VONOVIA SE
HALF-YEAR REPORT 2020

January – June

Half-Year Report 2020 H1

VONOVIA

Key Figures

Financial Key Figures in € million	H1 2019	H1 2020	Change in %	12M 2019
Rental income in the Rental segment	1,014.8	1,132.9	11.6	2,074.9
Adjusted EBITDA Total	872.8	942.2	8.0	1,760.1
Adjusted EBITDA Rental	724.0	781.4	7.9	1,437.4
Adjusted EBITDA Value-add	75.7	67.6	-10.7	146.3
Adjusted EBITDA Recurring Sales	42.4	48.1	13.4	91.9
Adjusted EBITDA Development	30.7	45.1	46.9	84.5
EBITDA IFRS	811.9	877.4	8.1	1,579.6
Group FFO	609.1	676.3	11.0	1,218.6
thereof attributable to Vonovia shareholders	582.6	648.2	11.3	1,165.6
thereof attributable to Vonovia hybrid capital investors	20.0	20.0	0.0	40.0
thereof attributable to non-controlling interests	6.5	8.1	24.6	13.0
Group FFO per share in €	1.12	1.25	11.0	2.25
Income from fair value adjustments of investment properties	2,258.7	1,812.3	-19.8	4,131.5
EBT	901.6	2,442.0	>100	3,138.9
Profit for the period	125.3	1,618.1	>100	1,294.3
Cash flow from operating activities	774.8	613.9	-20.8	1,555.9
Cash flow from investing activities	-82.1	-799.9	>100	-2,505.7
Cash flow from financing activities	40.2	634.5	>100	902.8
Total cost of maintenance, modernization and new construction	804.3	859.1	6.8	1,971.1
thereof for maintenance expenses and capitalized maintenance	208.7	247.9	18.8	481.6
thereof for modernization	432.1	437.1	1.2	996.5
thereof for new construction	163.5	174.1	6.5	493.0

Key Balance Sheet Figures in € million	June 30, 2019	June 30, 2020	Change in %	Dec. 31, 2019
Fair value of the real estate portfolio	47,449.0	55,698.6	17.4	53,316.4
Adjusted NAV	26,305.0	29,673.2	12.8	28,161.9
Adjusted NAV per share in €*	48.51	54.72	12.8	51.93
LTV (%)	40.4	41.8	1.4 pp	43.1

Non-financial Key Figures	H1 2019	H1 2020	Change in %	12M 2019
Number of units managed	475,754	488,367	2.7	494,927
thereof own apartments	396,739	414,879	4.6	416,236
thereof apartments owned by others	79,015	73,488	-7.0	78,691
Number of units bought	2,556	–	-100.0	23,987
Number of units sold	1,988	1,931	-2.9	4,784
thereof Recurring Sales	1,234	1,327	7.5	2,607
thereof Non-core Disposals	754	604	-19.9	2,177
Number of new apartments completed	817	617	-24.5	2,092
thereof own apartments	438	534	21.9	1,301
thereof apartments for sale	379	83	-78.1	791
Vacancy rate (in %)	2.9	2.8	-0.1 pp	2.6
Monthly in-place rent in €/m²	6.64	7.03	5.9	6.93
Organic rent increase (in %)	4.0	3.9	-0.1 pp	3.9
Number of employees (as of June 30/Dec. 31)	10,024	10,440	4.2	10,345

EPRA Key Figures in € million	June 30, 2019	June 30, 2020	Change in %	Dec. 31, 2019**
EPRA NAV	27,240.6	31,078.2	14.1	29,592.5
EPRA NAV per share in €*	50.23	57.31	14.1	54.57

* Based on the shares carrying dividend rights on the reporting date June 30, 2019: 542,273,611, June 30, 2020: 542,273,611 and Dec. 31, 2019: 542,273,611.
** Adjusted (see note [A2] Adjustment to Prior-year Figures).

Content

Interim Group Management Report – Business Development in the First Half-Year of 2020

Overview

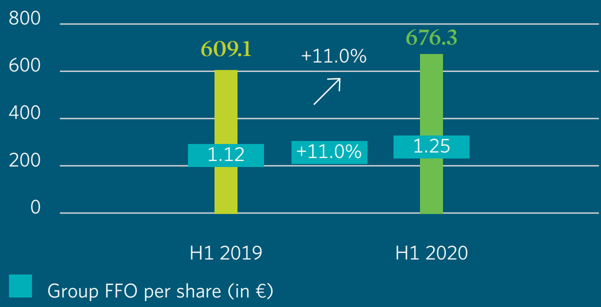
> Positive business development despite ongoing coronavirus pandemic
> Tenant services available in full with no significant disruption of business operations
> Continued focus on preventing social hardship
> Impact of the coronavirus on modernization and new construction activities only temporary

Vonovia achieved stable business development in the first half of 2020 in spite of the coronavirus pandemic. Group FFO increased by 11.0% from € 609.1 million in the first half of 2019 to € 676.3 million in the first half of 2020, largely due to acquisitions.

Sustained Earnings

Group FFO

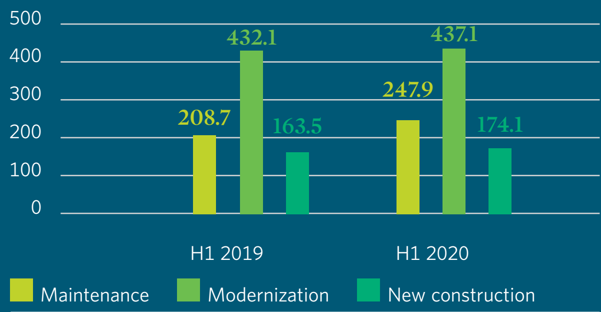
in € million



Maintenance, Modernization and New Construction

Investments

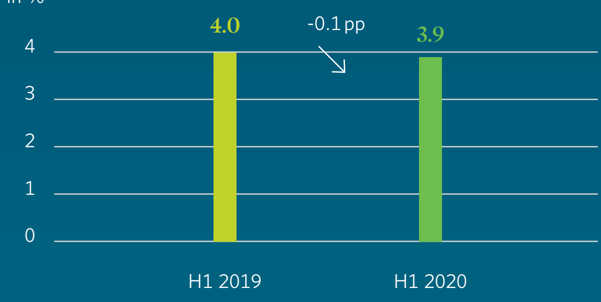
in € million



Organic Rent Growth

Organic Rent Growth

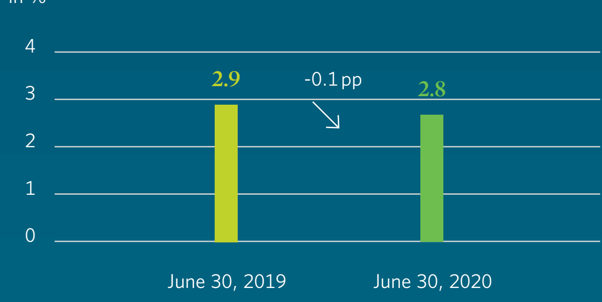
in %



Vacancy

Vacancy Rate

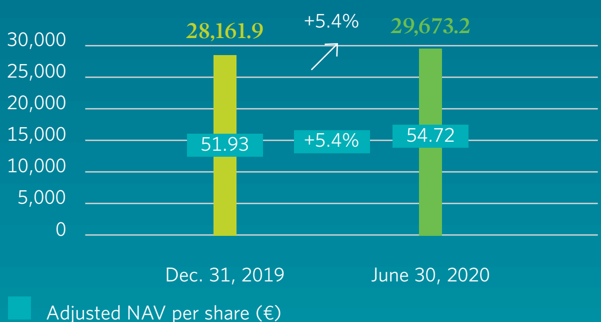
in %



Net Assets

Adjusted NAV

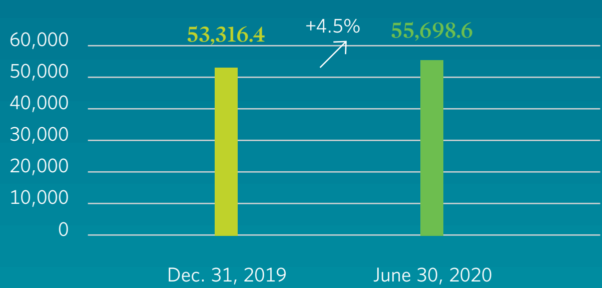
in € million



Fair Value of the Real Estate Portfolio

Fair Value of the Real Estate Portfolio

in € million



Vonovia SE in the Capital Market

Shares in Vonovia

The global coronavirus pandemic has been dominating the international capital markets since February 2020. Some industries, such as banks, oil/gas and transport/tourism, have been particularly hard hit, with their share prices taking a nosedive in the first half of 2020.

Share price performance in the real estate sector has also been impacted by the coronavirus pandemic. The EPRA index, for example, which serves as a barometer for European real estate stocks, slid by 23.5% in the first six months of 2020. This negative development can be attributed primarily to the drastic share price losses affecting commercial and office real estate companies, which have been dealt a particularly hefty blow by customer rent losses.

Germany's leading index, the DAX, is starting to show signs of bouncing back. While it shed around 25% in the first quarter of 2020, the loss as against December 31, 2019, came to only 6% by June 30, 2020.

German residential real estate stocks, however, are back on a stable trajectory after the first few months of living with the coronavirus pandemic. After a volatile first quarter and a low of € 38.60 reached on March 18, 2020, the price of Vonovia's shares rose by 12% in the first six months of 2020 to total € 54.58. On June 5, 2020, Vonovia reached a new all-time high of € 56.38.

Although the international capital markets are likely to remain characterized by volatility and fears of recession, we believe that the environment for the German residential real estate sector remains positive overall. As a residential real estate company, Vonovia is only partially affected by the coronavirus pandemic. Particularly on the demand and income side, we do not expect the crisis to have any impact to speak of. Rather, the main long-term megatrends will remain the dominant forces driving our business: urbanization and the resulting imbalance between supply and demand, climate change and the reduction of CO_2 emissions in the housing stock, demographic change and senior-friendly apartment conversion. We are optimistic as we look ahead to the future and are confident that we will remain financially successful.

Vonovia's market capitalization amounted to around € 30 billion as of June 30, 2020.

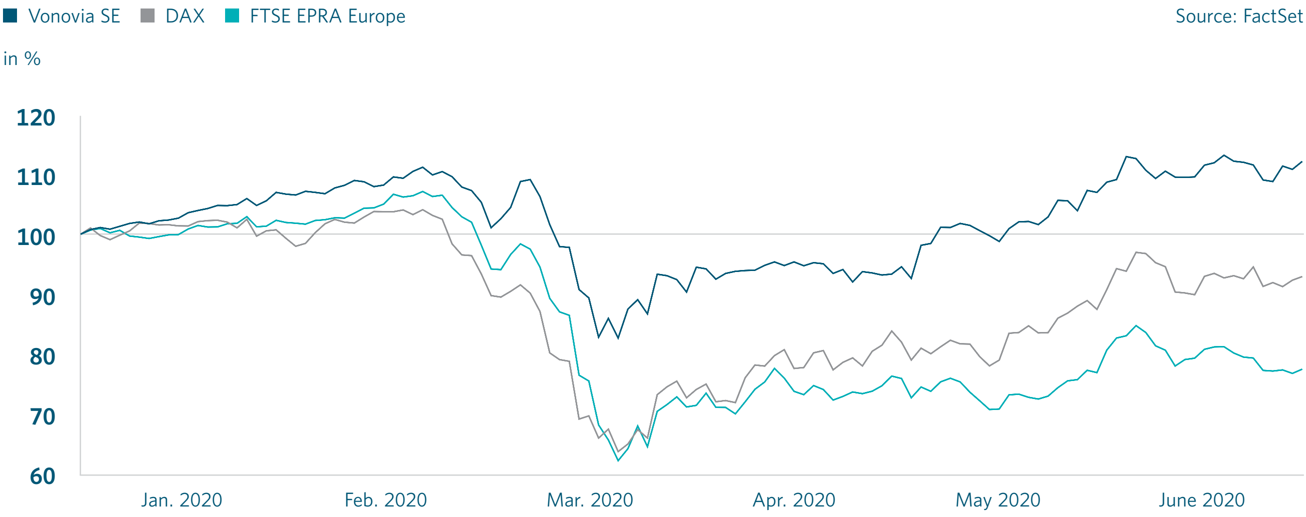
Shareholder Structure

The chart below shows the voting rights pursuant to Sections 33 and 34 of the German Securities Trading Act (WpHG) as notified by the shareholders in relation to the current share capital. It is important to note that the number of voting rights reported could have changed within the respective thresholds without triggering an obligation to notify the company.

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 93.4% of Vonovia's shares were in free float on June 30, 2020. The underlying voting rights notifications and corresponding financial instruments reported by shareholders or other instruments pursuant to Sections 38, 39 WpHG can be found online at

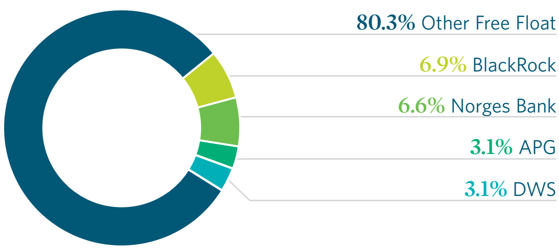
https://investoren.vonovia.de/websites/vonovia/English/4030/disclosure-of-voting-rights.html.

Share Price Development



In line with Vonovia's long-term strategic focus, the majority of its investors also have a long-term focus. The company's investors include pension funds, sovereign wealth funds and international asset managers in particular. There are also a large number of individual shareholders, although they only represent a small proportion of the total capital.

Major Shareholders (as of June 30, 2020)



Investor Relations Activities

Vonovia SE is committed to transparent, ongoing dialogue with its shareholders and potential investors. We are continuing with our road shows and meetings during the coronavirus pandemic, albeit on a virtual basis. In the first six months of 2020, Vonovia participated in a total of 14 investors' conferences (10 of them virtual conferences) and organized 14 (of which 11 were virtual) road shows in the most important European and North American financial centers.

In addition, numerous one-on-one meetings, video conferences and conference calls were held with investors and analysts to keep them informed of current developments and special issues.

We will continue to communicate openly with the capital market. Various road shows, conferences and participation in investor forums have already been planned. Information can be found in the Financial Calendar on our Investor Relations website.

https://investors.vonovia.de

Annual General Meeting

Vonovia conducted its very first virtual Annual General Meeting on June 30, 2020. Given the health-related risks and official requirements imposed as a result of the coronavirus pandemic, it was impossible to hold an Annual General Meeting allowing participants to be physically present. The Annual General Meeting was chaired by Jürgen Fitschen, Chairman of the Supervisory Board of Vonovia SE. Together with Rolf Buch, CEO of Vonovia SE, he spoke to the company's shareholders from a studio set up at the corporate headquarters in Bochum. The Annual General Meeting, which also featured sign language interpretation, was streamed live in the Investor Portal on the Investor Relations website.

Shareholders had submitted their questions for the general debate electronically in advance. Their voting rights could be exercised before and during the Annual General Meeting electronically, per postal vote or by authorizing the company's proxies.

With around 700 participants representing 79% of the share capital present at the same time, all resolution proposals were approved with a large majority. The dividend of € 1.57 per share proposed to the company's shareholders for the 2019 fiscal year also found broad support among Vonovia's shareholders. This corresponds to a dividend yield of 3.3% based on the cut-off date of December 31, 2019, and an increase of 9% compared to the previous year. Shareholders were once again able to choose either a conventional cash dividend or payment in the form of shares.

Analyst Assessments

As of June 30, 2020, 28 international analysts publish studies on Vonovia on a regular basis. The average target share price was € 55.60 as of June 30, 2020. Of these analysts, 75% issued a "buy" recommendation, with 18% issuing a "hold" recommendation and 7% recommending that investors sell the company's shares.

Share Information

First day of trading	Jul. 11, 2013
Subscription price	€ 16.50
Total number of shares	542,273,611
Share capital in €	542,273,611
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, 2020	DAX (3.0%) Stoxx Europe 600 (0.4%) MSCI Germany (2.6%) GPR 250 World (2.5%) FTSE EPRA/NAREIT Europe Index (13.9%)

Economic Development in the First Half-Year of 2020

Key Events During the Reporting Period

The coronavirus pandemic is having a pronounced adverse impact on the world's economies, plunging them into a full-fledged recession. At present, the ongoing infection levels in key global economies make it impossible to arrive at any reliable positive outlook regarding an economic recovery, despite the fact that both the EU and the German government have launched aid packages of historical proportions in response to the crisis. To date, Vonovia's business model has proven to be robust and resilient throughout the crisis. As the impact on its net assets, financial position and results of operations is not material, Vonovia is able to confirm its forecast for the 2020 fiscal year.

The focal point of Vonovia's work of late has been the quest to successfully maintain its business processes and protect its employees and customers. Digitalized processes allow employees to switch seamlessly between working on location and working from home.

The Act on Rent Controls in the Housing Sector in Berlin ("rent freeze"), which came into force in February 2020 and whose constitutionality is still subject to question, has also had no material impact on our business.

After Vonovia initiated a squeeze-out for Hembla as well, corresponding measures aimed at the operational and financial integration of the business in Sweden based on the model of the existing management platform have been implemented and are going to plan based on the company's experience of integration measures in the past.

Vonovia has strengthened its development business by expanding its activities in the Rhine-Main region with the complete acquisition of the project developer Bien-Ries GmbH, Hanau, at the beginning of April 2020. It will be integrated into the development organization operating under the BUWOG name in the course of 2020. The Bien-Ries business was included in the consolidated interim financial statements for the first time in the second quarter.

Vonovia placed two bonds with a total volume of € 1 billion on March 31, 2020, with the bond placement being completed in early April. Two further bonds with a total volume of € 1.5 billion were placed on July 3, 2020. This means that Vonovia enjoys unrestricted access to the capital market even in times of COVID-19.

Vonovia acquired a 2.6% stake in the Dutch Vesteda Residential Fund on June 26, 2020. Vesteda's portfolio comprises more than 27,000 apartments in the middle-range price segment, mainly in the Randstad region in the Netherlands. The region is home to the major cities of Amsterdam and Rotterdam, among others. Vonovia is aiming to use the investment to gain practical first-hand experience on the Dutch market and compare the environment with the markets it currently covers.

The Annual General Meeting held on June 30, 2020, resolved to pay a dividend for the 2019 fiscal year in the amount of € 1.57 per share. Once again, shareholders can opt to receive a scrip dividend as an alternative to a cash dividend. The Annual General Meeting was held as a virtual event for the first time, with shareholders able to follow the Annual General Meeting via a live stream.

Customer satisfaction, measured based on the Customer Satisfaction Index (CSI), rose by 3.7 percentage points in the second quarter of 2020 and by 5.6 percentage points compared with the second quarter of 2019. The main reasons behind the improvement included, in particular, an improved assessment of the service provided on the whole, ancillary costs bills that are easy to understand, Vonovia's response to tenant concerns and the manner in which it complies with any agreements reached. Measures to design both interior and outdoor areas also had a positive impact on the CSI.

