# ADO Half-Year Financial Report 2019

# COLORS OF Q2

—

**With this quarterly report we present you with the most important information for the second quarter of 2019.**

**Find out more about The Colors of Q2 as well as all the latest company-relevant news and developments.**

# Key Figures Q2

| PROFIT AND LOSS STATEMENT | FOR THE SIX MONTHS ENDED | | FOR THE THREE MONTHS ENDED | | FOR THE YEAR ENDED |
|---|---|---|---|---|---|
| In EUR thousand | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 | Dec 31, 2018 |
| Income from rental activities | 71,361 | 64,946 | 35,665 | 33,614 | 134,588 |
| EBITDA from rental activities | 47,857 | 46,739 | 23,997 | 24,199 | 93,777 |
| EBITDA from rental activities margin | 71.0% | 75.9% | 71.0% | 76.1% | 73.3% |
| EBITDA total | 48,923 | 47,536 | 24,423 | 24,598 | 96,255 |
| FFO 1 (from rental activities) | 33,430 | 33,600 | 16,714 | 17,692 | 66,777 |
| AFFO (from rental activities) | 24,600 | 27,524 | 12,146 | 13,154 | 53,739 |
| FFO 2 (incl. disposal results) | 34,496 | 34,397 | 17,140 | 18,091 | 69,255 |

| FURTHER KPIs | | |
|---|---|---|
| Residential | June 30, 2019 | Dec 31, 2018 |
| Monthly in-place rent (EUR per $m^2$) | EUR 6.81 | EUR 6.73 |
| Total vacancy rate | 2.9% | 3.2% |
| Number of units | 22,169 | 22,202 |
| Rental growth | 4.0% | 5.6% |

| BALANCE SHEET | | |
|---|---|---|
| In EUR thousand | June 30, 2019 | Dec 31, 2018 |
| Fair value of properties | 4,374,683 | 4,092,463 |
| LTV | 38.0% | 39.6% |
| EPRA NAV | 2,675,823 | 2,429,544 |
| EPRA NAV (EUR per share) | 60.63 | 55.05 |

# CONTENTS

1

## ADO PROPERTIES



## INTERIM MANAGEMENT REPORT

2



3

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS



4

## FINANCIAL CALENDAR & IMPRINT 62

ADO

# 6Month Report

2019

ADO
PROPERTIES

BERLIN INSIDERS


THE HEADS OF ADO
TOP: RAN LAUFER
BOTTOM LEFT: FLORIAN GOLDGRUBER
BOTTOM RIGHT: EYAL HORN

# COLORFUL BERLIN – A PLACE TO THRIVE

Dear Investors,

It is with great pleasure that we present you with the latest figures for the second quarter of 2019. In a preliminary assessment carried out by our independent real estate appraiser CBRE, our portfolio was recently valued at EUR 4.4 billion. This equates to an increase in value of approximately EUR 280 million, or 6.9%, since the last external assessment at the end of 2018.

There has been more movement within the Company: Ran Laufer took up the role of Chief Executive Officer on July 23, 2019 and Eyal Merdler will be succeeding Florian Goldgruber as Chief Financial Officer of ADO Properties S.A. beginning on October 1, 2019. In addition, Chief Operating Officer Eyal Horn will be leaving the Company as of September 30, 2019 in order to pursue new opportunities in the Berlin real estate market. All steps have been taken to ensure a seamless transfer.

The current political situation in Berlin has led to a considerable amount of unrest in the real estate sector. We view the proposed “Berliner Mietendeckel” quite sceptically. We believe that it or something similar can only contribute to a further shortage of apartments in Berlin. However, this should please investors, who in the long term almost certainly stand to benefit from such conditions. The short-term situation can only be described as uncertain. This can be attributed to the fact that nobody can say with any degree of confidence which political decisions will be taken or what effect they will have on the real estate sector.

Yet, despite all this, our overall outlook for the coming months remains positive. That's because whichever way any decisions go, we are ready. Our quality portfolio and fully integrated, scalable management platform provides us with the operative flexibility to enable us to initiate and execute appropriate action. We can adapt our operative strategy at short notice to tailor for any events.

It is on this note that we would like to thank you for your trust and confidence in us. We are intrigued to see what the coming months hold in store. The following pages will provide you with a detailed review of the last quarter and the last six months.

Sincerely yours,

| CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER | CHIEF OPERATING OFFICER |
| --- | --- | --- |
| **Ran Laufer** | **Florian Goldgruber** | **Eyal Horn** |

# Stock Market and the ADO Share

## Share Price Development


## The Share

| SHARE INFORMATION (as at June 30, 2019)) | |
|---|---|
| 1st day of trading | Jul 23, 2015 |
| Subscription price | EUR 20.00 |
| Price at the end of Q2 2019 | EUR 36.38 |
| Highest share price LTM | EUR 55.75 |
| Lowest share price LTM | EUR 34.88 |
| Total number of shares | 44.1 m |
| ISIN | LU1250154413 |
| WKN | A14U78 |
| Symbol | ADJ |
| Class | Dematerialized shares |
| Free float | 61.8% |
| Stock exchange | Frankfurt Stock Exchange |
| Market segment | Prime Standard |
| Market index | SDAX |
| EPRA indices | FTSE EPRA / NAREIT Global Index, FTSE EPRA / NAREIT Developed Europe Index, FTSE EPRA / NAREIT Germany Index |

## Key Stock Market Data

ADO shares are traded on the Prime Standard of the Frankfurt Stock Exchange. During the 12 months ended June 30, 2019, the shares traded between EUR 34.88 and EUR 55.75. ADO shares are included in the SDAX index of Deutsche Börse and the relevant real estate sector indices of the EPRA index family.

