Non-recoverable property operating expenses	-34,235	-42,718
Non-recoverable property operating expenses - proportional share of joint ventures	-56	-72
Annualised net rental income	**200,137**	**195,557**
EPRA NIY	**5.3%**	**5.1%**

The EPRA net initial yield improved from 5.1% in the first three quarters of 2016 to 5.3% in the first three quarters of 2017.