Development of the Economic Environment

Germany

The coronavirus pandemic is currently dominating the entire global economy. The fact that the German economy contracted by only 2.2% quarter-over-quarter in the first three months of 2020 is due entirely to the fact that it made a fairly good start to the year. Widespread testing and high healthcare capacities meant that the containment measures taken in Germany were of a shorter duration and less stringent than those taken in other major European economies. While this softened the blow of the economic downturn, uncertainty and lower demand have had a major impact on corporate (equipment) investments (-6.9%) and export activity (-3.1%) in key sectors of the economy, particularly in the manufacturing industry. Service sectors were also hit very suddenly by severe restrictions due to a combination of measures taken by the authorities and changes in individual behavior. According to the Federal Statistical Office (Destatis), private consumption contracted by 3.2% in the first quarter of the year, although construction investments and government consumption had a stabilizing effect. The Kiel Institute for the World Economy (IfW) predicts that gross domestic product (GDP) will have fallen drastically, by 12%, in the second quarter of 2020. This means that the coronavirus crisis marks the most severe economic slump in the history of the German Federal Republic and has plunged the German economy into a deep recession. The slump was also due to private consumer spending, which is normally a stabilizing factor in economic development. The IfW expects to see an unprecedented drop in consumer spending of 13% in the second quarter of 2020. The export business was also hit by drastic losses. Exports lost almost a quarter of their prior-month value during the lockdown period and although they bounced back in May, rising by 9.0%, this is still down by 29.7% on the same month of the previous year. Business sentiment clouded over considerably at the same time. The ifo business climate index dropped back from 96.0 points at the start of the year to 74.3 in April. Sentiment is now starting to recover again, with the index rising to 86.2 in June – the most substantial increase ever recorded. The economic slump and the restrictions imposed as a result of the pandemic had a huge impact on the labor market. Although this has been cushioned by the state-subsidized short-time working scheme, the number of people out of work rose considerably in the period from May to June as a result of the coronavirus crisis, albeit once again at a slower rate than in the previous month. The unemployment rate rose by 0.1 percentage points to 6.2%, up by 1.3 percentage points compared with June of the previous year. Destatis is reporting an inflation rate of 0.9% in June as against 1.7% in the first few months of the year. Prices for transport, telecommunications, education and culture have fallen in particular, whereas food and service prices have risen.

The German economy is only very gradually starting to get back on track following the slump triggered by the coronavirus. Although the development appears to have bottomed out, it will take the economy some time to make a full recovery to the pre-crisis level. Key customer markets, for example, have been hit harder economically by the coronavirus pandemic than Germany, meaning that exports are only making a very slow recovery. Companies in Germany and abroad look set to remain reluctant to invest for some time to come given the high level of uncertainty surrounding the further development of the pandemic and the extent to which the slump in unit sales has eaten into many companies' equity base. Private consumption is likely to make a speedier recovery, also because the savings rate, which skyrocketed during the lockdown period, is likely to gradually fall again as the restrictions are eased, with pent-up purchasing power likely to fuel demand. Some private households have, however, suffered income losses and could postpone larger purchases given the increased uncertainty surrounding their jobs.

The GDP forecasts issued by the various economic institutes for 2020 vary considerably. Whereas the Hamburg Institute of International Economics only expects to see GDP drop by 5.0%, the German Institute for Economic Research (DIW) predicts that GDP will contract by 9.4% in a year-over-year comparison. As the coronavirus pandemic is not showing uniform development across the globe, and given the restrictions on global trade, Deutsche Bank (DB Research) expects the recovery to be less dynamic than hoped for earlier, and anticipates a drop in GDP of around 9%. The IfW expects to see production make a stronger recovery in the second half of the year, partly thanks to the impetus provided by the most recent economic stimulus package, including the reduction in VAT. All in all, the IfW expects GDP to drop by 6.8% in 2020 before rising by 6.3% in 2021. There is, however, a big question mark hanging over the outlook for further economic development. If the number of new infections increases considerably again, this could unsettle economic players again, particularly if a need for renewed restrictions slams the brakes on the economic recovery.

The labor market is highly unlikely to make a full recovery before the end of 2021, with the unemployment rate set to remain at around the 6% mark. Excess capacity will help to ensure that inflation remains at a low level in the foreseeable future. The IfW expects consumer prices to rise by 0.7% in 2020, with the reverse VAT effect, in particular, likely to have an impact in the following year (2021: 2.7%).

The German government has launched anti-crisis packages of unprecedented proportions, focusing not only on a mix of public subsidies, ramped-up healthcare spending, tax relief and short-time work as a labor market policy tool, but also using extensive public-sector guarantees and large-scale investment and lending programs to counteract the downward economic trend. This is sending the debt ratio soaring: According to calculations performed by Deutsche Bank (DB Research), it could correspond to between 82% and just shy of 100% of GDP by the end of 2021, depending on the scenario applied.

The development of economic output has an impact on the disposable incomes of private households, making it a key factor driving the demand for housing as a consumer and capital good. After years of a boom, the German residential real estate market is facing the start of a new phase triggered by the current pandemic. The impact of this development will be manifold, with a combination of factors putting pressure on prices and effects that will provide support. Any forecasts are subject to an exceptional degree of uncertainty at the current time. Experts from Landesbank Baden-Württemberg (LBBW) believe that the latest data points to a stable to positive price trend at the moment. According to the German Association of Real Estate Consultants, Agents, Managers and Experts (IVD), huge losses in value, insolvencies faced by key market players and irreversible changes in market conditions on the residential real estate market are not on the cards as things stand at the moment. Even in times of crisis, general demand in the housing sector remains high, with a large number of German cities still unable to meet it, as is confirmed by the real estate consultancy firm NAIapollo. As reported by Destatis, the growing population has put increased pressure on the housing market in recent years, particularly in Germany's major cities. By 2018, the German population was already up by 2.5 million as against 2012, a figure that increased further in 2019. Major cities have witnessed disproportionately strong growth due to an influx of mainly young people. This is not an unbroken trend; the research and consulting institute empirica has reported a drop in the number of people moving to Germany's high-influx cities. People looking to move are instead opting for nearby, but less attractive and, as a result, more affordable towns/cities or the areas surrounding the major cities. Although the German Association of German Housing and Real Estate Companies (GdW) is reporting that the situation is easing on some residential property markets thanks to new construction activity, there is still a considerable need for new apartments to be built – particularly in the country's popular metropolitan areas, where the housing markets remain permanently strained. There are, however, differences from region to region within Germany. While the country's metropolitan regions and university cities are faced with a shortage of housing, those regions where the population is on the wane have their own challenges to deal with. As the additional need for housing is driven, in particular, by immigration, it will be key to keep a close eye on future developments as a result of the coronavirus crisis. In the short term, immigration is likely to drop, for example due to border closures. In the long term, additional demand for housing could arise in Germany's major cities as people move to Germany from those countries on Europe's periphery that have been hit by economic difficulties.

Construction activity recently picked up again. According to Destatis, around 293,000 new apartments were completed in 2019. Although this is around 2% more than a year earlier, the total number still falls short of the 320,000 new apartments required according to the GdW. According to DB Research, the known root causes, e.g., the shortage of land available for construction and complex regulations, are likely to continue for years to come. While many indices suggest that the construction industry was hit by relatively mild restrictions during the months of the lockdown period, the GdW expects the number of building permits to fall during the coronavirus crisis, as building authorities have not been working to full capacity in recent months.

Based on an analysis of their market database, experts from empirica-systeme report that the quoted prices for existing properties (excluding new-builds) have been unaffected by the current coronavirus situation. The purchase prices for apartments are still rising on average nationwide, climbing by 3.1% in the first quarter of 2020 and by around 3% in the second quarter of 2020 in a quarter-over-quarter comparison. Apartment rents are once again showing less dynamic development than purchase prices. As against the previous quarter, quoted rents for existing apartments (excluding new-builds) rose nationwide by 0.7% in the first three months of 2020 and by 0.4% in the second quarter of 2020. This means that they are more or less stagnating, continuing on the flattening trajectory witnessed in previous quarters. The developments nevertheless vary considerably from location to location. Experts from Immowelt, for example, are reporting an easing of the situation in some university cities. As many universities have switched to online teaching, fewer first-semester students, for example, are looking for new apartments. This would appear to be having an impact on the rental market in cities that have traditionally had a large proportion of students. According to the real estate service provider CBRE, Germany has only seen rent deferrals on a very small scale, and virtually no rent losses at all, in the residential sector so far. The experts at empirica-systeme report that no price effects relating to the coronavirus can be identified so far, and that the market has only been shaped by limited volume effects, particularly during the lockdown period. Leading indicators suggest that no price correction is on the cards for the third quarter of 2020 either. According to NAIapollo, the further development of the residential real estate market will depend on how severe and widespread any economic downturn is, and on how long it lasts. DB Research expects the house price cycle to continue until at least 2022. Key factors that could bring the cycle to an end earlier than predicted include a prolonged coronavirus crisis, an even more stringent rental policy and a stronger macroprudential headwind after the coronavirus has come to an end. The empirica bubble index for Germany shows a moderate to high risk of a bubble for 301 out of 401 administrative districts and self-governing cities in the first quarter of 2020.

As CBRE reports, the German residential investment market would appear to be untouched by COVID-19. The transaction volume in the first half of 2020 came to around € 12.5 billion, up by 87% on the first half of 2019. This is due primarily to the takeover of Adler Real Estate by Ado Properties, a transaction that accounted for approximately € 6 billion in the first three months of 2020. The crisis has further increased the demand pressure for residential real estate on the investment market, as investors that had previously focused more on commercial real estate have started to turn to the residential sector. Given a pipeline that remains full, a transaction volume of up to € 20 billion could be achieved by the end of 2020.

The trend on the residential property markets is creating major challenges as far as housing policy is concerned. With the aim of putting a damper on the increase in rents, for example, the German Bundestag (lower house of parliament) made the decision in 2019 to expand the observation period used to create rent indices from four to six years. The amendment came into force on January 1, 2020. In February 2020, the German Bundestag adopted moves to step up and extend the rent cap regulations until 2025. The housing allowance reform means that low-income households have been receiving more housing allowance since January 1, 2020. Investments in energy-efficient refurbishment measures for owner-occupied residential real estate have been receiving tax incentives for a limited period since 2020. The Act on Rent Controls in the Housing Sector in Berlin, known as the rent freeze, came into force in February 2020. The law, whose constitutionality remains in doubt, essentially involves public-law restrictions on rent levels in Berlin for a period of five years. The Federal Constitutional Court is not expected to pass a judgment on the issue until early 2021 at the earliest.

The immediate action taken by the German government and the federal states in the wake of the coronavirus pandemic includes, first and foremost, a temporary ban on the termination of lease agreements if tenants are unable to pay their rent. In addition, many larger institutional landlords have demonstrated a willingness to temporarily suspend the use of measures such as evictions and rent increases. Other legislation under discussion that is relevant to the real estate sector includes the intended amendment to the German real estate transfer tax system, which aims to make share deals less attractive, and the planned Building Land Mobilization Act (Baulandmobilisierungsgesetz), which is designed to tighten up building law regulations and make it more difficult to convert rental apartments into condominiums.

Sweden

Scandinavia was hit by the coronavirus pandemic somewhat later than the rest of Europe. As a result, the crisis only had a minimal impact on the Swedish economy in the first quarter of 2020. Even though the momentum of the GDP did slow down according to the Swedish statistics office SCB, a marginal increase of 0.1% compared with the previous quarter was still achieved. Private consumption, in particular car purchases due to the new motor vehicle taxation system in place since the beginning of the year, and fixed investment decreased. Net exports, on the other hand, were stronger than expected.

The Swedish government opted for a strategy involving minimal restrictions on public life and placing great trust in collective responsible behavior. Despite high infection and mortality rates, trades and services were largely still available. Propensity to buy, however, was affected by the pandemic. The index of consumer confidence compiled by the National Institute of Economic Research (NIER) recorded a fast downward trend and fell in April and May to the same low levels as when the financial crisis hit in the fall of 2008, while again showing a positive trend in June. Accordingly, consumption will develop negatively and hit a low point of -8% in the second quarter of 2020. The activity indicator of the Swedish statistical office shows that economic activity in April has declined by more than 7% year-over-year. Additional company surveys conducted by the NIER regarding the development of sales compared to a normal situation show that the sales in the most affected sectors of production and services in May were about 20% behind the normal value, which is due to a steep decrease in demand for exports on the one hand, and to an interruption of supply chains on the other. All in all, the NIER expects Sweden's GDP to fall by 9.5% in the second quarter 2020. Economic policy measures to mitigate the slowdown will also be introduced in Sweden. The effects on the labor market should be mitigated by the comprehensive implementation of short-time working schemes. Nevertheless, the SCB reported an unemployment rate of 9.0% for May, which is 2.2 percentage points higher compared with the same month of the previous year. Inflation as measured by the annual change in the consumer price index with a fixed interest rate (CPIF) amounted to -0.4% in April and 0.0% in May. Low energy prices made a huge contribution to the downswing of inflation, particularly since oil prices fell considerably this year. The Riksbank left the interest rate unchanged at 0.0%.

No upswing in economic activity as strong as in the Eurozone is expected in the coming months due to the fact that the Swedish economy was not closed down to the same extent and the sectors most affected by the social distancing recommendations are relatively small. Furthermore, a survey conducted by the Riksbank shows that companies generally expect a slower and more halting recovery, and will in turn also withhold investments. This will mostly affect investments in manufacturing, where the capacity utilization is already as low as at the time of the financial crisis. Private consumption should see a steady recovery, even if the accumulated backlog is counteracted by decreasing household income and increasing unemployment. Exports, which are key for Sweden, are starting to gain steam. However, there is still uncertainty regarding the possibility of a new lockdown affecting regions or producers, which could again disrupt supply chains. Swedish imports have been decreasing since the fall of 2019. The downward trend will continue over the course of 2020 and will also spill over to the service sector.

The Riksbank assumes that this year's GDP could decrease by 6.9% or, in the event of a second wave of infections, by 9.7%. The NIER concluded that even though the Swedish economy will pick up speed in the third quarter, the particularly steep economic downturn will persist this year and also have a negative impact on the following year. For 2020, the Institute expects a decline of 5.7%, with growth of 3.4% in 2021.

The unemployment rate should linger at around 10% until the end of the year, and only start to slowly sink in the following years. The NIER assumes that the inflation rate could remain clearly under the target level of 2.0% over the next few years. Low government debt in Sweden allows fiscal policy a lot of elbowroom for further supporting measures. The Riksbank has also emphasized that it has not ruled out lowering interest rates. The krona is already relatively weak, and it is difficult to determine how an interest rate reduction would impact the current situation. Therefore, the NIER assumes that the interest rate will remain at 0.0%.

According to the Swedish Association of Public Housing Companies, Sveriges Allmännytta, the Swedish housing market is under considerable pressure. The population has grown significantly in the past few years and is expected to grow by more than 458,000 inhabitants in the period from 2020 to 2025 according to the latest forecast by Boverket – the Swedish National Board of Housing, Building and Planning. In the meantime, new construction has not been able to keep up with this population growth. Much of the country is facing a housing shortage, primarily in its urban areas. Even though the number of municipalities with a balanced housing market is increasing, 212 out of 290 municipalities reported a shortage of homes in Boverket's residential property market survey for this year. This includes all the municipalities in the greater Stockholm, Gothenburg and Malmö regions. The supply of rental apartments in particular needs to be expanded; there is a shortage of apartments for low-income households as well as housing for people who have a weak position on the housing market for other reasons. The tense situation on the housing market is likely to continue in the future, but the number of municipalities still expecting a shortage of homes three years from now will be lower than it is today. In many municipalities, residential construction activity is hampered by high construction costs. Furthermore, strict lending requirements or difficulties faced by private individuals in being granted loans limit new construction.

According to data supplied by Statistics Sweden, rents in the country rose by an average of 1.9 % in 2019, the highest increase seen since 2013. Rents are also expected to continue rising. According to "Hem & Hyra," the member magazine published by the Swedish tenants' association (Hyresgästföreningen), this year's rent negotiations had largely been concluded in June 2020. When the tenants' associations summarized the negotiations in early spring, the average increase was 1.9%. The increase somewhat slowed in the wake of the coronavirus pandemic. According to Hem & Hyra, the latest agreements are much lower than before the outbreak of the pandemic. The consequences of the coronavirus crisis are still not entirely foreseeable, but markets consider rental apartments to be an asset class carrying a comparably lower risk and according to the assessment of the experts at real estate consultancy firm Svefa, this real estate market segment could be the one to best overcome the coronavirus crisis. Interest in the segment continues to be high. Boverket reports that, before the outbreak of the coronavirus pandemic, home prices on the market for residential property ownership had recovered after falling at the end of 2017. Initially, the upswing continued into the first quarter of the current year. Measured against the Valueguard HOX price index, which reflects the price development of typical condominiums and single-family homes, residential real estate prices dropped considerably in April, the month in which the strongest impact of the coronavirus was felt, but rose again noticeably in May. The HOX price index was up by 5.5% year-over-year in June 2020. Even though the NIER does not expect housing prices to collapse this year, there is still considerable uncertainty regarding their development. Boverket believes that the possible drop in home prices – compared to their highest level – predicted by experts could be mitigated by the solid results of the first quarter of 2020. However, this also depends on the development of the economy as a whole. The experts at Swedbank expect the real estate market to recover later in 2020 and in 2021. Interest rates will remain low and demand for homes high due to a steadily growing population.

The construction industry seems not to have been hit as hard by the pandemic as other sectors of the economy. The answers provided by companies as part of the "Economic Tendency Survey" are indicative of this. Still, construction activity slowed down in the wake of the coronavirus pandemic. According to the NIER, building permits and new housing construction decreased in the first quarter of 2020, and this trend is likely to continue over the course of the year. Housing investments will sink considerably, albeit with a certain time delay. According to a forecast by Boverket, the number of completed construction projects is expected to fall to 53,000 completed apartments in 2020 after peaking at around 58,500 apartments in 2018 and 2019. In 2021, an estimated 47,000 apartments will be completed. This means that construction activity is falling considerably short of the level that is currently required. In its June 2019 housing needs estimate, Boverket calculates that 64,000 apartments would have to be built every year in the period leading up to 2027. Around 75% of demand is attributable to the three urban areas.

According to the independent consultancy company Pangea Property Partners, residential properties worth € 6.7 billion were traded on the Swedish transaction market in the first half of 2020, representing a year-over-year decrease of 14%. In terms of transaction volume, residential properties were the preferred asset class with a share of 38%. Catella reports that the pricing of well-located rental apartments and public properties in the major cities has not been affected by the coronavirus crisis yet. Due to the fact that large amounts of institutional capital are now more or less focusing entirely on these segments, there is a good possibility that prices will be subject to an upward pressure in the future. According to Catella, investors believe that the real estate segments with the best performance in 2020 will be public properties (such as retirement homes, schools and public buildings) as well as residential rental properties.