## Shareholder Structure

The total number of outstanding shares of ADO Properties amounts to 44.1 million. Alongside the main shareholder ADO Group Ltd., which holds a 38.2% stake in ADO Properties S.A., the 61.8% free float shares are held mainly by institutional investors.

## Analyst Coverage

ADO shares are currently covered by eleven analysts. The target prices range from EUR 35.00 to EUR 61.50 per share with an average target price of EUR 46.80.

## Investor Relations Activities

ADO maintains an active dialog with its shareholders and analysts. The Senior Management Team participates in relevant capital market conferences and roadshows to provide investors with direct access to all relevant information. The information provided during these events can be found, accessible for all investors, on the Company homepage.

## Dividend Policy

On June 20, 2019, the Annual General Meeting approved a dividend payout totaling EUR 33.1 million or EUR 0.75 per share representing a 49% payout of the total FFO 1 of the year 2018 and an increase of 25% compared to the previous dividend. Going forward, ADO Properties aims to distribute an annual dividend of up to 50% of FFO 1.

EUR
**1.6bn**
market capitalization

ADO

# 6Month Report

2019

# INTERIM MANAGEMENT REPORT

BERLIN INSIDERS

2

# Fundamentals of the Group

## Overview

ADO has been focused on Berlin residential real estate since its founding, creating value for its shareholders, investing to improve the quality and energy efficiency of the living environment it provides to those living in its apartments, and providing cost-effective housing to the Berlin population. With rents averaging approximately EUR 6.81 per m$^2$, our apartments are in the economical segment of the Berlin market. With 23,627 units (22,169 residential units), we are a residential real estate specialist with a fully integrated asset management platform. Our 371 operational employees based in Berlin bring us closer to our assets and tenants. This ensures that we are at the heart of new market trends and developments, as well as being ideally positioned to successfully deal with challenges that may arise.

Our operational focus in combination with our ability to identify new opportunities provide the base from which to drive FFO and NAV per share. We continually look for value and growth opportunities in attractive areas that offer good prospects.

In more than a decade of local presence in Berlin, we have established a proven track record of value creation, successfully dealing with an ever changing and evolving regulatory environment. Our management team, with its in-depth knowledge of the Berlin market, and our efficient, fully integrated and scalable platform provide the foundation for continuing value creation and adapting to changes that may arise from regulatory and other developments, including the "Berliner Mietendeckel" (see description of the proposed law under "Risk Report").

23,627
units

371
operational employees

## Objectives and Strategy

Creating value from our real estate portfolio is the core of our strategy. Our privatization program, which we started at the end of 2014, provides further options to unlock the hidden value in our portfolio and creates another source of income and liquidity from the sale of individual apartments.

Our fully integrated active asset management employs dedicated strategies for all components that influence our rental growth, vacancy rate and privatization success. Historically, we have invested significantly in our properties to modernize, refurbish and reposition them to create the right product for the current demand. This is a key component of our strategy. Our smart, targeted CAPEX investments resulted in increased rents and reduced vacancies. We closely monitor opportunities for future modernization CAPEX investments and the return on existing modernization CAPEX investments to ensure that these investments are optimally in line with the regulatory environment and match current demand. Units that already meet today's standards are being let at market rent levels or, if they are designated for privatization, sold at market prices. We are also examining the possibilities of selling buildings, which, in our opinion, have reached a value with a limited upside.

We have adopted a conservative financing structure with an LTV target of 40%, which also permits us to benefit from attractive financing conditions and allows us to react quickly to opportunities for potential acquisitions.

## Management System

ADO Properties S.A.'s Board of Directors together with the Senior Management Team manages the Company in accordance with the provisions of Luxembourg and German company laws. The Board of Directors' duties, responsibilities and business procedures are laid down in its Rules of Procedure. The day-to-day management of the Group is executed by the Senior Management Team. In cooperation with the Board of Directors, the Senior Management Team has established various key performance indicators for the daily as well as strategic management of the Group, which reflect the risks and opportunities relevant to a focused residential real estate business. These indicators are like-for-like rental growth, EBITDA from rental activities and net results from privatization together with FFO 1 per share (from rental activities) and EPRA NAV.

## Financial Performance Indicators

We calculate our NAV and NNNAV based on the best practice recommendations of EPRA (European Public Real Estate Association). EPRA NAV represents the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallize in normal circumstances, such as the fair value of financial derivatives and deferred taxes on property valuation surpluses, are therefore excluded. Similarly, trading properties are adjusted to their fair value under the EPRA NAV measure.

EPRA NAV makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.

### Calculation of EPRA NAV

| |
|---|
| Total equity attributable to owners of the Company |
| **(+)** Revaluation of trading properties[1] |
| **(–)** Fair value of derivative financial instruments[2] |
| **(–)** Deferred taxes |
| = **EPRA NAV** |

1) Difference between trading properties carried in the balance sheet at cost (IAS 2) and the fair value of those trading properties.
2) Net of derivative assets and liabilities stated in the balance sheet.

EPRA NNNAV is derived by adjusting EPRA NAV to include the fair values of financial instruments, debt and deferred taxes.