Austria

Stringent containment measures have also been implemented in Austria from mid-March onwards, resulting in a temporary, but considerable, drop in economic activity. According to the Austrian central bank (OeNB), GDP had already fallen by 2.5% in the first quarter of 2020. This affected a large number of consumer-related service sectors, some of which had to suspend or restrict their business activities. Exports also plummeted, taking industrial production along with them. In addition to the slump in demand, border closures, in particular, hindered the supply of precursors and intermediates. Despite the fact that the measures have been increasingly relaxed since mid-April, an even more significant drop in GDP of around 11% is expected for the second quarter of 2020. While indicators from the economic test run by the Austrian Institute of Economic Research (WIFO) on the current situation of the economy as a whole show an upward trend for June, they remain close to an all-time low. The expectations of Austrian companies are also much less negative in June than they were a month earlier in all sectors, with the construction industry showing the most positive trend. The economic slump triggered an abrupt increase in unemployment from mid-March onwards. Although short-time working programs helped to cushion the blow, the unemployment rate, based on the national definition, climbed to an all-time high of 12.7% in April. The WIFO reports that it fell to 11.5% in May, up by 4.7 percentage points on the same month of the previous year. After coming to 2.2% in February 2020, Austrian HICP inflation slowed to 1.6% and 1.5% in March and April, respectively, dropping back to 0.6% in May 2020.

Thanks to its lower infection rates and earlier measures taken to open the economy back up, the Austrian economy has been hit less hard by the coronavirus crisis than other European countries. Consumer and investment demand, however, are unlikely to gain momentum in the foreseeable future, and the export-oriented Austrian economy will only be able to return to its growth path with global support. Bank Austria expects that an upswing in the second half of 2020 will limit the slump in Austrian GDP to around 9%. Looking ahead to 2021, Bank Austria still expects the economy to catch up, with GDP set to rise by around 8%. One decisive factor is likely to be how quickly private consumption will get back on track again given the insecurity among consumers.

The OeNB's economic forecast is based on two key assumptions: There will be no second wave of infection in the fall and medical treatment will be available by mid-2021. Taking this as a basis, the OeNB expects the Austrian economy's GDP to dip by 7.2% in 2020. Exports will fall by 11.6%, with gross fixed asset investment (-6.7%) and private consumption (-5.8%) also expected to fall sharply in 2020. The catch-up process that emerges as backlogs clear, combined with improved economic confidence, is likely to translate into growth of 4.9% in 2021, according to the central bank's estimate. The OeNB predicts that GDP will only bounce back to the pre-pandemic level in 2022. HICP inflation is forecast to drop to 0.8% in 2020, remaining constant at that level in 2021 and not accelerating to 1.5% until 2022. Bank Austria expects the unemployment rate to remain in the double digits in the second half of the year. Due to demand-related factors, the pace of economic recovery will not be rapid enough to allow for a faster decline. In addition, more than one million people are currently still on short-time work.

At the beginning of 2020, it initially appeared that the overall conditions on the real estate market remained positive. 2019 was characterized by sustained low interest rates, an ongoing good supply of properties despite a slight drop and, in the majority of regions, very high demand for real estate among owner-occupiers and investors alike. Experts reported at the time that they did not expect to see any significant change in these conditions in 2020 either. The coronavirus crisis and the measures taken by the Austrian government to contain the virus have left a clear mark on the Austrian real estate market. According to EHL, the situation improved markedly after Easter following dwindling inquiries regarding apartment rentals or purchases at the beginning of the coronavirus crisis. In the medium term, mounting unemployment and other adverse economic developments will put a damper on demand. EHL nevertheless believes that the structural need for additional housing in urban areas will ensure that the slump in demand is kept within limits. The Austrian Conference on Spatial Planning reports that the Austrian population has increased considerably in the past and will continue to grow in the future, too. The latest population forecast produced by the Austrian statistical office, Statistik Austria, suggests that by 2040, the Austrian population will have risen by 7%, from 8.84 million (2018) to 9.43 million. Bank Austria reports that residential construction activity in Austria has been geared toward addressing the considerable shortage of supply on the housing market for some years now. An estimated 66,000 units were completed in 2018 – the highest level of construction activity seen in decades – and are likely to have satisfied the current need for housing prevailing in Austria on average. Nevertheless, major supply gaps remain in individual market segments, particularly in the area of more affordable rental apartments. According to EHL, it is becoming increasingly evident that the coronavirus crisis will have a very significant impact, particularly on the supply side. While it is predicted, as things stand at the moment, that Vienna alone will manage to complete 19,000 apartments in 2020, in spite of all of the restrictions, there is likely to be a significant drop in the number of building permits and, as a result, in the number of completions in 2022 and 2023.

According to the OeNB, it is currently still impossible to predict the impact that the coronavirus crisis will have on the development of residential and rental prices in the near future. This will largely depend on the duration and intensity of the crisis. The data on price developments in the first quarter of 2020 did not yet reveal any significant impact of the coronavirus crisis, as only the last two weeks in the twelve-week period were affected by the containment measures. In line with this assessment, the values of the current OeNB residential real estate price index on the basis of new and used condominiums and single-family residences show an increase in Austria in the first quarter of 2020 of 3.4% compared to the previous year, or 1.7% as against the previous quarter. In Vienna, prices increased compared to the previous year by 3.9%. In the rest of Austria (excluding Vienna), price developments came to 2.8% during the same period. While the OeNB is reporting that real estate experts expect rents to decline or stagnate at best, the consumer price index published by the Austrian statistical office shows that apartment rents in Austria have been rising month by month since the beginning of the year and were 3.7% higher in June 2020 than in June 2019. According to CBRE, the housing market is more resistant to crisis than the commercial real estate markets. Demand for this asset class remains high. The fundamentally defensive characteristics of the apartment building sector are expected to maintain investment levels in the long term, while the rental housing market could be boosted by postponed investment decisions made by owner-occupiers. As far as new developments are concerned, it is expected that development-to-sell projects will be changed to development-to-rent projects to a certain extent. Comparatively better conditions on the Austrian labor market could reinforce existing pull factors and lead to higher labor migration to Austria with a potential knock-on effect on housing demand. If problems in the labor market persist, however, concerns will arise as to future rental payments and the demand for both rental apartments that are currently vacant and new rental apartments.

According to EHL, the Austrian investment market is strong and active in spite of the coronavirus crisis. The transaction volume in the first half of 2020 came to around € 1.5 billion. Despite dropping by 11% in a year-over-year comparison, this sort of figure would have been considered perfectly satisfactory only a few years back, even under normal circumstances. EHL reports that it is remarkable that the "coronavirus quarter," namely the second quarter of the year, was actually significantly stronger than the first quarter of 2020. The fundamental risk-averse mood on the market is reflected in considerable interest in the residential segment. The residential segment accounted for 33% of the transaction volume. According to EHL, the transaction volume is expected to increase significantly in the second half of 2020 compared to the first half. Market activity had already returned more or less to normal by June.

Results of Operations

Vonovia recorded stable business development in the first half of 2020 and was able to act as a reliable partner for all stakeholders, but especially for its customers, in spite of the coronavirus pandemic. The coronavirus pandemic is currently not having any significant impact on Vonovia's corporate strategy, nor is it having any considerable impact on the company's operational and financial performance. Vonovia has only been experiencing a low level of lost rental payments, meaning that it does not expect to see any significant default on receivables in the future either. To the extent that they were temporarily interrupted by the coronavirus restrictions, modernization and/or new construction measures, as well as sales activities, have resumed again and are being continued in full.

We are currently observing stable demand for rental apartments and no negative impact on market values as a result of the coronavirus pandemic.

As of June 30, 2020, Vonovia managed a portfolio comprising 414,879 of its own residential units (June 30, 2019: 396,739), 138,626 garages and parking spaces (June 30, 2019: 120,964) and 6,642 commercial units (June 30, 2019: 5,278). The locations span 639 cities, towns and municipalities (June 30, 2019: 691) in Germany, Sweden and Austria. 73,488 residential units (June 30, 2019: 79,015) are also managed for other owners.

At the end of the first half of 2020, Vonovia employed 10,440 people (June 30, 2019: 10,024).

The following key figures provide an overview of Vonovia's results of operations and the relevant drivers in the first half of 2020. When comparing the current key figures with the previous year, it is important to note that the figures for 2020 include Hembla, which was acquired in November 2019, with a contribution to the half-year result.

in € million	H1 2019	H1 2020	Change in %	12M 2019
Income from property management	1,432.1	1,556.3	8.7	2,910.7
thereof rental income in the Rental segment	1,014.8	1,132.9	11.6	2,074.9
Income from disposal of properties	226.7	317.6	40.1	510.7
Income from the disposal of real estate inventories (Development)	124.9	107.5	-13.9	249.5
Adjusted EBITDA Total	872.8	942.2	8.0	1,760.1
Adjusted EBITDA Rental	724.0	781.4	7.9	1,437.4
Adjusted EBITDA Value-add	75.7	67.6	-10.7	146.3
Adjusted EBITDA Recurring Sales	42.4	48.1	13.4	91.9
Adjusted EBITDA Development	30.7	45.1	46.9	84.5
Group FFO	609.1	676.3	11.0	1,218.6
EBITDA IFRS	811.9	877.4	8.1	1,579.6
Monthly in-place rent (€/m²)	6.64	7.03	5.9	6.93
Average area of own apartments in the reporting period (in thou. m²)	25,114	26,561	5.8	25,316
Average number of own units (number of units)	395,785	415,348	4.9	398,398
Vacancy rate (in %)	2.9	2.8	-0.1 pp	2.6
Maintenance expenses and capitalized maintenance (€/m²)	8.31	9.33	12.3	19.02
thereof expenses for maintenance (€/m²)	5.85	5.82	-0.5	12.20
thereof capitalized maintenance (€/m²)	2.46	3.51	42.7	6.82
Number of units bought	2,556	–	-100.0	23,987
Number of units sold	1,988	1,931	-2.9	4,784
thereof Recurring Sales	1,234	1,327	7.5	2,607
thereof Non-core Disposals	754	604	-19.9	2,177
Number of employees (as of June 30/Dec. 31)	10,024	10,440	4.2	10,345

Group FFO

The following key figures provide an overview of the development in Group FFO and other value drivers in the reporting period.

Group FFO

in € million	H1 2019	H1 2020	Change in %	12M 2019
Rental income in the Rental segment	1,014.8	1,132.9	11.6	2,074.9
Expenses for maintenance	-147.0	-154.7	5.2	-308.9
Operating expenses in the Rental segment	-143.8	-196.8	36.9	-328.6
Adjusted EBITDA Rental	**724.0**	**781.4**	**7.9**	**1,437.4**
Revenue Value-add	760.9	760.4	-0.1	1,677.3
thereof external revenue	134.9	131.2	-2.7	248.4
thereof internal revenue	626.0	629.2	0.5	1,428.9
Operating expenses Value-add	-685.2	-692.8	1.1	-1,531.0
Adjusted EBITDA Value-add	**75.7**	**67.6**	**-10.7**	**146.3**
Income from disposals Recurring Sales	174.9	195.0	11.5	365.1
Fair value of properties sold adjusted to reflect effects not relating to the period from assets held for sale in the Recurring Sales segment	-124.5	-140.5	12.9	-258.4
Adjusted result Recurring Sales	**50.4**	**54.5**	**8.1**	**106.7**
Selling costs Recurring Sales	-8.0	-6.4	-20.0	-14.8
Adjusted EBITDA Recurring Sales	**42.4**	**48.1**	**13.4**	**91.9**
Income from disposal of "Development to sell" properties	124.9	107.5	-13.9	249.5
Cost of Development to sell	-95.2	-83.7	-12.1	-197.3
Gross profit Development to sell	**29.7**	**23.8**	**-19.9**	**52.2**
Fair value Development to hold	103.8	144.7	39.4	266.3
Cost of Development to hold	-86.1	-118.2	37.3	-207.4
Gross profit Development to hold*	**17.7**	**26.5**	**49.7**	**58.9**
Operating expenses in the Development segment	-16.7	-5.2	-68.9	-26.6
Adjusted EBITDA Development	**30.7**	**45.1**	**46.9**	**84.5**
Adjusted EBITDA Total	**872.8**	**942.2**	**8.0**	**1,760.1**
FFO interest expense	-177.8	-188.8	6.2	-358.6
Current income taxes FFO	-30.6	-19.8	-35.3	-50.1
Consolidation**	-55.3	-57.3	3.6	-132.8
Group FFO	**609.1**	**676.3**	**11.0**	**1,218.6**

* Excluding capitalized interest on borrowed capital in H1 2020 of € 0.3 million (H1 2019 € 0.0 million).

** Thereof intragroup profits in H1 2020: € 16.1 million (H1 2019: € 23.8 million), gross profit development to hold in H1 2020: € 26.5 million (H1 2019: € 17.7 million), IFRS 16 effects H1 2020: € 14.7 million (H1 2019: € 13.8 million).

As of the end of the first half of 2020, 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 June 2019. **Rental income** in the **Rental segment** rose by 11.6% from € 1,014.8 million in the first half of 2019 to € 1,132.9 million in the first half of 2020, largely due to the additional rental income from the Hembla portfolio, as well as to organic growth resulting from new construction and modernization measures. Hembla contributed a volume of € 88.8 million to the increase in the first half of 2020. Of the rental income in the Rental segment, € 918.4 million is attributable to rental income in Germany (H1 2019: € 895.6 million), € 161.9 million to rental income in Sweden (H1 2019: € 65.0 million) and € 52.6 million to rental income in Austria (H1 2019: € 54.2 million).

The increase in rent due to market-related factors came to 1.0% (H1 2019: 1.2%). We were also able to achieve an increase in rent of 2.3% thanks to property value improvements achieved as part of our modernization program (H1 2019: 2.5%). The corresponding **like-for-like rent increase** came to 3.3% in the 2020 reporting period (H1 2019: 3.7%). 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** totaling 3.9% (H1 2019: 4.0%). The average monthly in-place rent within the Group at the end of June 2020 came to € 7.03 per m^2, compared to € 6.64 per m^2 at the end of June 2019. The monthly in-place rent in the German portfolio at the end of June 2020 came to € 6.88 per m^2 (June 30, 2019: € 6.65 per m^2), with the figure for the Swedish portfolio coming to € 9.65 per m^2 (June 30, 2019: € 9.20 per m^2) and the figure for the Austrian portfolio coming to € 4.73 per m^2 (June 30, 2019: € 4.59 per m^2). The rental income from the portfolio in Sweden reflects inclusive rents, meaning that the amounts contain operating, heating and water supply costs. The rental income from the Austrian property portfolio also includes maintenance and improvement contributions (EVB).

We have continued with our modernization, new construction and maintenance strategy in the 2020 fiscal year. As a result of the coronavirus pandemic, construction activities slowed somewhat in the second quarter of 2020. The total volume of maintenance, modernization and new construction activity rose by 6.8%, from € 804.3 million in the first half of 2019 to € 859.1 million in the first six months of 2020.

Maintenance, Modernization and New Construction

in € million	H1 2019	H1 2020	Change in %	12M 2019
Expenses for maintenance	147.0	154.7	5.2	308.9
Capitalized maintenance	61.7	93.2	51.1	172.7
Maintenance measures	**208.7**	**247.9**	**18.8**	**481.6**
Modernization measures	432.1	437.1	1.2	996.5
New constuction (to hold)	163.5	174.1	6.5	493.0
Modernization and new constuction measures	**595.6**	**611.2**	**2.6**	**1,489.5**
Total cost of maintenance, modernization and new construction	**804.3**	**859.1**	**6.8**	**1,971.1**

Operating expenses in the Rental segment in the first half of 2020 were up by 36.9% on the figures for the first half of 2019, from € 143.8 million to € 196.8 million, due to the acquisition of Hembla (H1 2020: € 40.9 million). All in all, **Adjusted EBITDA Rental** increased by 7.9% from € 724.0 million in the first half of 2019 to € 781.4 million in the first half of 2020.

The **Value-add segment** developed as expected in the first half of 2020, although it was impacted by the coronavirus pandemic. Vonovia's own craftsmen's organization once again made a decisive contribution to the segment's stable development. We continued to expand our business activities relating to the provision of cable television to our tenants, residential environment, insurance and metering services, and energy supply services.

External revenue from our Value-add activities with our end customers in the first half of 2020 was down by 2.7% on the first half of 2019, from € 134.9 million to € 131.2 million, largely due to a weather-related reduction in snow and ice-clearing activities in the first quarter of 2020. Group revenue increased by 0.5% from € 626.0 million in the first half of 2019 to € 629.2 million in the first half of 2020. All in all, revenue from the Value-add segment came to € 760.4 million in the first half of 2020, virtually on a par with the level of € 760.9 million seen in the first half of 2019. **Adjusted EBITDA Value-add** fell by 10.7%, from € 75.7 million in the first six months of 2019 to € 67.6 million in the first half of 2020. This was largely due to construction delays on some modernization measures and to higher costs from a lower level of internal resources, both related to the coronavirus.

We continued to pursue our selective sales strategy in the 2020 fiscal year. In the Recurring Sales segment, we report all business activities relating to the sale of single residential units (Privatize).

In the **Recurring Sales segment,** income from the disposal of properties came to € 195.0 million in the first half of 2020, up by 11.5% on the value of € 174.9 million reported in the first half of 2019; of this, € 138.3 million are attributed to sales in

Germany (H1 2019: € 125.1 million) and € 56.7 million to sales in Austria (H1 2019: € 49.8 million). We privatized 1,327 apartments in the first six months of 2020 (H1 2019: 1,234), thereof 1,046 in Germany (H1 2019: 958) and 281 in Austria (H1 2019: 276). Adjusted EBITDA Recurring Sales came in at € 48.1 million in the first half of 2020, up by 13.4% on the value of € 42.4 million seen in the first half of 2019. The **fair value step-up** for Recurring Sales came in at 38.8% in the first six months of 2020, down slightly on the comparative value of 40.5% for the first six months of 2019. This is due primarily to lower step-ups for sales in Austria as against the previous year. The step-ups in Austria were higher than in Germany overall.

Outside of the Recurring Sales segment, we made 604 **Non-core Disposals** of residential units as part of our portfolio adjustment measures in the first half of 2020 (H1 2019: 754) with total proceeds of € 122.6 million (H1 2019: € 51.8 million). At 36.5%, the fair value step-up for Non-core Disposals was considerably higher than for the same period in the previous year (20.4%). The increase was driven primarily by the sale of a large commercial property in Dresden in the first quarter of 2020.

In the first half of 2020, the **Development segment,** with its Development to sell and Development to hold areas, made positive contributions to earnings in Germany, Austria and Sweden, once again allowing it to contribute to Vonovia's successful growth.

In the **Development to sell** area, 83 units were completed in the first half of 2020 (H1 2019: 379), thereof 83 in Germany (H1 2019: 74) and no units in Austria (2019: 305 units). In the first half of 2020, income from the disposal amounted to € 107.5 million (H1 2019: € 124.9 million), with € 82.7 million attributable to project development in Germany (H1 2019: € 53.9 million) and € 24.8 million to project development in Austria (H1 2019: € 71.0 million). The resulting gross profit for Development to sell came to € 23.8 million (H1 2019: € 29.7 million).