The objective of the EPRA NNNAV measure is to present net asset value including fair value adjustments in respect of all material balance sheet items that are not reported at their fair value as part of EPRA NAV.

### Calculation of EPRA NNNAV

| | |
|---|---|
| EPRA NAV | |
| (+) | Fair value of derivative financial instruments[2] |
| (+) | Fair value of debt[3] |
| (+) | Deferred taxes |
| = EPRA NNNAV | |

3) Difference between interest-bearing debts included in the balance sheet at amortized cost and the fair value of interest-bearing debts.

Starting from the revenues in relation to our rental activities, we calculate NOI (Net Operating Income) and EBITDA from rental activities.

NOI equals total revenue from the property portfolio less all reasonably necessary operating expenses. Aside from rent, a property might also generate revenue from parking and service fees. NOI is used to track the real estate portfolio's capability of generating income.

EBITDA from rental activities is an indicator of a company's financial performance and is calculated by deducting the overhead costs from NOI. It is used as a proxy to assess the recurring earning potential of the letting business.

EBITDA total can be derived by adding the net profit from privatizations to EBITDA from rental activities. It is used to assess the recurring earning potential of the business as a whole.

### Calculation of EBITDA (from rental activities)

| | |
|---|---|
| Net rental income | |
| (+) | Income from facility services |
| **= Income from rental activities** | |
| (–) | Cost of rental activities[4] |
| **= Net operating income (NOI)** | |
| (–) | Overhead costs[5] |
| **= EBITDA from rental activities** | |
| (+) | Net profit from privatizations[6] |
| **= EBITDA total** | |
| (–) | Net cash interest[7] |
| (+ / –) | Other net financial costs[8] |
| (–) | Depreciation and amortization |
| = EBT | |

4) Cost of rental activities is the aggregate amount of (a) Salaries and other expenses; (b) Cost of utilities recharged, net; and (c) Property operations and maintenance, as presented in the "Cost of operations" note to the consolidated financial statements.

5) Overhead costs represents the "General and administrative expenses" from the profit or loss statement excluding one-off costs and depreciation and amortization.

6) Net profit from privatizations is equal to revenue from "Selling of condominiums" less "Selling of condominiums – cost" as presented in the "Revenue" and "Cost of operations" notes to the consolidated financial statements, respectively, less current income taxes related to the sale of condominiums.

7) Net cash interest is equal to "Interest on other loans and borrowings" as presented in the "Net finance costs" note to the consolidated financial statements, excluding day-1 fair value non-cash adjustment, plus the nominal interest expense on bonds.

8) Other net financial costs is equal to the total "Net finance costs" from the profit or loss statement less "Net cash interest" as calculated in footnote (7) above.

In addition, we present the NOI from rental activities margin – calculated as NOI divided by net rental income, as well as EBITDA from rental activities margin – calculated as EBITDA from rental activities divided by net rental income. These metrics are useful to analyze the operational efficiency at real estate portfolio level as well as at company level.

Starting from EBITDA from rental activities, we calculate the main performance figure in the sector, FFO 1 (from rental activities). This KPI serves as an indicator of the sustained operational earnings power after cash interest expenses and current income taxes of our letting business.



### Calculation of FFO 1 (from rental activities)

| | |
|---|---|
| EBITDA from rental activities | |
| (–) | Net cash interest[7] |
| (–) | Current income taxes[9] |
| = FFO 1 (from rental activities) | |

9) Only current income taxes relating to rental activities.

Continuing from FFO 1 (from rental activities), we derive AFFO (from rental activities), which is adjusted for the impact of capitalized maintenance. AFFO (from rental activities) is used as an indicator of the sustained operational earnings power of our letting activities after cash interest expenses, current income taxes and recurring investment requirements in our real estate portfolio.

### Calculation of AFFO (from rental activities)

| | |
|---|---|
| FFO 1 (from rental activities) | |
| (–) | Maintenance capital expenditures[10] |
| = AFFO (from rental activities) | |

10) Maintenance capital expenditures relates to public area investments and forms part of the total capitalized CAPEX presented in the "Investment properties" note to the consolidated financial statements.

FFO 2 (incl. disposal results) is calculated by adding the net effect of our privatization activities to our FFO 1 (from rental activities). By adding the net effect of disposals, FFO 2 is used to indicate the total sustained operational earnings power.

### Calculation of FFO 2 (incl. disposal results)

| | |
|---|---|
| FFO 1 (from rental activities) | |
| (+) | Net profit from privatizations[6] |
| = FFO 2 (incl. disposal results) | |

The Loan-to-Value Ratio (LTV Ratio) indicates the degree to which the net financial liabilities, calculated as the nominal amount of the interest-bearing loans less cash and cash equivalents, are covered by the fair market value of the real estate portfolio. This indicator helps us to ensure a sustainable ratio of borrowings compared to the fair value of our real estate portfolio.

### Calculation of LTV

| | |
|---|---|
| Bonds, other loans and borrowings and other financial liabilities | |
| (–) | Cash and cash equivalents |
| **= Net financial liabilities** | |
| (/) | Fair value of properties[11] |
| = Loan-to-Value Ratio (LTV Ratio) | |

11) Including investment properties and trading properties at their fair value and advances paid in respect of investment properties and trading properties as at the reporting date.

We believe that the alternative performance measures described in this section constitute the most important indicators for measuring the operating and financial performance of the Group's business.

We expect all of the above described alternative performance measures to be of use for our investors in evaluating the Group's operating performance, the net value of the Group's property portfolio, the level of the Group's indebtedness and of cash flow generated by the Group's business.

Due to rounding, the figures reported in tables and cross-references may deviate from their exact values as calculated.

## Non-financial Performance Indicators

In addition to our financial performance indicators, we also use the following non-financial operating performance indicators.

The vacancy rate shows the ratio of m² of vacant units in our properties to total m². We calculate the vacancy rate separately for residential and commercial units. They are used as an indicator of the current letting performance.

The in-place rent per m² provides an insight into the average rental income from the rented properties. It serves as an indicator of the current letting performance.

The like-for-like rental growth is the change rate of the gross rents generated by the like-for-like residential portfolio over the last 12 months.

All of the above-described non-financial performance indicators are key drivers for the development of rental income.

The total amounts spent on maintenance, capitalized maintenance, energy efficiency modernization and modernization CAPEX in relation to the total lettable area of our portfolio are further operational figures to ensure an appropriate level of investment in our real estate portfolio.

## Corporate Governance

The Company's corporate governance practices are governed by Luxembourg Law (particularly the Luxembourg Companies Law) and the Company's articles of association. As a Luxembourg company listed solely on the Frankfurt Stock Exchange, the Company is not subject to any specific mandatory corporate governance rules. Nevertheless, the Company makes efforts to comply, to the maximum extent possible, with German corporate governance rules to ensure responsible and transparent corporate management. This is the basis and leading principle underlying our activities.

On April 11, 2019, the General Meeting of the Company approved, ratified and confirmed Messrs. Moshe Dayan (Chairman), David Daniel (Executive Vice Chairman) and Dr. Sebastian-Dominik Jais as Members of the Board of Directors. In respect of Mr. David Daniel, the General Meeting of the Company also approved a remuneration system providing for a fixed annual salary, a short-term incentive ("STI") and a long-term incentive ("LTI"). Additionally, the General Meeting of the Company appointed Mr. Constantin Papadimitriou as a member of the Board of Directors.

In light of the appointment of a new Chief Financial Officer (CFO) effective October 1, 2019, all steps have been taken to ensure a seamless transfer to the new CFO. In light of the upcoming expiration of the terms of appointment of the Company's Chief Operating Officer, the Company is undertaking appropriate actions to secure an appropriate replacement.

## Business Performance Highlights

The good operational performance of our existing portfolio is well on track concerning new rentals as is the execution of our CAPEX program. The like-for-like rental growth of 4.0% in Q2 2019 resulted in an average rent per m² of EUR 6.81, driven by our CAPEX program. Sales and modernization activities caused our vacancy rate to decrease to 2.9%.