In the **Development to hold** area, a total of 534 units were completed (H1 2019: 438 units incl. vertical expansion), thereof 308 in Germany (H1 2019: 310), 34 in Sweden (H1 2019: 0) and 192 in Austria (H1 2019: 128). In the Development to hold area, a fair value of € 144.7 million was achieved in the first half of 2020 (H1 2019: € 103.8 million), with € 63.5 million attributable to project development in Germany (H1 2019: € 74.8 million), € 78.1 million to project development in Austria (H1 2019: € 29.0 million) and € 3.1 million to project development in Sweden (H1 2019: € 0.0 million). The gross profit for Development to hold came to € 26.5 million in the first half of 2020 (H1 2019: € 17.7 million). Operating expenses in the Development segment came in at € 5.2 million in the first half of 2020, down considerably on the value of € 16.7 million seen in the same period of 2019. This was due to lower selling and personnel costs associated with the status of the progress made in the relevant projects.

Adjusted EBITDA for the Development segment came in at € 45.1 million in the first half of 2020, up by 46.9% on the value of € 30.7 million seen in the same period of 2019. This can be traced back primarily to the higher gross profit from Development to hold.

In the first six months of the year, the primary key figure for the sustained earnings power, **Group FFO,** increased by a total of 11.0%, from € 609.1 million in the first six months of 2019 to € 676.3 million in the first six months of 2020, largely due to the acquisition of Hembla and to organic growth resulting from new construction and modernization measures. This trend was fueled primarily by the positive development in Adjusted EBITDA Total, which rose by 8.0% from € 872.9 million to € 942.2 million during the reporting period.

In the 2020 reporting period, the **non-recurring items** eliminated in the **Adjusted EBITDA Total** came to € 37.9 million (H1 2019: € 25.3 million). The following table gives a detailed list of the non-recurring items:

Non-recurring Items

in € million	H1 2019	H1 2020	Change in %	12M 2019
Acquisition costs incl. integration costs*	11.6	22.1	90.5	48.2
Severance payments/pre-retirement part-time work arrangements	8.9	7.2	-19.1	13.2
Business model optimization/development of new field of business	0.6	8.6	>100	27.6
Refinancing and equity measures	4.2	–	-100.0	4.1
Total non-recurring items	**25.3**	**37.9**	**49.8**	**93.1**

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

Reconciliations

The **financial result** changed from € -233.1 million in the first half of 2019 to € -205.5 million in the first half of 2020. FFO interest expense is derived from the financial result as follows:

Reconciliation of Financial Result/FFO Interest Expense

in € million	H1 2019	H1 2020	Change in %	12M 2019
Interest income	3.5	14.7	>100	8.9
Interest expense	-214.8	-215.1	0.1	-417.5
Other financial result excluding income from investments	-21.8	-5.1	-76.6	12.2
Financial result*	**-233.1**	**-205.5**	**-11.8**	**-396.4**
Adjustments:				
Other financial result excluding income from investments	21.8	5.1	-76.6	-12.2
Effects from the valuation of interest rate and currency derivates	27.9	34.0	21.9	17.9
Prepayment penalties and commitment interest	7.5	2.9	-61.3	28.1
Effects from the valuation of non-derivative financial instruments	-12.8	-26.3	>100	-18.9
Interest accretion to provisions	4.8	2.9	-39.6	10.0
Interest income from bond issue	–	-11.9	–	–
Accrued interest/other effects	0.0	15.1	–	-18.8
Net cash interest	**-183.9**	**-183.7**	**-0.1**	**-390.3**
Adjustment for IFRS 16 Leases	4.2	4.8	14.3	8.8
Adjustment of income from investments in other real estate companies	0.2	–	-100.0	1.7
Adjustment of interest paid due to taxes	-0.6	5.3	–	-1.0
Adjustment of accrued interest	2.3	-15.2	–	22.2
Interest expense FFO	**-177.8**	**-188.8**	**6.2**	**-358.6**

* Excluding income from other investments.

The **profit for the period** in the first six months of 2020 came to € 1,618.1 million as against € 125.3 million in the first half of 2019. In the first six months of 2019, considerably higher depreciation, amortization and impairment reduced the profit reported. Net income from fair value adjustments of investment properties came to € 1,812.3 million in the first half of 2020, down by € 446.4 million year-over-year.

Reconciliation of Profit for the Period/Group FFO

in € million	H1 2019	H1 2020	Change in %	12M 2019
Profit for the period	**125.3**	**1,618.1**	**>100**	**1,294.3**
Financial result*	233.1	205.5	-11.8	396.4
Income taxes	776.3	823.9	6.1	1,844.6
Depreciation and amortization	1,935.9	42.2	-97.8	2,175.8
Net income from fair value adjustments of investment properties	-2,258.7	-1,812.3	-19.8	-4,131.5
EBITDA IFRS	**811.9**	**877.4**	**8.1**	**1,579.6**
Non-recurring items	25.3	37.9	49.8	93.1
Total period adjustments from assets held for sale	0.3	14.6	>100	-2.2
Financial income from investments in other real estate companies	-0.2	–	-100.0	-1.7
Other (Non-core Disposals)	-6.0	-30.3	>100	-11.5
Intragroup profits	23.8	16.1	-32.4	43.9
Gross profit Development to hold	17.7	26.5	49.7	58.9
Adjusted EBITDA Total	**872.8**	**942.2**	**8.0**	**1,760.1**
Interest expense FFO**	-177.8	-188.8	6.2	-358.6
Current income taxes FFO	-30.6	-19.8	-35.3	-50.1
Consolidation	-55.3	-57.3	3.6	-132.8
Group FFO	**609.1**	**676.3**	**11.0**	**1,218.6**
Group FFO per share in €***	1.12	1.25	11.0	2.25

* Excluding income from other investments.
** Incl. financial income from investments in other real estate companies.
*** Based on the shares carrying dividend rights on the reporting date June 30, 2019: 542,273,611, June 30, 2020: 542,273,611, Dec. 31, 2019: 542,273,611.

Assets

Consolidated Balance Sheet Structure

	Dec. 31, 2019*		June 30, 2019	
	in € million	in %	in € million	in %
Non-current assets	55,082.8	97.5	57,713.8	96.7
Current assets	1,431.0	2.5	1,951.2	3.3
Total assets	**56,513.8**	**100.0**	**59,665.0**	**100.0**
Equity	21,069.7	37.3	21,814.7	36.6
Non-current liabilities	31,762.1	56.2	34,114.6	57.2
Current liabilities	3,682.0	6.5	3,735.7	6.2
Total equity and liabilities	**56,513.8**	**100.0**	**59,665.0**	**100.0**

* Adjusted (see note [A2] Adjustment to Prior-year Figures).

The Group's **total assets** increased by € 3,151.2 million as against December 31, 2019, rising from € 56,513.8 million to € 59,665.0 million. Investment properties reported under non-current assets increased by € 2,427.1 million, € 1,812.3 million of which is due to the result of the property valuation process. Real estate inventories rose by € 89.8 million from € 358.3 million to € 448.1 million. The € 149.2 million increase in non-current financial assets from € 331.7 million to € 480.9 million is due mainly to the acquisition of the stake in Vesteda. Assets held for sale fell by € 97.2 million from € 134.1 million as of December 31, 2019, to € 36.9 million. Cash and cash equivalents increased by € 448.5 million. Goodwill and trademark rights comprise 2.5% of the total assets.

As of June 30, 2020, the **gross asset value (GAV)** of Vonovia's property assets came to € 55,990.1 million, which corresponds to 93.8% of total assets compared with € 53,586.3 million, or 94.8%, at the end of 2019.

The € 745.0 million increase in total **equity** from € 21,069.7 million to € 21,814.7 million results in particular from the profit for the period in the amount of € 1,618.1 million. The dividend of € 851.4 million on which a resolution was passed at the Annual General Meeting held on June 30, 2020, and which is recognized as a liability until it is paid out, had the opposite effect.

This brings the **equity ratio** to 36.6%, compared with 37.3% at the end of 2019.

Liabilities rose by € 2,406.2 million from € 35,444.1 million to € 37,850.3 million. The amount of non-derivative financial liabilities rose by € 829.4 million, with the € 1,521.4 million increase in non-current non-derivative financial liabilities offset by the € 692.0 million drop in current non-derivative financial liabilities.

Net Asset Value

Vonovia's net asset value (NAV) figures are based on the best practice recommendations of the EPRA (European Public Real Estate Association). At the end of the first half of 2020, the EPRA NAV, by EPRA definition, came to € 31,078.2 million, up by 5.0% on the value of € 29,592.5 million seen at the end of 2019. EPRA NAV per share increased from € 54.57 at the end of 2019 to € 57.31 at the end of the first half of 2020. The Adjusted NAV of € 29,673.2 million at the end of the first half of 2020 was an increase of 5.4% over € 28,161.9 million at the end of 2019. This represents an increase of 5.4% in the Adjusted NAV per share from € 51.93 at the end of 2019 to € 54.72 at the end of the first half of 2020.

Net Asset Value (NAV)

in € million	Dec. 31, 2019*	June 30, 2020	Change in %
Total equity attributable to Vonovia shareholders	19,308.3	19,985.8	3.5
Deffered taxes on investment properties	10,288.9	11,078.6	7.7
Fair value of derivative financial instruments**	1.6	22.5	>100
Deferred taxes on derivative financial instruments	-6.3	-8.7	38.1
EPRA NAV	29,592.5	31,078.2	5.0
Goodwill	-1,430.6	-1,405.0	-1.8
Adjusted NAV	**28,161.9**	**29,673.2**	**5.4**
EPRA NAV per share in €* **	**54.57**	**57.31**	**5.0**
Adjusted NAV per share in €* **	**51.93**	**54.72**	**5.4**

* Adjusted (see note [A2] Adjustment to Prior-year Figures).
** Adjusted for effects from cross currency swaps.
*** Based on the number of shares on the reporting date Dec. 31, 2019: 542,273,611, June 30, 2020: 542,273,611.

Fair Values

Major market developments and valuation parameters that have an impact on the fair values of Vonovia are assessed on an ongoing basis. Due to the market momentum recognized in the first half of 2020, Vonovia decided to perform a new valuation on the 20 German locations that account for the largest fair value shares. The list of the locations to be valued was extended to include six additional German locations in which considerable changes in value had been observed, as well as Vienna and the portfolio in Sweden. The selection includes the lion's share of the portfolio, accounting for more than two-thirds of the total fair value. This revaluation led to net income from the valuation of € 1,812.3 million (H1 2019: € 2,258.7 million).

In addition, buildings under construction (new construction/development to hold) were completed during the reporting period. A fair value measurement is performed for the first time when the properties are completed. This resulted in a valuation effect of € 26.5 million for the period from January 1 to June 30, 2020 (H1 2019: € 17.7 million).

We are currently observing stable demand for rental apartments and no negative impact on market values as a result of the coronavirus pandemic. Potential effects on future price developments will depend to a considerable degree on how the pandemic progresses and the associated economic conditions, and are impossible to reliably predict at present. Residential real estate could become more significant as a relatively secure form of investment. The demand for residential real estate could, however, also change depending on the duration and extent of a possible recession. Vonovia is keeping a close eye on market developments.

At the end of January 2020, the Berlin House of Representatives passed the Act on Rent Controls in the Housing Sector in Berlin (referred to in short as “rent freeze”). This came into force in February 2020. It remains disputed whether the law is constitutional. Assuming that the rent freeze is found to be constitutional, future rental income or rental development will have to be reduced for the period leading up to, and including, 2025. This could have a negative impact on fair values. Likewise, it cannot be ruled out that declining vacancy rates and fluctuation as well as lower return requirements of investors (yield compression) will subsequently have a compensatory effect on fair values. The potential implications can be estimated via the sensitivities shown in the notes to the financial statements in this report. There is no evidence of any impact on fair values at present.

The recognition and valuation of investment properties are explained in detail in the consolidated financial statements for 2019.

Financial Position

Cash Flow

The following table shows the Group cash flow:

Key Data From the Statement of Cash Flows

in € million	H1 2019	H1 2020
Cash flow from operating activities	774.8	613.9
Cash flow from investing activities	-82.1	-799.9
Cash flow from financing activities	40.2	634.5
Net changes in cash and cash equivalents	**732.9**	**448.5**
Cash and cash equivalents at the beginning of the period	547.7	500.7
Cash and cash equivalents at the end of the period	**1,280.6**	**949.2**

The cash flow from **operating activities** came to € 613.9 million for the first half of 2020, compared with € 774.8 million for the same period in 2019. The drop is due primarily to the development in working capital.

The cash flow from **investing activities** shows a payout balance of € 799.9 million for the first half of 2020. The prior-year period was characterized, in particular, by income from the sale of the shares in Deutsche Wohnen SE in the amount of € 698.1 million. Payments for the acquisition of investment properties came to € 776.6 million in the first half of 2020 (H1 2019: € 1,176.9 million). Payments for the acquisition of consolidated companies include payments for the acquisition of Bien-Ries GmbH in particular. Subsequent payments of € 29.2 million were also incurred in connection with the acquisition of Hembla. The cash flow from investing activities also contains a payment of € 160.2 million for the acquisition of the stake in Vesteda. On the other hand, income from portfolio sales in the amount of € 318.3 million was collected (H1 2019: € 438.0 million).

The cash flow from **financing activities** includes payments for regular and unscheduled repayments in the amount of € 1,244.4 million and, on the other hand, proceeds from issuing financial liabilities in the amount of € 2,105.9 million. Payouts for transaction and financing costs amounted to € 17.1 million. Interest paid in the first six months of 2020 amounted to € 187.3 million.

Net changes in **cash and cash equivalents** came to € 448.5 million.

Financing

According to the publication dated April 6, 2020, 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+.

On December 13, 2019, Vonovia received an A- rating from the largest European rating agency Scope Group for the first time.

A European medium-term notes program **(EMTN program)** has been launched for the Group via Vonovia Finance B.V., allowing funds to be raised quickly at any time using bond issues, without any major administrative outlay. The prospectus for the EMTN program has to be updated annually and approved by the financial supervisory authority of the Grand Duchy of Luxembourg (CSSF).

As of the reporting date of June 30, 2020, Vonovia Finance B.V. had placed a total bond volume of € 14.8 billion, € 14.6 billion of which relates to the EMTN program.

Via its Dutch subsidiary Vonovia Finance B.V., Vonovia increased an EMTN bond of € 500 million that runs until March 2026 by € 200 million with effect from January 30, 2020.

Vonovia Finance B.V took out secured financing for Vonovia of over € 300 million with Landesbank Baden-Württemberg in February 2020, as well as over € 100 million with ING Bank, a branch of ING-DiBa AG, and over € 100 million with Berliner Sparkasse in March 2020, respectively, each with a term of ten years.

On February 28, 2020, € 300 million was repaid under the Commercial Paper Program that the Dutch subsidiary Vonovia Finance B.V. had taken out for the Vonovia Group. This means that the Commercial Paper Program has been repaid in full.

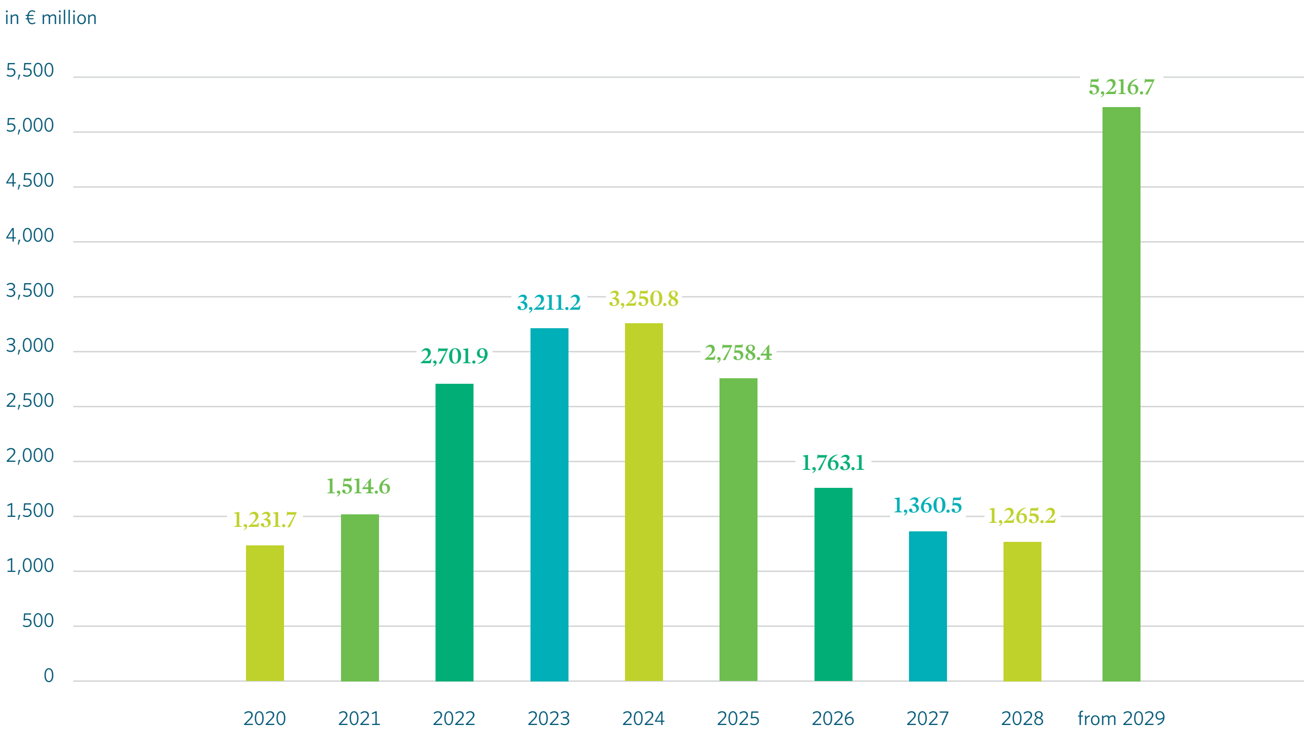
On March 30, 2020, Vonovia repaid the remaining capital of € 300.6 million on a bond issued by Dutch subsidiary Vonovia Finance B.V.

Vonovia placed two bonds with a total volume of € 1 billion on March 31, 2020. The new bonds will bear interest at an average rate of 1.9% and have a term of four and ten years, respectively.

Secured financing with remaining capital of € 290 million was repaid to a consortium including Berlin Hyp, Berliner Sparkasse and Landesbank Baden-Württemberg on June 30, 2020, as scheduled.

The **debt maturity profile** of Vonovia's financing was as follows as of June 30, 2020:

Debt Maturity Profile on June 30, 2020 (face values)



In connection with the issue of unsecured bonds by Vonovia Finance B.V., Vonovia has undertaken to comply with the following standard market covenants:

> Limitations on incurrence of financial indebtedness
> Maintenance of consolidated coverage ratio
> Maintenance of total unencumbered assets

The existing structured and secured financing arrangements also require adherence to certain standard market covenants. Any failure to meet the agreed financial covenants could have a negative effect on the liquidity status.