**22,169**
residential units

**1,458**
commercial units

EUR
**6.81**
average residential in-place rent per m²

**71.0%**
EBITDA from rental activities margin

EUR
**71m**
income from rental activities

EUR
**33m**
FFO 1

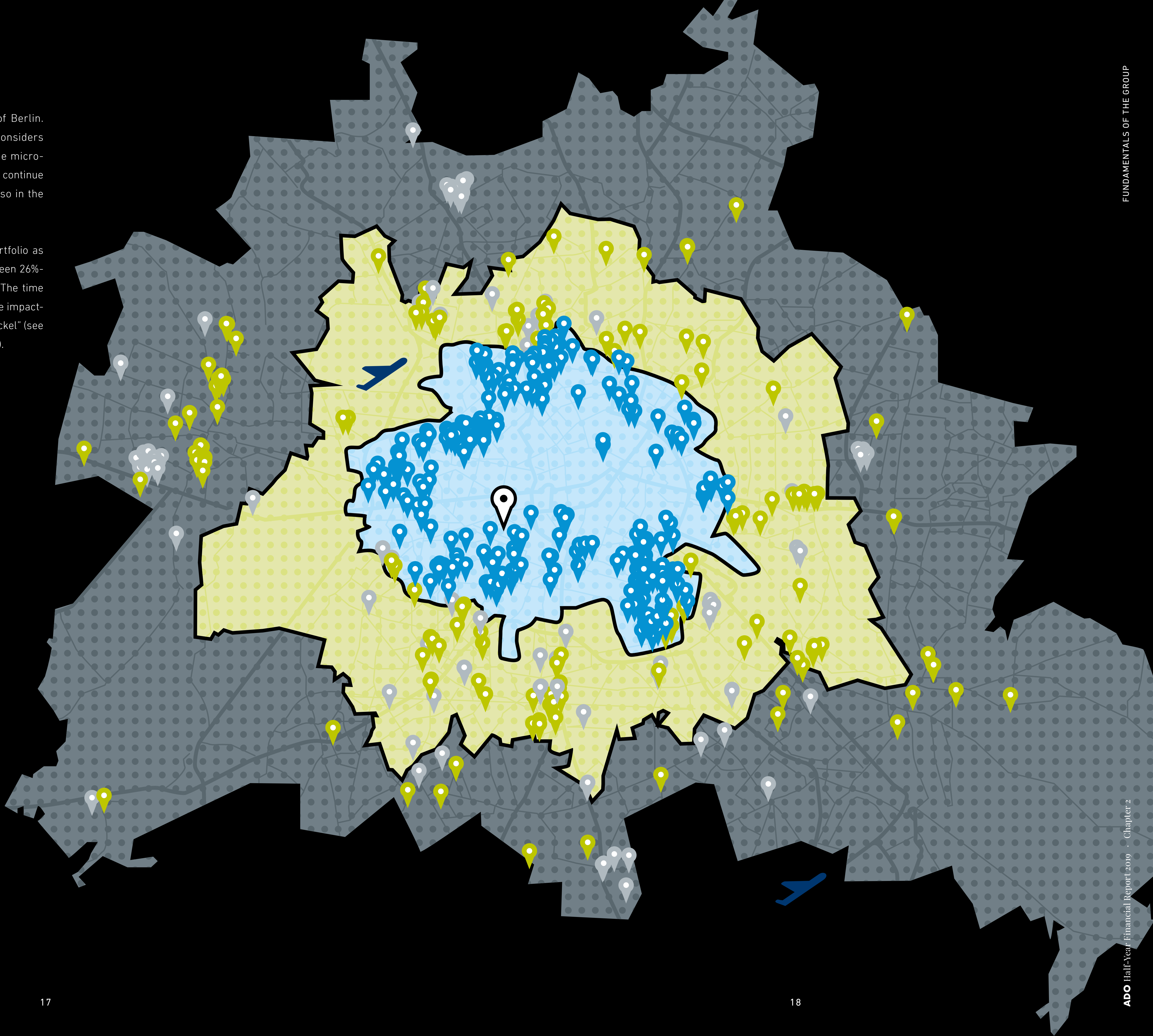
**38.0%**
LTV

EUR
**2,676m**
EPRA NAV

## Portfolio Overview

Our portfolio is located within the city borders of Berlin. Our acquisition strategy for building our portfolio considers not only the various districts in Berlin, but also the micro-locations and the quality of the individual assets. We continue to see opportunities in inner-city locations, but also in the outskirts of Berlin.

We see significant reversionary potential in our portfolio as our current average new letting rent per m² is between 26%-78% higher than our current overall average rent. The time needed to capture this reversionary potential may be impacted by many factors, including the "Berliner Mietendeckel" (see description of the proposed law under "Risk Report").



- **Headquarter**
- Central
- S-Bahn Ring
- City Ring
- S-Bahn Ring (1960–1990)
- City Ring (1960–1990)

## Portfolio Valuation

The portfolio was independently valued by CBRE. The total portfolio value of EUR 4.4 billion as at June 30, 2019 includes the full property portfolio, both trading and investment properties. The positive development of the Berlin residential real estate market is an important driver for the increase in the value of our properties. In addition to market trends, our operational performance and dedicated investment strategy support our value growth.

The following table shows the key valuation figures relating to the properties as at June 30, 2019.

## Portfolio Overview

### Portfolio Valuation(*)

| | Central | S-Bahn Ring | S-Bahn Ring (1960–1990) | City Ring | City Ring (1960–1990) | Total |
|---|---|---|---|---|---|---|
| Fair value | 1,631 | 523 | 720 | 338 | 1,163 | 4,375 |
| Fair value (EUR/m²) | 3,246 | 2,857 | 2,578 | 2,670 | 2,103 | 2,660 |
| Share of fair value (%) | 37% | 12% | 16% | 8% | 27% | 100% |
| Number of residential units | 6,505 | 2,224 | 4,179 | 1,494 | 7,767 | 22,169 |
| Average in-place rent (EUR/m²) | 7.45 | 7.16 | 7.08 | 7.37 | 5.98 | 6.81 |
| CBRE market rent (EUR/m²) | 9.56 | 9.16 | 8.15 | 8.93 | 7.05 | 8.24 |
| Average new letting rent (EUR/m²)(**) | 13.23 | 10.68 | 10.09 | 9.84 | 7.56 | 10.11 |
| Reversionary potential | 78% | 49% | 43% | 34% | 26% | 48% |
| Multiplier (current rent) | 34.45 | 33.50 | 30.10 | 29.95 | 29.35 | 31.75 |
| Multiplier (CBRE market rent) | 27.43 | 26.13 | 25.62 | 24.64 | 24.46 | 25.91 |
| Multiplier (new letting rent) | 22.03 | 24.54 | 20.61 | 24.40 | 23.63 | 22.67 |
| Discount rate (%) | 4.52% | 4.64% | 4.67% | 4.84% | 4.83% | 4.61% |
| Capitalization interest rate (%) | 2.56% | 2.69% | 2.81% | 2.87% | 2.89% | 2.70% |
| Tenant turnover (%)(***) | 8.2% | 9.2% | 7.1% | 10.6% | 6.7% | 7.7% |

(*) All values except the fair value are for the residential portfolio only.
(**) Based on the last three months.
(***) Last 12 months (LTM).

EUR
**4.4bn**
total portfolio value



## Portfolio Performance

### Residential portfolio

| | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| Number of units | 22,169 | 22,202 |
| Average rent /m²/ month | EUR 6.81 | EUR 6.73 |
| Vacancy | 2.9% | 3.2% |

The average rent per m² increased to EUR 6.81 since the beginning of the year, while the vacancy rate decreased by 30 bps to 2.9%.

### Commercial Portfolio

| | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| Number of units | 1,458 | 1,456 |
| Average rent /m²/ month | EUR 9.54 | EUR 9.42 |
| Vacancy | 4.8% | 4.6% |

The commercial part of our portfolio also confirms Berlin's positive development. It shows higher rents compared to the residential properties, having now grown to EUR 9.54 per m², which represents an increase of EUR 0.12 per m² since the beginning of the year. The vacancy rate of the commercial units increased to 4.8%.

In pursuit of our strategy of creating value through strong like-for-like rental growth, we split our rental growth into three components as shown in the table below to provide detailed information about how we can create rental growth.

### Rental Growth

| In % | LTM(*) June 30, 2019 | Jan 1 - Dec 31, 2018 |
|---|---|---|
| New lettings after CAPEX | 2.4% | 2.4% |
| New lettings fluctuation | 0.0% | 0.8% |
| Regular rent increases | 1.6% | 2.3% |
| **Total(**)** | **4.0%** | **5.6%** |

(*) Last 12 months (LTM).
(**) Like-for-like excludes furniture surcharge for furnished apartments. Including the furniture surcharge the like-for-like would be at 4.2%.

Our fully integrated active asset management is focused on rental growth and employs dedicated strategies to drive all relevant components. The first two components (CAPEX and fluctuation) relate to new tenants. In units that require modernization, we invest CAPEX to improve quality to meet today's standards. Units that do not require CAPEX are being let at market rent levels. Applying the relevant regulatory framework accurately and efficiently is key to our success in maximizing rental growth for our let units.

**Maintenance and CAPEX**

| In EUR per m² | Jan 1 - June 30, 2019(*) | Jan 1 - Dec 31, 2018 |
|---|---|---|
| Maintenance | 7.7 | 7.5 |
| Capitalized maintenance | 10.7 | 8.1 |
| Energetic modernization | 2.3 | 3.6 |
| Modernization CAPEX | 26.1 | 20.0 |
| **Total** | **46.7** | **39.2** |

(*) Annualized figures based on total lettable area.

Targeted investments in our portfolio are at the core of our strategy. Total investment in the portfolio amounted to EUR 38.6 million. The maintenance cost per m² of EUR 46.7 in the first six months was in line with our expectations for our long-term average levels. However, we expect a decrease in CAPEX investment during the near future.

## Vacancy Split

Our active asset management aims to minimize our vacancy rate while keeping the necessary flexibility for our portfolio optimization. In Q2 2019, we saw a decrease of 30 bps in the vacancy rate from the beginning of the year due to the increased speed of unit modernization.

**Vacancy Split**

| Residential | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| Units for sale | 0.1% | 0.2% |
| Units under construction | 1.8% | 2.2% |
| Marketing (available for letting) | 1.0% | 0.8% |
| **Total vacancy (units)** | **672** | **727** |
| **Total vacancy (m²)** | **42,771** | **46,721** |
| **Total vacancy rate** | **2.9%** | **3.2%** |
| **Total EPRA vacancy rate** | **2.9%** | **3.1%** |

With regard to our privatization activities, it is important that we keep some vacant units available for sale as most individual buyers, who are looking to purchase for their own use, prefer to purchase vacant units. The purchase prices for vacant units are higher than for rented ones, which compensates for the increased vacancy loss during the selling period.





# Economic Review

## Economic and Industry-Specific Parameters

### General Market Situation

The German Institute for Economic Research (DIW Berlin) expects the German economy to have stagnated in the second quarter or at best to have grown slightly. For the third quarter, the Institute anticipates a slight decline in economic output. The DIW's economic barometer fell to just 90 points in July 2019, its lowest level for a good six and a half years.

The labor market in Germany remains stable, although employment growth slowed somewhat in the course of the year. In June 2019, the number of people in employment was around 45.1 million. This corresponds to an increase of around 394,000 people, or 0.9 percent, compared with June 2018. *(Source: Federal Statistical Office).* The European Central Bank (ECB) left its main refinancing interest rate unchanged at 0.00%, thereby ensuring that borrowing costs remain low for real estate investors.

### Demographics and Housing Demand in Berlin

Berlin is the most densely populated city in Germany and has recorded constant growth in its population since around 2005. On December 31, 2018, a total of 3,644,826 people lived in the German capital. This corresponds to an increase of 31,300 persons, or around 0.9 percent, compared to the previous year. *(Source: Berlin-Brandenburg Statistics Office, press release dated 17/06/2019).*

In order to keep up with the fast demographic growth, on the one hand, and to ease the strained situation on the housing market, on the other hand, a total of 194,000 new flats would have to be built between now and the year 2030, according to the Senate Department for Urban Development and Housing. The Department therefore projects an annual demand of 20,000 flats through 2021. *(Source: Berlin's Senate Department for Urban Development and Housing, press release dated 01/09/2017).* However, the number of planning permissions and the number of completed residential units still lags clearly behind the trend in demand. In addition, the current discussions about the tightening of the regulatory framework on the Berlin housing market could have a negative impact on investment activity. Against this background, it is generally reasonable to expect prices to keep growing even if the momentum of the price trend is likely to slow down compared to the brisk rent hikes of prior years.

### Berlin's Residential Property Market

In view of the still favorable framework conditions in national and international comparison, the Berlin residential real estate market continues to be the focus of real estate investors from Germany and abroad. It remains to be seen, however, to what extent the political initiatives for even stronger regulation of the housing market will affect transaction activity in the coming months.

## Profit Situation

Income from rental activities for the first six months increased by 10% driven by new acquisitions and like-for-like rental growth. The quarterly results reflect an annualized income of EUR 143 million.