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

in € million	Dec. 31, 2019	June 30, 2020	Change in %
Non-derivative financial liabilities	23,574.9	24,404.3	3.5
Foreign exchange rate effects	-37.8	-38.5	1.9
Cash and cash equivalents	-500.7	-949.2	89.6
Net debt	**23,036.4**	**23,416.6**	**1.7**
Sales receivables	21.4	-29.6	–
Adjusted net debt	**23,057.8**	**23,387.0**	**1.4**
Fair value of the real estate portfolio	**53,316.4**	**55,698.6**	**4.5**
Shares in other real estate companies	149.5	309.9	>100
Adjusted fair value of the real estate portfolio	**53,465.9**	**56,008.5**	**4.8**
LTV	**43.1%**	**41.8%**	**-1.3 pp**

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

in € million	Dec. 31, 2019*	June 30, 2020	Change in %
Non-derivative financial liabilities	23,574.9	24,404.3	3.5
Total assets	**56,513.8**	**59,665.0**	**5.6**
LTV bond covenants	**41.7%**	**40.9%**	**-0.8 pp**

* Adjusted (see note [A2] Adjustment to Prior-year Figures).

Opportunities and Risks

For the purposes of the interim financial statements as of June 30, 2020, 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 2019 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 coronavirus pandemic is currently not having any significant impact on Vonovia's corporate strategy, nor is it having any considerable impact on the company's operational and financial performance. The risk situation would have to be reevaluated in the event of a second wave of the COVID-19 pandemic. Based on our experience to date, we would not expect a second wave to have any significant impact either. Now that the rent freeze in Berlin is in force, the expected impact has been incorporated into the updated plans as of June 30, 2020.

Business Outlook

Vonovia can report positive business development in the first six months of the 2020 fiscal year despite the coronavirus pandemic. The operating segments Rental, Development and Recurring Sales are showing positive development. A small decline in the Value-add segment is mostly due to effects of the coronavirus.

The forecast for the 2020 fiscal year was based on the accounting principles used in the consolidated financial statements and the adjustments described elsewhere in the Group management report. The forecast does not take account of any larger acquisitions of real estate portfolios.

Our forecast for the 2020 fiscal year is based on determined and updated corporate planning for the Vonovia Group as a whole, and considers current business developments, the acquisitions of Hembla and Bien-Ries, possible opportunities and risks, and the expected impacts of the coronavirus pandemic. It also includes the key overall macroeconomic developments and the economic factors that are relevant to the real estate industry and our corporate strategy. These are described in the chapter "Environmental Developments." Beyond this, the Group's further development remains exposed to general opportunities and risks.

We expect that the coronavirus pandemic will not have a significant impact on the key operational and financial figures of any of the operating segments, and will therefore have no impact on future business development. We are currently observing stable demand for rental apartments and no negative impact on market values as a result of the coronavirus pandemic. We therefore assume that adjusted EBITDA total will be within the range of our most recently published guidance.

At the end of January 2020, the Berlin House of Representatives passed the Act on Rent Controls in the Housing Sector in Berlin (referred to in short as "rent freeze"). This came into force in February 2020. It remains disputed whether the law is constitutional. Assuming that the rent freeze is found to be constitutional, future rental income or rental development will have to be reduced for the period leading up to, and including, 2025. This could have a negative impact on fair values. Likewise, it cannot be ruled out that declining vacancy rates and fluctuation as well as lower return requirements of investors (yield compression) will subsequently have a compensatory effect on fair values. There is no evidence of any impact on fair values at present.

We also expect that the most recently published Group FFO target within the range will be reached. In addition, we expect the value of our company to increase further in 2020 and predict a moderate increase in Adjusted NAV per share, leaving any further market-related changes in value out of the equation.

The following table provides an overview of our forecast and presents material and selected key figures. This prognosis is based on the assumption that there will be no second wave of the COVID-19 pandemic that is comparable to the first wave in the spring of 2020.

	Actual 2019	Forecast for 2020	Forecast for 2020 in the 2020 Q1 Report	Forecast for 2020 in the 2020 H1 Report
Adjusted NAV per share	**€ 51.93**	**suspended**	**suspended**	**suspended**
Adjusted EBITDA Total	**€ 1,760.1 million**	**€ 1,875–1,925 million**	**€ 1,875–1,925 million**	**€ 1,875–1,925 million**
Group FFO	**€ 1,218.6 million**	**€ 1,275–1,325 million**	**€ 1,275–1,325 million**	**€ 1,275–1,325 million**
Group FFO per share*	€ 2.25	suspended	suspended	suspended
Customer Satisfaction Index (CSI)	**Decrease of 8.0%**	**Scale slightly above previous year**	**Scale slightly above previous year**	**Scale slightly above previous year**
Rental income	€ 2,074.9 million	€ ~2,300 million	€ ~2,300 million	€ ~2,300 million
Organic rent growth	3.9%	Increase of ~ 4.0%**	Increase of 3.3–3.8%***	Increase of 3.3–3.8%***
Modernization and new constuction	€ 1,489.5 million	€ 1,300–1,600 million	€ 1,300–1,600 million	€ 1,300–1,600 million
Number of units sold Recurring Sales	2,607	~ 2,500	~ 2,500	~ 2,500
Step-up Recurring Sales	41.3%	~ 30%	~ 30%	~ 30%

* Based on current number of shares outstanding.
** Without possible one-time decrease pursuant to the Act For Rent Controls in the Housing Sector in Berlin (MietenWoG Bln)
*** The lower end of the forecast contains a possible one-time decrease pursuant to the Act For Rent Controls in the Housing Sector in Berlin (MietenWoG Bln)

Bochum, July 28, 2020

The Management Board

Condensed Interim Consolidated Financial Statements

Consolidated Income Statement

in € million	Notes	Jan. 1– June 30, 2019*	Jan. 1– June 30, 2020	Apr. 1– June 30, 2019*	Apr. 1– June 30, 2020
Income from property letting		1,396.9	1,520.8	702.7	760.3
Other income from property management		35.2	35.5	17.7	17.9
Income from property management	B7	**1,432.1**	**1,556.3**	**720.4**	**778.2**
Income from disposal of properties		226.7	317.6	72.2	159.2
Carrying amount of properties sold		-194.7	-259.8	-57.6	-125.2
Revaluation of assets held for sale		27.0	14.9	21.0	9.5
Profit on disposal of properties	B8	**59.0**	**72.7**	**35.6**	**43.5**
Income from the disposal of properties (Development)		124.9	107.5	65.5	62.1
Cost of sold properties		-95.2	-83.7	-49.1	-45.5
Profit on the disposal of properties (Development)	B9	**29.7**	**23.8**	**16.4**	**16.6**
Net income from fair value adjustments of investment properties	B10	2,258.7	1,812.3	2,201.8	1,808.2
Capitalized internal expenses		309.9	297.5	171.4	156.4
Cost of materials	B11	-693.1	-705.0	-358.6	-350.1
Personnel expenses		-265.3	-292.6	-131.4	-149.1
Depreciation and amortization		-1,935.9	-42.2	-1,919.4	-22.9
Other operating income		51.9	63.0	27.6	27.7
Impairment losses on financial assets		-9.9	-16.7	-4.4	-9.5
Gains resulting from the derecognition of financial assets measured at amortized cost		1.2	0.9	0.1	-0.2
Other operating expenses		-110.2	-132.1	-51.5	-64.5
Net income from investments accounted for using the equity method		-2.4	0.3	-2.5	0.3
Interest income	B12	3.5	14.7	2.1	1.0
Interest expenses	B13	-214.8	-215.1	-113.2	-113.1
Other financial result	B14	-12.8	4.2	-8.9	1.4
Earnings before tax		**901.6**	**2,442.0**	**585.5**	**2,123.9**
Income taxes		-776.3	-823.9	-661.6	-717.4
Profit for the period		**125.3**	**1,618.1**	**-76.1**	**1,406.5**
Attributable to:					
Vonovia's shareholders		98.7	1,558.0	-86.5	1,360.5
Vonovia's hybrid capital investors		14.8	14.8	7.4	7.4
Non-controlling interests		11.8	45.3	3.0	38.6
Earnings per share (basic and diluted) in €		**0.19**	**2.87**	**-0.16**	**2.51**

* Adjusted (see note [A2] Adjustment to Prior-year Figures).

Consolidated Statement of Comprehensive Income

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020	Apr. 1– June 30, 2019	Apr. 1– June 30 2020
Profit for the period	125.3	1,618.1	-76.1	1,406.5
Change in unrealized gains/losses	-6.0	9.2	-5.2	-4.0
Taxes on the change in unrealized gains/losses	2.0	-3.0	1.7	1.3
Net realized gains/losses	5.4	6.4	6.7	9.1
Taxes due to net realized gains/losses	-0.2	-0.5	-1.4	-2.2
Profit on cash flow hedges	1.2	12.1	1.8	4.2
Changes in the period	-27.6	-7.1	-14.8	155.8
Net realized gains/losses	–	2.0	–	-22.6
Profit on currency translation differences	-27.6	-5.1	-14.8	133.2
Items which will be recognized in profit or loss in the future	-26.4	7.0	-13.0	137.4
Changes in the period	30.5	-0.1	0.1	-0.2
Taxes on changes in the period	-0.4	0.1	–	0.2
Profit on equity instruments at fair value in other comprehensive income	30.1	-	0.1	-
Change in actuarial gains/losses, net	-48.8	-9.4	-25.7	-9.4
Tax effect	16.2	3.1	8.5	3.1
Profit on actuarial gains and losses from pensions and similar obligations	-32.6	-6.3	-17.2	-6.3
Items which will not be recognized in profit or loss in the future	-2.5	-6.3	-17.1	-6.3
Other comprehensive income	-28.9	0.7	-30.1	131.1
Total comprehensive income	**96.4**	**1,618.8**	**-106.2**	**1,537.6**
Attributable to:				
Vonovia's shareholders	72.7	1,558.8	-115.0	1,491.7
Vonovia's hybrid capital investors	14.8	14.8	7.4	7.4
Non-controlling interests	8.9	45.2	1.4	38.5

Consolidated Balance Sheet

Assets

in € million	Notes	Dec. 31, 2019*	June 30, 2020
Intangible assets		1,541.9	1,530.5
Property, plant and equipment		358.6	373.3
Investment properties	D16	52,736.6	55,163.7
Financial assets	F20	331.7	480.9
Other assets		54.7	106.0
Deferred tax assets		59.3	59.4
Total non-current assets		**55,082.8**	**57,713.8**
Inventories		8.8	8.6
Trade receivables		205.7	232.8
Financial assets		0.7	0.7
Other assets		138.0	213.6
Income tax receivables		84.7	61.3
Cash and cash equivalents		500.7	949.2
Real estate inventories		358.3	448.1
Assets held for sale		134.1	36.9
Total current assets		**1,431.0**	**1,951.2**
Total assets		**56,513.8**	**59,665.0**

Equity and liabilities

in € million	Notes	Dec. 31, 2019*	June 30, 2020
Subscribed capital		542.3	542.3
Capital reserves		8,239.7	8,237.7
Retained earnings		10,534.4	11,206.9
Other reserves		-8.1	-1.1
Total equity attributable to Vonovia's shareholders		**19,308.3**	**19,985.8**
Equity attributable to hybrid capital investors		1,001.6	1,021.4
Total equity attributable to Vonovia's shareholders and hybrid capital investors		**20,309.9**	**21,007.2**
Non-controlling interests		759.8	807.5
Total equity	E17	**21,069.7**	**21,814.7**
Provisions		662.4	664.1
Trade payables		5.1	2.4
Non-derivative financial liabilities	E18	21,198.0	22,719.4
Derivatives		74.1	80.4
Lease liabilities	E19	442.6	465.6
Liabilities to non-controlling interests		21.2	21.4
Financial liabilities from tenant financing		44.4	45.9
Other liabilities		26.1	27.2
Deferred tax liabilities		9,288.2	10,088.2
Total non-current liabilities		**31,762.1**	**34,114.6**
Provisions		530.2	442.7
Trade payables		219.1	200.4
Non-derivative financial liabilities	E18	2,376.9	1,684.9
Derivatives		41.0	41.4
Lease liabilities	E19	28.3	27.1
Liabilities to non-controlling interests		12.9	11.1
Financial liabilities from tenant financing		117.8	115.5
Liabilities from dividend entitlements		–	851.4
Other liabilities		355.8	361.2
Total current liabilities		**3,682.0**	**3,735.7**
Total liabilities		**35,444.1**	**37,850.3**
Total equity and liabilities		**56,513.8**	**59,665.0**

* Adjusted (see note [A2] Adjustment to Prior-year Figures).

Consolidated Statement of Cash Flows

in € million	Notes	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Profit for the period		125.3	1,618.1
Net income from fair value adjustments of investment properties	B10	-2,258.7	-1,812.3
Revaluation of assets held for sale	B9	-27.0	-14.9
Depreciation and amortization		1,935.9	42.2
Interest expenses/income and other financial result	B12/B13/B14	233.1	205.5
Income taxes		776.3	823.9
Results from disposals of investment properties	B8	-32.0	-57.8
Results from disposals of other non-current assets		1.0	–
Other expenses/income not affecting net income		1.7	-0.3
Change in working capital		17.2	-122.7
Income tax paid		2.0	-67.8
Cash flow from operating activities		**774.8**	**613.9**
Proceeds from disposals of investment properties and assets held for sale		438.0	318.3
Proceeds from disposals of other assets		695.2	0.2
Payments for investments in investment properties	D16	-1,176.9	-776.6
Payments for investments in other assets		-42.5	-222.0
Payments for acquisition of shares in consolidated companies, in due consideration of liquid funds		–	-123.4
Interest received		4.1	3.6
Cash flow from investing activities		**-82.1**	**-799.9**

in € million	Notes	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Capital contributions on the issue of new shares (including premium)	E17	744.2	–
Cash paid to shareholders of Vonovia SE and non-controlling interests	E17	-409.5	-1.9
Proceeds from issuing financial liabilities	E18	1,995.3	2,105.9
Cash repayments of financial liabilities	E18	-1,611.2	-1,244.4
Cash repayments of lease liabilities	E19	-13.1	-13.5
Payments for transaction costs in connection with capital measures		-23.6	-14.2
Payments for other financing costs		-18.4	-2.9
Payments in connection with the disposal of shares in non-controlling interests		-435.5	-7.2
Interest paid		-188.0	-187.3
Cash flow from financing activities		**40.2**	**634.5**
Net changes in cash and cash equivalents		**732.9**	**448.5**
Cash and cash equivalents at the beginning of the period		547.7	500.7
Cash and cash equivalents at the end of the period *		**1,280.6**	**949.2**

* Thereof restricted cash € 176.4 million (June 30, 2019: € 66.9 million).

Consolidated Statement of Changes in Equity

in € million	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Cash flow hedges	Other reserves: Equity instruments at fair value in other comprehensive income
As of Jan. 1, 2020	**542.3**	**8,239.7**	**10,534.4**	**-52.2**	**41.2**
Profit for the period			1,558.0		
Other comprehensive income					
Changes in the period			-6.2	6.2	
Reclassification affecting net income				5.9	0.0
Total comprehensive income			1,551.8	12.1	
Dividend distributed by Vonovia SE			-851.4		
Changes recognized directly in equity		-2.0	-27.9		
As of June 30, 2020	**542.3**	**8,237.7**	**11,206.9**	**-40.1**	**41.2**
As of Jan. 1, 2019	**518.1**	**7,183.4**	**9,942.0**	**-63.3**	**284.8**
Application of new standards			-34.0		
Deferred tax liabilities of the application of new standards			10.6		
as of Jan. 1, 2019 adjusted	**518.1**	**7,183.4**	**9,918.6**	**-63.3**	**284.8**
Profit for the period			98.7		
Other comprehensive income					
Changes in the period			-32.1	-4.0	30.1
Reclassification affecting net income				5.2	
Total comprehensive income			66.6	1.2	30.1
Capital increase	24.2				
Premium on the issue of new shares		1,061.3			
Transaction costs in connection with the issue of shares		-4.6			
Dividend distributed by Vonovia SE			-746.0		
Sale of equity instruments at fair value in other comprehensive income			292.6		-292.6
Changes recognized directly in equity		-1.7	1.5		
As of June 30, 2019	**542.3**	**8,238.4**	**9,533.3**	**-62.1**	**22.3**

Currency translation differences	Total	Equity attributable to Vonovia's shareholders	Equity attributable to Vonovia's hybrid capital investors	Equity attributable to Vonovia's share-holders and hybrid capital investors	Non-controlling interests	Total equity
2.9	**-8.1**	**19,308.3**	**1,001.6**	**20,309.9**	**759.8**	**21,069.7**
		1,558.0	14.8	1,572.8	45.3	1,618.1
-5.1	1.1	-5.1		-5.1	-0.1	-5.2
	5.9	5.9		5.9		5.9
-5.1	7.0	1,558.8	14.8	1,573.6	45.2	1,618.8
		-851.4		-851.4		-851.4
		-29.9	5.0	-24.9	2.5	-22.4
-2.2	**-1.1**	**19,985.8**	**1,021.4**	**21,007.2**	**807.5**	**21,814.7**
15.2	**236.7**	**17,880.2**	**1,001.6**	**18,881.8**	**782.3**	**19,664.1**
		-34.0		-34.0	-1.0	-35.0
		10.6		10.6	0.3	10.9
15.2	**236.7**	**17,856.8**	**1,001.6**	**18,858.4**	**781.6**	**19,640.0**
		98.7	14.8	113.5	11.8	125.3
-25.2	0.9	-31.2		-31.2	-2.9	-34.1
	5.2	5.2		5.2		5.2
-25.2	6.1	72.7	14.8	87.5	8.9	96.4
		24.2		24.2		24.2
		1,061.3		1,061.3		1,061.3
		-4.6		-4.6		-4.6
		-746.0		-746.0		-746.0
	-292.6					
		-0.2	5.0	4.8	-4.3	0.5
-10.0	**-49.8**	**18,264.2**	**1,021.4**	**19,285.6**	**786.2**	**20,071.8**

Notes

Section (A): Principles of the Consolidated Financial Statements

1 General Information

Vonovia SE is incorporated and domiciled in Germany. The company has been registered in the Bochum commercial register under HRB 16879 since 2017. Its registered office is located in Bochum.

The interim consolidated financial statements as of June 30, 2020, 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. They include the company and its subsidiaries.

In accordance with IAS 34, the scope of Vonovia's interim consolidated financial statements as of June 30, 2020, is condensed compared with the consolidated financial statements as of December 31, 2019.

2 Adjustment to Prior-year Figures

The total consideration for the acquisition of the Hembla Group was allocated with definitive effect as of June 30, 2020. Compared with the provisional allocation as of December 31, 2019, embedded derivatives in the form of termination options amounting to € 78.2 million were also recognized. Inversely, deferred tax liabilities of € 16.1 million were recognized. Goodwill was reduced by € 62.1 million in comparison as a result. The corresponding prior-year figure was adjusted as of the date of first-time consolidation.

In 2019, adjustments were also made to the consolidated income statement in order to improve the presentation and to separate interest income and interest expenses.