EBITDA from rental activities increased by 2%. The quarterly results represent an annualized EBITDA of almost EUR 96 million. During the first six months, we sold 38 units.

The average selling price of EUR 3,866 per m² compares very positively to our current average portfolio value for Central Locations of EUR 3,246 per m².

In the first six months, financing cost on interest-bearing debt amounted to EUR 13 million. As at the end of the second quarter, our average interest rate on all outstanding debt is 1.6%, with a weighted average maturity of approximately 4.3 years.

### Financial Performance(*)

| In EUR thousand | For the six months ended June 30, 2019 | For the six months ended June 30, 2018 | For the three months ended June 30, 2019 | For the three months ended June 30, 2018 | For the year ended Dec 31, 2018 |
|---|---|---|---|---|---|
| Net rental income | 67,449 | 61,587 | 33,796 | 31,785 | 127,982 |
| Income from facility services | 3,912 | 3,359 | 1,869 | 1,829 | 6,606 |
| **Income from rental activities** | **71,361** | **64,946** | **35,665** | **33,614** | **134,588** |
| Cost of rental activities | (15,538) | (11,846) | (7,716) | (6,107) | (26,179) |
| **NET OPERATING INCOME (NOI)** | **55,823** | **53,100** | **27,949** | **27,507** | **108,409** |
| NOI from rental activities margin (%) | 82.8% | 86.2% | 82.7% | 86.5% | 84.7% |
| Overhead costs(**) | (7,966) | (6,361) | (3,952) | (3,308) | (14,632) |
| **EBITDA from rental activities** | **47,857** | **46,739** | **23,997** | **24,199** | **93,777** |
| EBITDA from rental activities margin (%) | 71.0% | 75.9% | 71.0% | 76.1% | 73.3% |
| Net profit from privatization(***) | 1,066 | 797 | 427 | 399 | 2,478 |
| **EBITDA total** | **48,923** | **47,536** | **24,423** | **24,598** | **96,255** |
| Net cash interest | (13,426) | (12,764) | (6,731) | (6,330) | (25,408) |
| Other net financial income (costs)(****) | 4,662 | (684) | 10,516 | (391) | (6,108) |
| Depreciation and amortization | (735) | (224) | (424) | (113) | (526) |
| **EBT** | **39,424** | **33,864** | **27,784** | **17,764** | **64,213** |

(*) Excluding effects from the changes in fair value.
(**) Excluding one-off costs and depreciation and amortization.
(***) Q2 2018 figures are adjusted for current income taxes related to the sale of condominiums.
(****) Includes mostly fair value change in the derivative component of the convertible bond.





## FFO

### FFO

| In EUR thousand | For the six months ended June 30, 2019 | For the six months ended June 30, 2018 | For the three months ended June 30, 2019 | For the three months ended June 30, 2018 | For the year ended Dec 31, 2018 |
|---|---|---|---|---|---|
| EBITDA from rental activities | 47,857 | 46,739 | 23,997 | 24,199 | 93,777 |
| Net cash interest | (13,426) | (12,764) | (6,731) | (6,330) | (25,408) |
| Current income taxes(**) | (1,001) | (375) | (552) | (176) | (1,592) |
| **FFO 1 (from rental activities)** | **33,430** | **33,600** | **16,714** | **17,692** | **66,777** |
| Maintenance capital expenditures(*) | (8,829) | (6,076) | (4,568) | (4,538) | (13,038) |
| **AFFO (from rental activities)** | **24,600** | **27,524** | **12,146** | **13,154** | **53,739** |
| Net profit from privatizations(**) | 1,066 | 797 | 427 | 399 | 2,478 |
| **FFO 2 (incl. disposal results)** | **34,496** | **34,397** | **17,140** | **18,091** | **69,255** |
| No. of shares(***) | 44,131 | 44,100 | 44,131 | 44,100 | 44,101 |
| **FFO 1 per share** | **0.76** | **0.76** | **0.38** | **0.40** | **1.51** |
| **FFO 2 per share** | **0.78** | **0.78** | **0.39** | **0.41** | **1.57** |

(*) Q2 2018 figures are adjusted for energetic modernization CAPEX.
(**) Q2 2018 figures are adjusted for current income taxes related to the sale of condominiums.
(***) On December 14, 2018 the Company issued 30,757 new shares to Mr. Shlomo Zohar, the former Executive Vice Chairman of the Board. The number of shares is calculated as weighted average for the related period.

## Cash Flow

The cash flow of the Group breaks down as follows:

| In EUR thousand | Jan 1 - June 30, 2019 | Jan 1 - Dec 31, 2018 |
|---|---|---|
| Net cash from operating activities | 43,184 | 103,933 |
| Net cash used in investing activities | (33,581) | (334,034) |
| Net cash from financing activities | 58,262 | 136,537 |
| Net change in cash and cash equivalents | 67,865 | (93,564) |
| Opening balance cash and cash equivalents | 27,965 | 121,530 |
| Closing balance cash and cash equivalents | 95,830 | 27,966 |

## Financial and Asset Position

The Company will update the fair value of the investment properties based on a third-party valuation with the next quarterly report. The current average cap rate is 2.7%.