An additional item, "other financial result", has been reported in the consolidated income statement since December 31, 2019. As a result of the reporting amendment, financial income (interest income) decreased in the previous period (January 1 to June 30, 2019) by € 9.1 million and financial expenses (interest expenses) by € 21.9 million. For this purpose, the currency effects in the amount of € -0.2 million, the income from investments in the amount of € 9.1 million, the transaction costs in the amount of € -19.5 million as well as the purchase price liabilities from put options/rights to reimbursement in the amount of € -2.2 million in the prior-year figures are shown separately under other financial result.

3 Business Combinations

Acquisition of Hembla

On September 23, 2019, Vonovia SE announced that it had signed a contract for the purchase of 69.3% of the voting rights and 61.2% of the share capital in Hembla AB (publ), Stockholm, Sweden, ("Hembla") via its subsidiary HomeStar InvestCo AB, Stockholm, Sweden, ("HomeStar") with the funds advised by Blackstone Group Inc. The parties agreed to a purchase price of SEK 215.00 per share (irrespective of share class). The completion of the transaction required the approval of the Swedish merger control authorities, which was given on November 5, 2019.

The acquisition date on which Vonovia SE obtained control of the Hembla Group is November 7, 2019. 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 November 8, the offer document submitted on November 7, 2019, for the acquisition of all outstanding Class B Hembla shares not already held by HomeStar was approved and registered by the Swedish financial regulator. The offer price was SEK 215.00 per share. The acceptance deadline for the offer ended on December 9, 2019, at 5 p.m. (CET); the transaction was completed on December 16, 2019. Furthermore, after announcing the offer, HomeStar acquired additional Hembla shares apart from this offer in the period leading up to December 31, 2019.

Since the acquisition of the shares was effected under exactly the same conditions as the purchase on November 7, 2019, and the two events are related in terms of content and timing, a linked transaction can be assumed.

Therefore, Vonovia became the owner of 6,136,989 Class A Hembla shares and 81,282,426 Class B Hembla shares as of December 31, 2019, representing approximately 95.3% of the voting rights and approximately 94.1% of the share capital. In addition, through its wholly owned subsidiary HomeStar, Vonovia has acquired a total of 2,253,600 option rights from Hembla employees, which were granted as part of Hembla's long-term incentive program in 2017.

On December 10, 2019, Vonovia announced that it would extend the offer period until January 8, 2020, at 5 p.m. (CET) in order to give remaining shareholders who had not accepted the offer the possibility of doing so.

The second acceptance deadline extended as part of the purchase of Hembla ended on January 8, 2020. During this acceptance period, the offer was accepted by additional shareholders of Hembla, who held a total of 1,204,821 Class B Hembla shares, representing approximately 1.0% of the total voting rights and approximately 1.3% of the share capital.

In addition, a further 242,333 Class B shares had been acquired on the market by June 30, 2020.

Since the acquisition of the shares was effected under exactly the same conditions as the purchase on November 7, 2019, and the two events are related in terms of content and timing, a linked transaction can be assumed.

Therefore, through its wholly owned subsidiary HomeStar, Vonovia holds 6,136,989 Class A shares and 82,729,580 Class B shares as of June 30, 2020, representing approximately 96.4% of the total voting rights and approximately 95.6% of Hembla's share capital.

As part of the squeeze-out that was applied for and initiated on December 18, 2019, the arbitration panel was established in the course of the first six months of 2020 and the authorized representative of the minority shareholders ("trustee") was appointed. Once the squeeze-out process has been initiated, Swedish law dictates that it can no longer be aborted unilaterally by one of the parties. As a consequence, the shares are fully attributable to the Group as of June 30, 2020. The delisting of the Class B ordinary shares in Hembla was confirmed by Nasdaq Stockholm on December 19, 2019, and the last day of trading was set as January 10, 2020.

As part of the purchase price allocation the consideration transferred for the business combination comprises the following:

in € billion	
Net cash purchase price component	1.8
Total consideration	**1.8**

In this context, the allocation of the total purchase price to the acquired assets and liabilities (PPA) of the Hembla Group as of the date of first-time consolidation is based on the financial statements of the Hembla Group as of October 31, 2019, and on the known necessary adjustments to the fair values of the assets and liabilities.

The valuation of the investment properties is based on the fair value determination dated September 30, 2019, which was carried out by Savills Sweden AB on behalf of Hembla. As no material changes in the market environment were identifiable between September 30, 2019, and the acquisition date, only the quantity structure was adjusted to the acquisition date.

The fair value of the loans was determined as the sum of the amounts of future cash flows discounted to the acquisition date using a DCF method. The contractually agreed maturities and the interest and repayment schedules were used to determine the future cash flows of the loans. The yield curve used in the DCF calculation to discount the cash flows consists of a risk-free base curve and a premium for the risk of non-performance ("risk spread").

Embedded derivatives were identified within Hembla's loan agreements in the form of termination options that can be exercised subject to previously stipulated conditions (payment of an exit fee). In accordance with IFRS 9 B.4.3.5 (e), an analysis was performed at the time of acquisition of the underlying loan agreements to determine whether the embedded termination options should be measured and recognized separately from the corresponding loan agreement.

In some cases, separate measurement and recognition had to be performed in respect of the termination options, as there was a significant difference between the exercise price of the option concerned and the carrying amount of the underlying loan.

In such cases, the termination options were measured at fair value.

The existing interest rate derivatives at Hembla are also measured at fair value, pursuant to IFRS 9.

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

in € billion	
Investment properties	3.2
Cash and cash equivalents	0.1
Other assets	0.1
Fair value of other assets	0.0
Total assets	**3.4**
Non-controlling interests	0.1
Non-derivative financial liabilities	1.8
Deferred tax liabilities	0.3
Fair value of other liabilities	0.0
Total liabilities	**2.2**
Fair value net assets	**1.2**
Consideration	1.8
Goodwill	**0.6**

Compared with the provisional allocation as of December 31, 2019, embedded derivatives in the form of termination options amounting to € 78.2 million were also recognized. Inversely, deferred tax liabilities of € 16.1 million were recognized. Goodwill was reduced by € 62.1 million in comparison as a result. The corresponding prior-year figure was adjusted as of the date of first-time consolidation.

The goodwill represents synergies arising from the future cooperation between the Hembla Group and Vonovia, particularly those connected with the shared administration and management of Vonovia's Swedish portfolios, and from the partial transfer of Vonovia's business strategy, particularly regarding its property and portfolio management strategy, the utilization of modernization know-how, and the Value-add strategy with a focus on expanding the value chain.

Acquisition of Bien-Ries GmbH

On March 5, 2020, Vonovia SE announced that it had signed a contract concerning the acquisition of all shares in Bien-Ries GmbH, Hanau, Germany ("Bien-Ries"), via its wholly owned subsidiary Deutsche Annington Acquisition Holding GmbH.

The acquisition date on which Vonovia SE obtained control of the Bien-Ries Group is April 2, 2020. This was the date on which the offer was settled. This transaction shall be treated as a business combination in accordance with IFRS 3.

As part of the provisional purchase price allocation, the consideration transferred for the business combination comprises the following:

in € million	
Net cash purchase price component	97.5
Contingent consideration	11.4
Total consideration	**108.9**

The contingent consideration relates to the scope and completion date of a development project, which remain uncertain at the current time. The value recognized for the contingent consideration corresponds to its fair value on the acquisition date.

The provisional allocation of the total purchase price to the acquired assets and liabilities (PPA) of the Bien-Ries Group as of the date of first-time consolidation is based on the financial statements of the Bien-Ries Group as of March 31, 2020, and on the known necessary adjustments to the fair values of the assets and liabilities.

Pro rata land and development projects intended for sale but not yet certified are recognized as inventories. The valuation of these development projects is based on the fair value determination as of March 31, 2020, which was carried out by CBRE on behalf of Vonovia. Furthermore, the estimated completion costs and the current project progress were used for the measurement of the already certified development projects. The value of contract assets pursuant to IFRS 15 was determined on this basis.

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 € million	
Intangible assets	7.1
Trade receivables	21.9
Cash and cash equivalents	3.3
Real estate inventories	126.8
Fair value of other assets	4.4
Total assets	**163.5**
Provisions	8.9
Non-derivative financial liabilities	29.6
Deferred tax liabilities	24.8
Fair value of other liabilities	6.9
Total liabilities	**70.2**
Fair value net assets	**93.3**
Consideration	108.9
Goodwill	**15.6**

The goodwill represents synergies from the future integration of the Bien-Ries Group, particularly due to the utilization of development process know-how and the optimization of cost structures.

Since April 2020, the Bien-Ries Group has recognized income from the disposal of real estate inventories (Development) in the amount of € 19.4 million, as well as an earnings contribution in terms of earnings before fair value adjustments of investment properties, depreciation and amortization, interest and taxes (EBITDA IFRS) of € 0.4 million. If the Bien-Ries Group had already been fully included in the consolidated Group as of January 1, 2020, it would have contributed to income from the disposal of real estate inventories (Development) in the amount of € 23.4 million and to EBITDA IFRS in the amount of € -7.0 million.

The gross carrying amount of the acquired trade receivables was € 21.8 million. In particular, this figure includes contract assets pursuant to IFRS 15. Due to the contractual terms in the development business, no separate impairment losses are to be recognized on the corresponding receivables, meaning that the gross amount matches the fair value.

In the 2020 fiscal year, transaction costs related to the acquisition of the Bien-Ries Group in the amount of € 0.9 million were recognized in other operating expenses affecting net income.

4 Currency Translation

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

	Closing rate		Average for period	
Basis: € 1	Dec. 31, 2019*	June 30, 2020	Jan. 1–June 30, 2019	Jan. 1–June 30, 2020
HUF – Hungarian forint	324.34	–	320.42	–
SEK – Swedish krona	10.45	10.49	10.52	10.66
USD – U.S. dollar	1.12	1.12	1.13	1.10

* The exchange rate for the Hungarian forint for 2019 has been fixed for May 31, 2019, as the companies ceased to be included in the scope of consolidation on May 31, 2019.

5 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 2019 fiscal year. There were no seasonal or economic influences that had an impact on Vonovia's business activities in the reporting period.

Similarly, the impact of the coronavirus pandemic on Vonovia's business activities was not material during the reporting period.

The new standards and interpretations to be applied as of January 1, 2020, do not have any material effects on Vonovia's consolidated financial statements.

6 Subsequent Events

Vonovia Finance B.V. placed two bonds with a total volume of € 1.5 billion on July 2, 2020. With terms of six and ten years, respectively, the bonds bear interest at an average rate of 0.8%. The payout date was July 9, 2020.

Berlin Hyp provides Vonovia Finance B.V. with secured financing of € 184 million with a term of ten years that was disbursed in July 2020.

As of the end of July 20, 2020, shareholders holding a total of 40.7% of the shares carrying dividend rights opted for the scrip dividend as opposed to the cash dividend. The subscription price, determined on July 17, 2020, is € 52.438. As part of the outstanding capital increase, 6,613,688 new shares will therefore be issued, causing the total number of shares to increase to 548,887,299. As a result of the outstanding capital increase, the equity of the company will rise by € 346,808,571.37. The total amount of the distributable cash dividend is € 504,560,997.93.

Section (B): Profit for the Period

The figures from the previous year are only comparable to a limited extent due to the acquisitions made.

7 Income from Property Management

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Rental income	1,016.2	1,134.2
Ancillary costs	380.7	386.6
Income from property letting	1,396.9	1,520.8
Other income from property management	35.2	35.5
	1,432.1	1,556.3

8 Profit on the Disposal of Properties

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Income from disposal of investment properties	110.4	153.2
Carrying amount of investment properties sold	-78.4	-95.4
Profit on disposal of investment properties	32.0	57.8
Income from sale of assets held for sale	116.3	164.4
Retirement carrying amount of assets held for sale	-116.3	-164.4
Revaluation of assets held for sale	27.0	14.9
Profit on disposal of assets held for sale	27.0	14.9
	59.0	72.7

The fair value adjustment of residential properties held for sale, for which a purchase contract had been signed but transfer of title had not yet taken place, led to a gain of € 14.9 million as of June 30, 2020 (H1 2019: € 27.0 million).

9 Profit on the Disposal of Real Estate Inventories (Development)

Income from the disposal of real estate inventories (Development) in the amount of € 107.5 million (H1 2019: € 124.9 million) consisted of € 74.5 million (H1 2019: € 97.5 million) in period-related income from the disposal of real estate inventories together with € 33.0 million (H1 2019: € 27.4 million) in time-related income from the disposal of real estate inventories.

10 Net Income from Fair Value Adjustments of Investment Properties

The measurement of the investment properties led to a gain as of June 30, 2020, of € 1,812.3 million (H1 2019: € 2,258.7 million; see explanatory information in note [D16] "Investment Properties"). This includes € -2.8 million (H1 2019: € 3.9 million) for the measurement of right-of-use assets (IFRS 16).

The figure also includes the valuation result from buildings under construction (new construction/development to hold) that were completed during the reporting period and were moved to the Rental portfolio. A fair value measurement is performed for the first time when the properties are completed. This resulted in a valuation effect of € 26.2 million as of June 30, 2020 (H1 2019: € 17.7 million).

There have been no demonstrable effects connected to the coronavirus pandemic on the fair value of investment properties as of June 30, 2020.

The recognition and valuation of investment properties are explained in detail in the consolidated financial statements for 2019.

11 Cost of Materials

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Expenses for ancillary costs	360.6	384.6
Expenses for maintenance and modernization	287.4	270.3
Other cost of purchased goods and services	45.1	50.1
	693.1	**705.0**

12 Financial Income

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Income from non-current securities and non-current loans	1.0	0.9
Other interest and similar income	2.5	13.8
	3.5	**14.7**

Other interest and similar income includes income from a bond issue above par in the amount of € 11.9 million (H1 2019: € 0.0 million).

13 Financial Expenses

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Interest expense from non-derivative financial liabilities	175.0	185.9
Swaps (current interest expense for the period)	6.6	7.5
Effects from the valuation of non-derivative financial instruments	-12.8	-26.3
Effects from the valuation of swaps	27.9	34.0
Prepayment penalties and commitment interest	7.5	2.9
Interest accretion to provisions	4.8	2.9
Interest from leases	7.0	7.6
Other financial expenses	-1.2	0.6
	214.8	**215.1**

14 Other Financial Result

in € million	Jan. 1– June 30, 2019	Jan. 1– June 30, 2020
Result from currency translation	-0.2	-0.1
Income from other investments	9.1	9.3
Transaction costs	-19.5	-4.2
Purchase price liabilities from put options/rights to reimbursement	-2.2	-0.8
	-12.8	**4.2**

The income from investments includes financial income resulting from the collection of profits from the investment in AVW GmbH & Co. KG, Hamburg, in the amount of € 9.3 million (H1 2019: € 8.2 million) for the previous fiscal year in each case.

Section (C): Other Disclosures on the Results of Operations

15 Segment Reporting

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

in € million	Rental	Value-add	Recurring Sales	Develop-ment	Segments total	Other*	Consolida-tion*	Group
Jan. 1–June 30, 2020								
Segment income	**1,132.9**	**760.4**	**195.0**	**107.5**	**2,195.8**	**122.6**	**-337.0**	**1,981.4**
thereof external income	1,132.9	131.2	195.0	107.5	1,566.6	122.6	292.2	1,981.4
thereof internal income		629.2			629.2		-629.2	
Carrying amount of assets sold			-161.4		-161.4	-98.4		
Revaluation from disposal of assets held for sale			20.9		20.9	8.7		
Expenses for maintenance	-154.7				-154.7			
Production costs development				-83.7	-83.7			
Operating expenses	-196.8	-692.8	-6.4	-5.2	-901.2	-2.6	320.9	
Net income from fair value adjustments of development to hold**				26.5	26.5		-26.5	
Adjusted EBITDA Total	**781.4**	**67.6**	**48.1**	**45.1**	**942.2**	**30.3**	**-42.6**	**929.9**
Non-recurring items								-37.9
Period adjustments from assets held for sale								-14.6
Income from investments in other real estate companies								–
EBITDA IFRS								**877.4**
Net income from fair value adjustments of investment properties								1,812.3
Depreciation and amortization								-42.2
Income from other investments								-9.3
Interest income								14.7
Interest expenses								-215.1
Other financial result								4.2
EBT								**2,442.0**
Income taxes								**-823.9**
Profit for the period								**1,618.1**

* The income for the Rental, Value-add, Recurring Sales and Development segments constitutes income that is regularly reported to the Management Board as the chief operating decision-maker and that reflects Vonovia's sustainable business. The income/costs in the "Other" and "Consolidation" columns are not part of the Management Board's segment management.
** Excluding capitalized interest in debt in the amount of € 0.3 million (H1 2019: € 0.0 million).

in € million	Rental	Value-add	Recurring Sales	Develop-ment	Segments total	Other*	Consolida-tion*	Group
Jan. 1–June 30, 2019								
Segment income	1,014.8	760.9	174.9	124.9	2,075.5	51.8	-343.6	1,783.7
thereof external income	1,014.8	134.9	174.9	124.9	1,449.5	51.8	282.4	1,783.7
thereof internal income		626.0			626.0		-626.0	
Carrying amount of assets sold			-145.8		-145.8	-48.9		
Revaluation from disposal of assets held for sale			21.3		21.3	5.9		
Expenses for maintenance	-147.0				-147.0			
Production costs development				-95.2	-95.2			
Operating expenses	-143.8	-685.2	-8.0	-16.7	-853.7	-2.8	319.8	
Net income from fair value adjustments of development to hold				17.7	17.7		-17.7	
Adjusted EBITDA Total	724.0	75.7	42.4	30.7	872.8	6.0	-41.5	837.3
Non-recurring items								-25.3
Period adjustments from assets held for sale								-0.3
Income from investments in other real estate companies								0.2
EBITDA IFRS								811.9
Net income from fair value adjustments of investment properties								2,258.7
Depreciation and amortization								-1,935.9
Income from other investments								-9.0
Interest income								3.5
Interest expenses								-214.8
Other financial result								-12.8
EBT								901.6
Income taxes								**-776.3**
Profit for the period								**125.3**

* The income for the Rental, Value-add, Recurring Sales and Development segments constitutes income that is regularly reported to the Management Board as the chief operating decision-maker and that reflects Vonovia's sustainable business. The income/costs in the "Other" and "Consolidation" columns are not part of the Management Board's segment management.

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

in € million	Jan. 1–June 30, 2019	Jan. 1–June 30, 2020
Acquisition costs incl. integration costs*	11.6	22.1
Severance payments/pre-retirement part-time work arrangements	8.9	7.2
Business model optimization/development of new field of business	0.6	8.6
Refinancing and equity measures	4.2	–
Total non-recurring items	**25.3**	**37.9**

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

The breakdown of external revenue from contracts with customers (pursuant to IFRS 15.114f.) and its allocation to the segments referred to above is as follows:

in € million	Rental	Value-add	Recurring Sales	Development	Other	Total
Jan. 1-June 30, 2020						
Revenue from ancillary costs (IFRS 15)	289.4	0.1	–	-0.2	–	289.3
Income from disposal of investment properties	–	–	104.5	–	48.7	153.2
Income from the disposal of real estate inventories (Development)	–	–	–	107.5	–	107.5
Other revenue from contracts with customers	11.0	24.3	–	0.2		35.5
Revenue from contracts with customers	**300.4**	**24.4**	**104.5**	**107.5**	**48.7**	**585.5**
thereof period-related				74.5		74.5
thereof time-related	300.4	24.4	104.5	33.0	48.7	511.0
Income from rental income (IFRS 16)	1,132.9	0.9		0.4		1,134.2
Revenue from ancillary costs (IFRS 16)*	97.3	–	–	–	–	97.3
Income from sale of assets held for sale (IFRS 5)	–	–	90.5	–	73.9	164.4
Other revenue	**1,230.2**	**0.9**	**90.5**	**0.4**	**73.9**	**1,395.9**
Revenues	**1,530.6**	**25.3**	**195.0**	**107.9**	**122.6**	**1,981.4**
Jan. 1-June 30, 2019						
Revenue from ancillary costs (IFRS 15)	314.7	0.2	–	0.1	–	315.0
Income from disposal of investment properties	–	–	86.0	–	24.4	110.4
Income from the disposal of real estate inventories (Development)	–	–	–	124.9	–	124.9
Other revenue from contracts with customers	7.2	27.9	–	0.1	–	35.2
Revenue from contracts with customers	**321.9**	**28.1**	**86.0**	**125.1**	**24.4**	**585.5**
thereof period-related				97.7		97.7
thereof time-related	321.9	28.1	86.0	27.4	24.4	487.8
Income from rental income (IFRS 16)	1,014.8	1.0	–	0.4	–	1,016.2
Revenue from ancillary costs (IFRS 16)*	65.7	–	–	–	–	65.7
Income from sale of assets held for sale (IFRS 5)	–	–	88.9		27.4	116.3
Other revenue	**1,080.5**	**1.0**	**88.9**	**0.4**	**27.4**	**1,198.2**
Revenues	**1,402.4**	**29.1**	**174.9**	**125.5**	**51.8**	**1,783.7**

* Includes land tax and buildings insurance.

External income and non-current assets, excluding financial instruments, deferred taxes, post-employment benefits and rights under insurance contracts, are distributed among Vonovia's country of origin and other countries as follows. The revenue and the assets are allocated based on the registered office of the unit providing the service.

	External income		Assets	
in € million	June 30, 2019	June 30, 2020	Dec. 31, 2019	June 30, 2020
Germany	1,504.2	1,648.6	44,969.4	47,417.6
Austria	213.3	168.2	3,067.9	3,166.1
Sweden	66.0	164.5	6,777.8	6,852.0
France			104.1	104.1
Other countries	0.2	0.1	88.1	114.6
Total	**1,783.7**	**1,981.4**	**55,007.3**	**57,654.4**

Section (D): Assets

16 Investment Properties

in € million	
As of Jan. 1, 2020	**52,736.6**
Additions due to business combinations	1.3
Additions	197.6
Capitalized modernization costs	508.6
Grants received	-6.8
Other transfers	0.2
Transfer from property, plant and equipment	5.7
Transfer from down payments made	40.3
Transfer from real estate inventories	36.4
Transfer to real estate inventories	-0.6
Transfer from assets held for sale	0.7
Transfer to assets held for sale	-67.9
Disposals	-95.8
Net income from fair value adjustments of investment properties	1,812.3
Revaluation of assets held for sale	14.9
Revaluation from currency effects	-19.8
As of Jun. 30, 2020	**55,163.7**
As of Jan. 1, 2019	**43,490.9**
Additions due to business combinations	3,202.9
Additions	1,201.8
Capitalized modernization costs	1,117.6
Grants received	-14.2
Other transfers	-2.8
Transfer from property, plant and equipment	11.1
Transfer to property, plant and equipment	-3.3
Transfer from real estate inventories	5.4
Transfer to real estate inventories	-21.8
Transfer from assets held for sale	4.5
Transfer to assets held for sale	-316.1
Disposals	-158.2
Disposals due to changes in scope of consolidation	-4.8
Net income from fair value adjustments of investment properties	4,131.5
Revaluation of assets held for sale	59.7
Revaluation from currency effects	32.4
As of Dec. 31, 2019	**52,736.6**

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 2019.

Vonovia values its portfolio using a method known as 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. Furthermore, 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. In addition, the valuation of the portfolio in Austria is based on the assumption of sales strategies for the recurring sales of apartments for a subportfolio. Attainable revenues are calculated based on sales prices for comparable apartments (market approach) and are reported in the appropriate period in the DCF model. In order to take the sales potential into account, the DCF detailed period is extended to 100 years for the Austrian portfolios and no terminal value is applied. For the portfolio in Sweden, the result of the external appraiser Savills Sweden AB (partly in cooperation with Malmöbryggan Fastighetsekonomi AB) was applied to the interim balance sheet. The fair values of the portfolio in Sweden were also calculated using a DCF procedure.

Due to the market momentum recognized in the first half of 2020, Vonovia decided to perform a new valuation of the 20 German locations that account for the largest fair value shares. The list of the locations to be valued was extended to include six additional German locations in which considerable changes in value had been observed, as well as Vienna and the portfolio in Sweden. The selection includes the lion's share of the portfolio, accounting for more than two-thirds of the total fair value. The property assets in Germany and Austria 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 2019 is applied again, with updates to reflect capitalization.

We are currently observing stable demand for rental apartments and no negative impact on market values as a result of the coronavirus pandemic. Potential effects on future price developments will depend to a considerable degree on how the pandemic progresses and the associated economic conditions, and are impossible to reliably predict at present. Residential real estate could become more significant as a relatively secure form of investment. The demand for residential real estate could, however, also change depending on the duration and extent of a possible recession. Vonovia is keeping a close eye on market developments.

At the end of January 2020, the Berlin House of Representatives passed the Act on Rent Controls in the Housing Sector in Berlin (referred to in short as "rent freeze"). This came into force in February 2020. It remains disputed whether the law is constitutional. Assuming that the rent freeze is found to be constitutional, future rental income or rental development will have to be reduced for the period leading up to, and including, 2025. This could have a negative impact on fair values. Likewise, it cannot be ruled out that declining vacancy rates and fluctuation as well as lower return requirements of investors (yield compression) will subsequently have a compensatory effect on fair values. The potential implications can be estimated via the sensitivities shown in the notes to this report. There is no evidence of any impact on fair values at present.

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 € 55,698.6 million as of June 30, 2020 (Dec. 31, 2019: € 53,316.4 million). This corresponds to a net initial yield for the developed land (overall portfolio including Austria and Sweden) of 3.0% (Dec. 31, 2019: 3.1%). For Germany, this results in an in-place-rent multiplier of 24.4 for the portfolio (Dec. 31, 2019: 23.5) and a fair value per m^2 of € 1,992 (Dec. 31, 2019: € 1,893 per m^2). The in-place-rent multiplier for the Austrian portfolio comes to 25.3 (Dec. 31, 2019: 24.7) with a fair value per m^2 of € 1,496 (Dec. 31, 2019: € 1,455 per m^2), while the in-place-rent multiplier for Sweden amounts to 17.2 (Dec. 31, 2019: 17.1) with a fair value per m^2 of € 1,938 (Dec. 31, 2019: € 1,899 per m^2).

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)
June 30, 2020				
Berlin	7,593.4	0.0	6.8	7,586.6
Rhine Main Area	4,657.1	2.4	5.9	4,648.8
Rhineland	3,996.0	1.2	7.7	3,987.1
Southern Ruhr Area	4,181.4	4.0	4.2	4,173.2
Dresden	3,903.2	0.2	6.6	3,896.5
Hamburg	2,910.5	0.1	2.9	2,907.5
Munich	2,361.9	2.9	4.0	2,355.1
Stuttgart	2,211.5	0.5	2.1	2,208.8
Kiel	2,284.2	0.0	2.7	2,281.5
Hanover	1,990.6	1.6	2.3	1,986.7
Northern Ruhr Area	1,738.5	3.4	5.3	1,729.8
Bremen	1,279.4	0.0	1.9	1,277.6
Leipzig	992.6	0.1	1.1	991.5
Westphalia	959.5	0.0	1.2	958.3
Freiburg	673.3	0.0	2.0	671.3
Other strategic locations	2,950.3	1.9	4.3	2,944.1
Total strategic locations	**44,683.4**	**18.3**	**61.0**	**44,604.4**
Non-strategic locations	598.6	10.2	0.5	587.9
Vonovia Germany	**45,282.0**	**28.6**	**61.2**	**45,192.1**
Vonovia Sweden**	5,762.1	0.0	0.0	5,762.1
Vonovia Austria**	2,726.4	6.1	0.0	2,720.3

* Fair value of the developed land excluding € 1,928.1 million, of which € 582.3 million for undeveloped land and inheritable building rights granted, € 400.0 million for assets under construction, € 599.1 million for development and € 346.7 million for other.

** The valuation techniques used for the portfolio in Austria and Sweden provide valuation parameters that are only partially comparable. Administrative and maintenance expenses are not shown separately.

The inflation rate applied to the DCF procedure is 1.6%. Net income from fair value adjustments of investment properties amounted to € 1,812.3 million in the first half of 2020 (Dec. 31, 2019: € 4,131.5 million). For the Austrian portfolio, a sales strategy with an average selling price of € 2,151 per m² was assumed for 53.7% of the properties.

Explanatory information on the prior-year figures can be found in the 2019 Annual Report of Vonovia SE.

Sensitivity Analyses

The sensitivity analyses performed on Vonovia's real estate portfolio show the impact of value drivers dependent on market developments. Those influenced in particular are the market rents and their development, the amount of recognized administrative and maintenance expenses, cost increases, the vacancy rate and interest rates. The effect of possible deviations 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 an adequate development of supply, this can result in lower vacancy rates and, at the same time,

Valuation parameters investment properties (Level 3)						
Management costs residential (€ per residential unit p.a.)	Maintenance costs total residential (€/m² p.a.)	Market rent residential (€/m² per month)	Market rent increase residential	Stabilized vacancy rate residential	Discount rate total	Capitalized interest rate total
262.0	14.1	7.8	1.6%	1.2%	3.9%	2.2%
280.0	14.1	9.1	1.8%	1.1%	4.7%	3.0%
278.0	13.8	8.1	1.7%	1.9%	5.0%	3.4%
276.0	12.8	6.9	1.5%	2.6%	4.9%	3.6%
247.0	14.3	6.8	1.7%	2.2%	4.9%	3.4%
266.0	14.4	8.3	1.6%	1.3%	4.5%	3.2%
269.0	14.0	11.1	1.9%	0.6%	4.5%	2.8%
278.0	14.5	9.1	1.8%	1.3%	4.9%	3.2%
268.0	14.9	7.3	1.7%	1.6%	5.0%	3.6%
268.0	14.2	7.3	1.7%	2.1%	4.8%	3.4%
274.0	13.3	6.3	1.2%	3.3%	5.4%	4.5%
274.0	13.5	6.9	1.8%	2.1%	4.9%	3.3%
261.0	15.0	6.6	1.8%	2.9%	5.0%	3.5%
270.0	13.2	7.0	1.5%	1.9%	5.0%	3.7%
277.0	15.2	8.3	1.7%	1.1%	4.5%	3.0%
273.0	14.1	7.4	1.6%	2.3%	5.1%	3.7%
269.0	**14.0**	**7.6**	**1.6%**	**1.9%**	**4.8%**	**3.2%**
272.0	14.7	7.5	1.6%	2.4%	4.8%	3.2%
269.0	**14.0**	**7.6**	**1.6%**	**1.9%**	**4.8%**	**3.2%**
n.a.	n.a.	9.8	1.7%	0.9%	5.4%	3.8%
n.a.	19.1	5.5	1.4%	1.7%	5.5%	n.a.

rising market rents. If, however, the rising demand is compensated for by a high vacancy reserve in the location in question, then the market rent level does not necessarily change.

Changes in the demand for housing can also impact the risk associated with the expected cash flows, which is then reflected in adjusted discounting and capitalizing 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 on 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 in % under varying parameters		
	Management costs residential	Maintenance costs residential	Cost increase/ inflation
Regional market	-10%/10%	-10%/10%	-0.5%/+0.5% points
June 30, 2020			
Berlin	0.6/-0.6	1.9/-1.9	7.2/-7.0
Rhine Main Area	0.5/-0.5	1.4/-1.4	3.2/-3.4
Rhineland	0.5/-0.5	1.7/-1.7	3.6/-3.8
Southern Ruhr Area	0.8/-0.8	2.1/-2.1	4.5/-4.7
Dresden	0.7/-0.7	2.1/-2.1	4.6/-4.7
Hamburg	0.5/-0.5	1.7/-1.7	4.1/-4.2
Munich	0.3/-0.3	1.1/-1.2	3.5/-3.7
Stuttgart	0.5/-0.5	1.4/-1.4	3.2/-3.3
Kiel	0.7/-0.7	2.1/-2.1	4.3/-4.5
Hanover	0.6/-0.6	1.9/-1.9	4.3/-4.4
Northern Ruhr Area	0.9/-0.9	2.7/-2.7	4.5/-4.6
Bremen	0.7/-0.7	2.0/-2.0	5.0/-5.1
Leipzig	0.7/-0.7	2.2/-2.1	4.9/-4.9
Westphalia	0.7/-0.7	2.2/-2.2	4.2/-4.4
Freiburg	0.5/-0.5	1.7/-1.7	4.0/-4.1
Other strategic locations	0.6/-0.6	2.0/-2.0	3.8/-3.9
Total strategic locations	0.6/-0.6	1.8/-1.8	4.5/-4.6
Non-strategic locations	0.6/-0.6	2.3/-2.3	6.5/-6.5
Vonovia Germany	**0.6/-0.6**	**1.8/-1.8**	**4.6/-4.6**
Vonovia Sweden*	n.a.	n.a.	1.2/-1.2
Vonovia Austria*	n.a.	0.4/-0.4	0.4/-0.5

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

Section (E): Capital Structure

17 Total Equity

The Annual General Meeting held on June 30, 2020, resolved to pay a dividend for the 2019 fiscal year in the amount of € 1.57 per share, and € 851.4 million in total. As in previous years, shareholders were offered the option of choosing between being paid the dividend in cash or being granted new shares. It is intended to use the company's authorized capital pursuant to Section 5b of the Articles of Association ("2018 Authorized Capital") to issue the scrip dividend. Shareholders must, however, first choose between a cash dividend or the scrip dividend offered by July 20, 2020. The subscription price for the new shares to be issued is determined on July 17, 2020.

Change in value in % under varying parameters			
Market rent residential	Market rent increase residential	Stabilized vacancy rate residential	Discounting and capitalized interest rates total
-2%/+2%	-0.2%/+0.2% points	-1%/+1% points	-0.25%/+0.25% points
-2.2/2.2	-9.9/12.8	1.5/-1.7	14.0/-10.9
-2.3/2.3	-7.2/8.5	1.0/-1.5	9.0/-7.6
-2.3/2.3	-6.9/8.0	1.6/-1.6	8.3/-7.1
-2.5/2.5	-7.0/8.1	1.9/-1.9	7.7/-6.7
-2.5/2.5	-7.2/8.3	1.8/-1.8	8.2/-7.1
-2.3/2.3	-7.5/8.8	1.2/-1.7	9.2/-7.7
-2.1/2.1	-8.1/9.6	0.7/-1.5	10.6/-8.8
-2.2/2.2	-7.0/8.1	1.3/-1.5	8.5/-7.3
-2.4/2.5	-6.9/8.0	1.8/-1.8	7.8/-6.7
-2.3/2.4	-7.1/8.3	1.7/-1.7	8.3/-7.1
-2.6/2.6	-6.0/6.7	2.1/-2.1	6.1/-5.4
-2.3/2.4	-7.6/8.9	1.8/-1.8	8.8/-7.5
-2.4/2.5	-7.2/8.4	1.8/-1.8	8.2/-7.0
-2.4/2.3	-6.7/7.6	1.8/-1.9	7.4/-6.6
-2.3/2.3	-7.7/9.1	1.2/-1.6	9.3/-7.8
-2.4/2.4	-6.6/7.5	1.7/-1.7	7.5/-6.5
-2.3/2.3	**-7.6/9.0**	**1.5/-1.7**	**9.3/-7.8**
-2.6/2.5	-9.2/10.9	1.9/-1.9	11.4/-9.5
-2.3/2.3	**-7.6/9.0**	**1.5/-1.7**	**9.3/-7.8**
-3.0/3.0	-1.4/1.4	0.8/-1.2	7.4/-6.4
-0.3/0.3	-0.9/1.0	0.9/-0.9	4.6/-4.2

18 Non-derivative Financial Liabilities

	Dec. 31, 2019		June 30, 2020	
in € million	non-current	current	non-current	current
Non-derivative financial liabilities				
Liabilities to banks	6,853.9	549.1	7,239.8	324.3
Liabilities to other creditors	14,344.1	1,727.6	15,479.6	1,247.8
Deferred interest from non-derivative financial liabilities	–	100.2	–	112.8
	21,198.0	**2,376.9**	**22,719.4**	**1,684.9**

The U.S. dollar bond issued in 2013 is 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 transaction entered into, this financial liability would be € 38.5 million lower than the recognized value (Dec. 31, 2019: € 37.8 million).

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

in € million	Dec. 31, 2019	June 30, 2020
Bond (U.S. dollar)*	185.0	185.0
Bond (EMTN)*	13,652.3	14,551.7
Commercial Paper*	300.0	-
Promissory note loan*	50.0	50.0
Portfolio loans		
Pfandbriefbank, Landesbank Baden-Württemberg*	500.0	500.0
Berlin Hannoversche Hypothekenbank, Hessische Landesbank*	461.8	461.8
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin)*	499.4	499.4
Landesbank Baden-Württemberg*	-	300.0
Berlin Hannoversche Hypothekenbank, Landesbank Berlin und Landesbank Baden-Württemberg*	293.4	-
Deutsche Hypothekenbank*	157.5	154.8
Commerzbank*	168.0	168.0
ING Diba AG*	-	100.0
Sparkasse Berlin*	-	100.0
Nordrheinische Ärzteversorgung*	27.7	27.2
Norddeutsche Landesbank*	30.5	-
	79.7	79.1
Berlin-Hannoversche Hypothekenbank Buwog Lüneburg*	18.7	18.5
UniCredit - HVB Buwog Berlin*	28.0	27.7
UniCredit - HVB Buwog Kreuzberg*	3.5	-
UniCredit - HVB Buwog Kiel*	15.3	15.1
UniCredit - HVB Tempelhofer Feld*	21.3	21.0
Mortgages**	6,912.9	7,014.8
	23,405.0	**24,274.1**

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

** For a portion of the mortgages, Vonovia is obliged to fulfill certain financial covenants, which it fulfilled.

Repayment of Corporate Bonds

On March 30, 2020, Vonovia repaid the remaining capital of € 300.6 million on a bond issued by Dutch subsidiary Vonovia Finance B.V.

Repayment of Commercial Paper

On February 28, 2020, € 300 million was repaid under the Commercial Paper Program that the Dutch subsidiary Vonovia Finance B.V. had taken out for the Vonovia Group. This means that the Commercial Paper Program has been repaid in full.

Repayment of Secured Financing

Secured financing with remaining capital of € 290 million was repaid to a consortium including Berlin Hyp, Berliner Sparkasse and Landesbank Baden-Württemberg on June 30, 2020, as scheduled.

Issue of Bonds Under the European Medium-Term Notes Program (EMTN)

Via its Dutch subsidiary Vonovia Finance B.V., Vonovia increased an EMTN bond of € 500 million that runs until March 2026 by € 200 million with effect from January 30, 2020.

Vonovia placed two bonds with a total volume of € 1 billion on March 31, 2020. The new bonds will bear interest at an average rate of 1.9% and have a term of four and ten years, respectively.

New Portfolio Loans

Vonovia Finance B.V. took out secured financing for Vonovia of € 300 million with Landesbank Baden-Württemberg in February 2020, as well as € 100 million with ING Bank, a branch of ING-DiBa AG, and € 100 million with Berliner Sparkasse in March 2020, respectively, each with a term of ten years.

19 Leases

The following table shows the development of right-of-use assets arising from leases as of June 30, 2020, compared with the previous year.

Development of Right-of-Use Assets

in € million	Dec. 31, 2019	June 30, 2020
Right-of-use assets		
Leasehold contracts	1,223.7	1,236.4
Interim rental agreements	1.1	1.4
Right-of-use assets within investment properties	**1,224.8**	**1,237.8**
Leasing of land for the construction of commercial properties used by the Group	26.2	27.5
Lease agreements	21.4	22.6
Contracting	19.7	18.8
Vehicle leases	6.3	4.2
Tenancy and license agreements	2.4	3.2
Leases of IT equipment	4.4	3.6
Right-of-use assets within property, plant and equipment	**80.4**	**79.9**
	1,305.2	**1,317.7**

The following table shows the development of current and non-current liabilities arising from leases within the meaning of IFRS 16 as of June 30, 2020, compared with the previous year.

Development of Lease Liabilities

	Dec. 31, 2019		June 30, 2020	
in € million	non-current	current	non-current	current
Lease liabilities				
Leasehold contracts (IAS 40)	378.0	10.6	400.4	10.5
Interim rental agreements	0.2	0.9	0.5	0.9
Leasing of land for the construction of commercial properties used by the Group	26.4	0.1	27.4	0.1
Lease agreements	14.8	6.8	15.4	7.5
Contracting	18.0	1.9	17.0	1.9
Vehicle leases	1.6	4.7	1.1	3.0
Tenancy and license agreements	0.6	1.8	1.4	1.8
Leases of IT equipment	3.0	1.5	2.3	1.4
	442.6	**28.3**	**465.6**	**27.1**

Section (F): Additional Financial Management Disclosures

20 Additional Financial Instrument Disclosures

Measurement categories and classes:

in € million	Carrying amounts June 30, 2020
Assets	
Cash and cash equivalents	
Cash on hand and deposits at banking institutions	949.2
Trade receivables	
Receivables from the sale of properties	65.9
Receivables from property letting	41.4
Other receivables from trading	10.8
Receivables from sale of real estate inventories (Development)	114.7
Financial assets	
Investments valued at equity	29.7
Loans to other investments	33.3
Other non-current loans	10.8
Non-current securities	4.6
Other investments	302.6
Derivative financial assets	
Cash flow hedges (cross currency swaps)	40.4
Stand-alone interest rate swaps and interest rate caps as well as embedded derivatives	60.2
Liabilities	
Trade payables	202.8
Non-derivative financial liabilities	24,404.3
Derivative financial liabilities	
Purchase price liabilities from put options/rights to reimbursement	37.3
Stand-alone interest rate swaps and interest rate caps	60.1
Other swaps	24.4
Lease liabilities	492.7
Liabilities from tenant financing	161.4
Liabilities from dividend entitlements	851.4
Liabilities to non-controlling interests	32.5

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 IFRS 16/IAS 28	Fair value June 30, 2020	Fair value hierarchy level
949.2					949.2	1
65.9					65.9	2
41.4					41.4	2
10.8					10.8	2
114.7					114.7	2
				29.7	29.7	n.a.
33.3					57.3	2
10.8					10.8	2
			4.6		4.6	1
			302.6		302.6	2
	-9.8	50.2			40.4	2
	60.2				60.2	2
202.8					202.8	2
24,404.3					25,826.1	2
37.3					37.3	2
	60.1				60.1	2
	2.4	22.0			24.4	2
				492.7	492.7	2
161.4					161.4	2
851.4					851.4	2
32.5					32.5	2

Measurement categories and classes:

in € million	Carrying amounts Dec. 31, 2019
Assets	
Cash and cash equivalents	
Cash on hand and deposits at banking institutions	500.7
Trade receivables	
Receivables from the sale of properties	66.6
Receivables from property letting	41.7
Other receivables from trading	11.8
Receivables from sale of real estate inventories (Development)	85.6
Financial assets	
Investments valued at equity	29.5
Loans to other investments	33.3
Other non-current loans	11.7
Non-current securities	4.4
Other investments	142.2
Derivative financial assets	
Cash flow hedges (cross currency swaps)	29.8
Stand-alone interest rate swaps and interest rate caps as well as embedded derivatives	81.5
Liabilities	
Trade payables	224.2
Non-derivative financial liabilities	23,574.9
Derivative financial liabilities	
Purchase price liabilities from put options/rights to reimbursement	39.0
Stand-alone interest rate swaps and interest rate caps	52.5
Other swaps	23.6
Liabilities from finance leases	470.9
Liabilities from tenant financing	162.2
Liabilities to non-controlling interests	34.1

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 € 4.1 million (Dec. 31, 2019: € 4.4 million).

> Amount by which the fair value of plan assets exceeds the corresponding obligation of € 0.2 million (Dec. 31, 2019: € 0.8 million).

> Provisions for pensions and similar obligations: € 575.4 million (Dec. 31, 2019: € 569.9 million).

	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 IFRS 16/IAS 28	Fair value Dec. 31, 2019	Fair value hierarchy level
	500.7					500.7	1
	66.6					66.6	2
	41.7					41.7	2
	11.8					11.8	2
	85.6					85.6	2
					29.5	29.5	n.a.
	33.3					56.8	2
	11.7					11.7	2
				4.4		4.4	1
				142.2		142.2	2
		-10.2	40.0			29.8	2
		81.5				81.5	2
	224.2					224.2	2
	23,574.9					24,724.7	2
	39.0					39.0	2
		52.5				52.5	2
		0.2	23.4			23.6	2
					470.9	470.9	2
	162.2					162.2	2
	34.1					34.1	2

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, 2020**	Level 1	Level 2	Level 3
Assets				
Investment properties	55,163.7			55,163.7
Financial assets				
Non-current securities	4.6	4.6		
Other investments	302.6		302.6	
Assets held for sale				
Investment properties (contract closed)	36.9		36.9	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	40.4		40.4	
Stand-alone interest rate swaps and caps as well as embedded derivatives	60.2		60.2	
Liabilities				
Derivative financial liabilities				
Cash flow hedges	24.4		24.4	
Stand-alone interest rate swaps and caps	60.1		60.1	

in € million	**Dec. 31, 2019**	Level 1	Level 2	Level 3
Assets				
Investment properties	52,759.1			52,759.1
Financial assets				
Non-current securities	4.4	4.4		
Other investments	140.2		140.2	
Assets held for sale				
Investment properties (contract closed)	134.1		134.1	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	29.8		29.8	
Stand-alone interest rate swaps and caps as well as embedded derivatives	81.5		81.5	
Liabilities				
Derivative financial liabilities				
Cash flow hedges	23.6		23.6	
Stand-alone interest rate swaps and caps	52.5		52.5	

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 chapter [D28] Investment Properties of the consolidated financial statements as of December 31, 2019.

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.

Securities are generally measured using the quoted prices in active markets (Level 1).

The increase in other investments results in the amount of € 160.2 million from the acquisition of a 2.6% stake in the Dutch Vesteda Residential Fund as of June 30, 2020.

For the measurement of financial instruments, cash flows are initially calculated and then discounted. In addition to the tenor-specific EURIBOR/STIBOR 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 fundamentally relevant for interest rate swaps. This credit risk is derived for material risks from rates observable on the capital markets and ranges from 70 to 170 basis points, depending on the residual maturities of financial instruments. Regarding the positive market values of the cross currency swaps, a counterparty risk of 80 basis points was taken into account.

The calculated cash flows of the cross currency swaps result from the forward curves 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 values of the cash and cash equivalents, trade receivables and other financial receivables approximate their carrying amounts at the reporting date owing to their mainly short maturities. The amount of the estimated impairment loss on cash and cash equivalents was calculated based on the losses expected over a period of twelve months. It was determined that the cash and cash equivalents have a low risk of default due to the external ratings and short residual maturities, and that there is no need for any material impairment of cash and cash equivalents.

Risk in the area of rent receivables was examined through an analysis of the reduced general creditworthiness (as a special forward-looking parameter of impairment losses for financial assets as defined by IFRS 9). As Vonovia receives rent payments mostly in advance, only deferred rents and similar receivables are affected. Since these receivables are very soon subject to a specific impairment loss, an additional need for impairment loss is currently not foreseeable. The further development of the receivables is continuously monitored.

In the area of receivables from the sale of properties, the credit risk is compensated for by Vonovia retaining ownership of the property until the purchase price is paid.

Vonovia is involved in a number of legal disputes resulting from normal business activities. In particular, these involve tenancy, construction and sales law disputes and, in individual cases, company law disputes (mainly following squeeze-out processes). None of the legal disputes, taken in isolation, will have any material effects on the net assets, financial position or results of operations of Vonovia.

Bochum, Germany, July 28, 2020

Rolf Buch
(CEO)

Arnd Fittkau
(CRO)

Helene von Roeder
(CFO)

Daniel Riedl
(CDO)

Audit Certificate

To Vonovia SE, Bochum

We have reviewed the condensed interim consolidated financial statements – comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and selected explanatory notes to the consolidated financial statements – and the interim Group management report of Vonovia SE, Bochum, for the period from January 1 to June 30, 2020, which form part of the half-year report pursuant to Section 115 WpHG. The legal representatives of the company are responsible for the preparation of the condensed interim consolidated financial statements pursuant to the IFRS for interim financial reporting, as applicable in the EU, and for the preparation of the interim Group management report in accordance with the WpHG provisions applicable in respect of consolidated interim management reports. It is our responsibility to issue a certificate for the condensed interim consolidated financial statements and the interim Group management report on the basis of our review.

We have reviewed the condensed interim consolidated financial statements and the interim Group management report in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the institute of public auditors (IDW) and supplementary compliance with the International Standard of Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Pursuant to the above standards, the review must be planned and conducted in such a way that, following critical assessment, we are able to rule out with a certain degree of certainty that the condensed interim consolidated financial statements have been prepared in a way that is non-compliant with the IFRS for interim financial reporting, as applicable in the EU, in material respects and that the interim Group management report has been prepared in a way that is non-compliant with the WpHG provisions applicable to consolidated interim management reports in material respects. First and foremost, a review is restricted to interviews with employees of the company and analytical evaluations, and therefore does not offer the level of certainty achievable through an audit. As, pursuant to the terms of our assignment, we did not conduct an audit, we are unable to issue an audit opinion.

On the basis of our review, we did not become aware of any circumstances that gave us reason to believe that the condensed interim consolidated financial statements have been prepared in a way that is non-compliant with the IFRS for interim financial reporting, as applicable in the EU, in material respects or that the interim Group management report has been prepared in a way that is non-compliant with the WpHG provisions applicable to consolidated interim management reports in material respects.

Düsseldorf, August 3, 2020

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, July 28, 2020

Rolf Buch
(CEO)

Arnd Fittkau
(CRO)

Helene von Roeder
(CFO)

Daniel Riedl
(CDO)

Portfolio Information

Vonovia manages its own real estate portfolio with a fair value of € 55.7 billion as of June 30, 2020. The majority of our apartments are located in regions with positive economic and demographic development prospects.

Portfolio Structure

	Fair value*				
June 30, 2020	(in € million)	(in €/m²)	Residential units	Vacancy (in %)	In-place rent (in €/m²)**
Strategic	40,929.3	1,988	323,639	2.6	6.87
Operate	11,578.4	1,993	85,450	2.5	7.26
Invest	29,350.9	1,986	238,189	2.6	6.73
Recurring Sales	3,919.4	2,111	27,167	3.1	6.99
Non-core Disposals	433.3	1,513	3,581	5.7	6.52
Vonovia Germany	**45,282.0**	**1,992**	**354,387**	**2.7**	**6.88**
Vonovia Sweden	5,762.1	1,938	38,130	2.6	9.65
Vonovia Austria	2,726.4	1,496	22,362	4.7	4.73
Total	**53,770.5**	**1,954**	**414,879**	**2.8**	**7.03**

In order to boost transparency in portfolio presentation, we also break our portfolio down into 15 regional markets. These markets are core towns/cities and their surroundings, mainly urban areas. Our decision to focus on the regional markets that are particularly relevant to Vonovia is our way of looking ahead to the future and provides an overview of our strategic core portfolio in Germany.

Breakdown of Strategic Housing Stock by Regional Market

	Fair value*				
June 30, 2019	(in € million)	(in €/m²)	Residential units	Vacancy (in %)	In-place rent (in €/m²)**
Regional market					
Berlin	7,593.4	2,720	42,365	1.2	6.90
Rhine Main Area	4,657.1	2,615	27,421	1.8	8.42
Southern Ruhr Area	4,181.4	1,543	43,445	3.3	6.30
Rhineland	3,996.0	2,059	28,495	2.2	7.34
Dresden	3,903.2	1,701	38,516	3.7	6.29
Hamburg	2,910.5	2,271	19,750	1.6	7.30
Munich	2,361.9	3,618	9,663	1.5	8.33
Kiel	2,284.2	1,655	23,219	2.4	6.48
Stuttgart	2,211.5	2,488	13,753	1.7	8.08
Hanover	1,990.6	1,903	16,252	2.8	6.82
Northern Ruhr Area	1,738.5	1,093	25,454	3.5	5.90
Bremen	1,279.4	1,728	11,852	3.4	6.01
Leipzig	992.6	1,619	9,052	3.7	6.15
Westphalia	959.5	1,534	9,479	3.3	6.35
Freiburg	673.3	2,414	4,040	2.1	7.61
Other strategic locations	2,950.3	1,703	26,762	3.5	6.85
Total strategic locations Germany	**44,683.4**	**2,000**	**349,518**	**2.6**	**6.88**

* Fair value of the developed land excluding € 1,928.1 million, of which € 582.3 million for undeveloped land and inheritable building rights granted, € 400.0 million for assets under construction, € 599.1 million for development and € 346.7 million for other.
** Shown based on the country-specific definition.

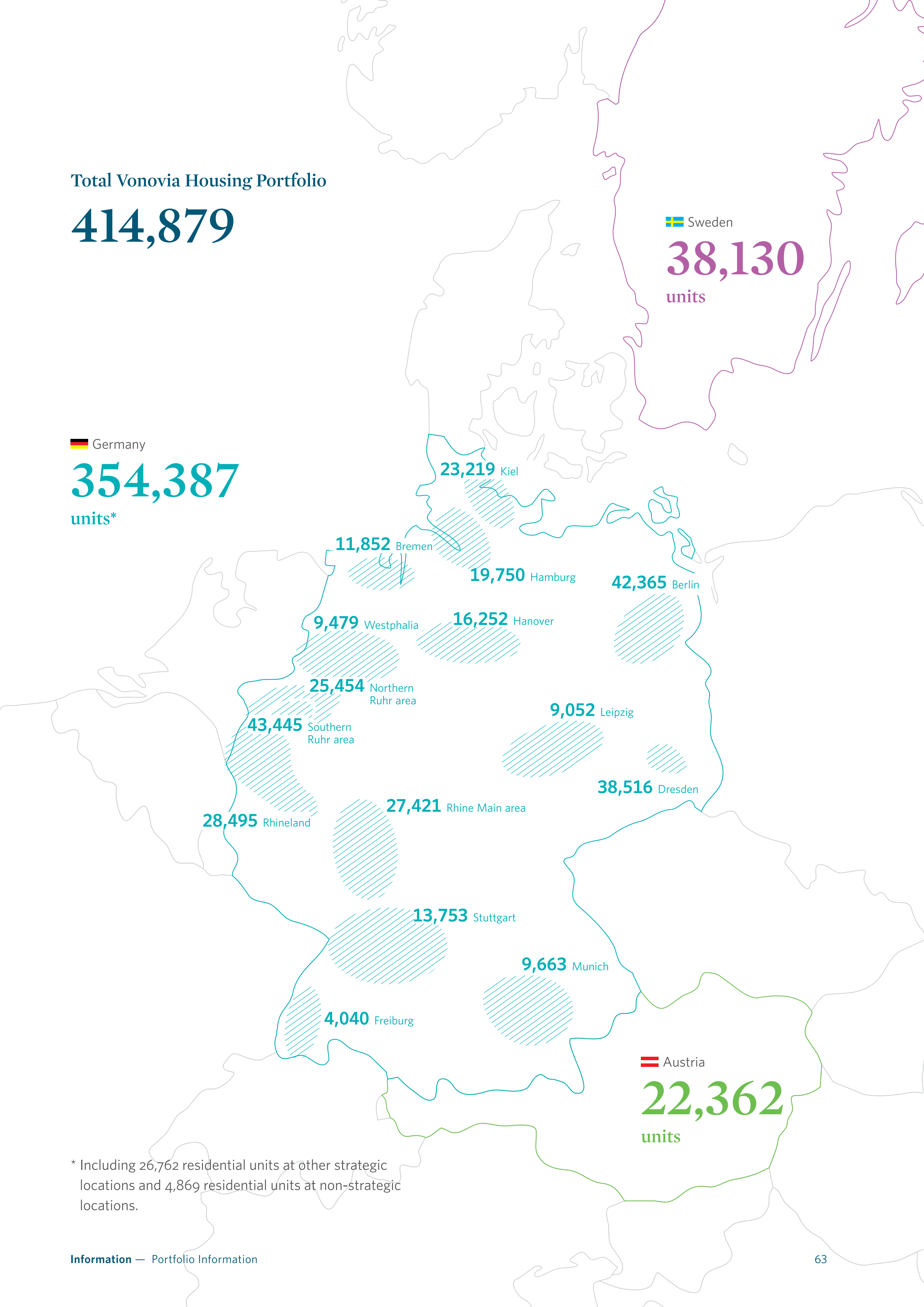
Total Vonovia Housing Portfolio

414,879

Sweden
38,130
units

Germany
354,387
units*

Austria
22,362
units



* Including 26,762 residential units at other strategic locations and 4,869 residential units at non-strategic locations.

Financial Calendar

August 5, 2020
Publication of the interim financial report for the first half of 2020

November 4, 2020
Publication of the interim statements for the first nine months of 2020

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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 interim financial report contains forward-looking statements. These statements are based on the current experiences, 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 2019 Annual Report. We do not assume any obligation to update the forward-looking statements contained in this interim report. This interim report does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any securities of Vonovia SE.

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