### Financial Position

| In EUR thousand | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| Investment properties and advances in respect of investment properties | 4,335,253 | 4,050,323 |
| Other non-current assets | 22,686 | 15,492 |
| **Non-current assets** | **4,357,939** | **4,065,815** |
| Cash and cash deposits | 95,830 | 27,966 |
| Other current assets | 75,342 | 76,392 |
| **Current assets** | **171,172** | **104,358** |
| **Total assets** | **4,529,111** | **4,170,173** |
| Interest-bearing debts | 1,712,778 | 1,609,124 |
| Other liabilities | 115,944 | 114,653 |
| Deferred tax liabilities | 287,119 | 249,114 |
| **Total liabilities** | **2,115,841** | **1,972,891** |
| **Total equity attributable to owners of the Company** | **2,362,528** | **2,150,679** |
| Non-controlling interests | 50,742 | 46,603 |
| **Total equity** | **2,413,270** | **2,197,282** |
| **Total equity and liabilities** | **4,529,111** | **4,170,173** |

On June 30, 2019, our EPRA NAV was EUR 60.63 per share and the EPRA Triple Net Asset Value (NNNAV) was EUR 53.30 per share.

EUR
60.63
EPRA NAV per share



### NAV

| In EUR thousand | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| Total equity attributable to owners of the Company | 2,362,528 | 2,150,679 |
| Fair value of derivative financial instruments | 10,626 | 16,339 |
| Deferred taxes | 287,119 | 249,114 |
| Revaluation of trading properties | 15,550 | 13,412 |
| **EPRA NAV** | **2,675,823** | **2,429,544** |
| No. of shares | 44,131 | 44,131 |
| **EPRA NAV per share** | **60.63** | **55.05** |

### EPRA Triple Net Asset Value (NNNAV)

| In EUR thousand | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| EPRA NAV | 2,675,823 | 2,429,544 |
| Fair value of derivative financial instruments | (10,626) | (16,339) |
| Fair value of debt | (26,109) | (4,975) |
| Deferred taxes | (287,119) | (249,114) |
| **EPRA NNNAV** | **2,351,969** | **2,159,116** |
| No. of shares | 44,131 | 44,131 |
| **EPRA NNNAV per share** | **53.30** | **48.93** |

## Funding

We fund our properties based on a conservative financing strategy with a mix of secured mortgage loans and capital market instruments.

### Financing

| In EUR thousand | June 30, 2019 | Dec 31, 2018 |
|---|---|---|
| Interest-bearing debts and other financial liabilities | 1,759,151 | 1,651,151 |
| Cash and cash equivalents | (95,830) | (27,966) |
| Net financial liabilities | 1,663,321 | 1,623,185 |
| Fair value of properties (including advances) | 4,380,983 | 4,098,763 |
| Loan-to-Value ratio | 38.0% | 39.6% |
| Average interest rate | 1.6% | 1.7% |

As at the reporting date, our Loan-to-Value (LTV) was 38.0% with an average interest rate of all outstanding debts of 1.6% and a weighted average maturity of approximately 4.3 years. Almost all of our loans have a fixed interest rate or are hedged.

## EPRA Key Figures

The European Public Real Estate Association (EPRA) is a non-profit organization that has its registered headquarters in Brussels and represents the interests of listed European real estate companies. It aims to raise awareness for European listed real estate companies as a potential investment opportunity. Since its IPO in 2015, ADO Properties has been a member of EPRA.

EPRA has defined a framework for standardized reporting in its EPRA Best Practice Recommendations (BPRs) that goes beyond the scope of the IFRSs. ADO only uses some of the EPRA key figures, which are non-GAAP measures, as performance indicators.

| EPRA Performance Measure | Definition | Purpose | June 30, 2019 | Dec 31, 2018 | Change in % |
|---|---|---|---|---|---|
| EPRA NAV (in EUR thousand) | EPRA NAV represents the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallize in normal circumstances, such as the fair value of financial derivatives and deferred taxes on property valuation surpluses, are therefore excluded. Similarly, trading properties are adjusted to their fair value under the EPRA NAV measure. | Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with long-term investment strategy. | 2,675,823 | 2,429,544 | 10.1% |
| EPRA NNNAV (in EUR thousand) | EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes. | The objective of the EPRA NNNAV measure is to present net asset value including fair value adjustments in respect of all material balance sheet items that are not reported at their fair value as part of EPRA NAV. | 2,351,969 | 2,159,116 | 8.9% |
| EPRA Vacancy rate (in %) | Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio. | A "pure" (%) measure of investment property space that is vacant on ERV. | 2.9% | 3.1% | 20 bps |



# Subsequent Events



**A.** On August 13, 2019, the Company's Board appointed Eyal Merdler as Chief Financial Officer (CFO), effective October 1, 2019. Eyal will be resigning in his role as CFO of ADO Group Ltd., effective September 30, 2019, and will succeed Florian Goldgruber as CFO of the Company whose appointment as CFO had been extended through September 30, 2019.

**B.** On July 22, 2019, the contract of Mr. Rabin Savion as Chief Executive Officer (CEO) expired. The Company and Mr. Savion agreed by mutual consent not to extend his appointment as CEO of the Company. According to the mutual termination agreement signed on June 13, 2019, Mr. Savion was entitled to receive a total amount of EUR 1,332 thousand to be settled in cash (EUR 82 thousand for the period between January 1, 2019 and July 22, 2019, based on the short-term incentive plan, and the rest as termination fees). On July 24, 2019, the Company paid to Mr. Savion an amount of EUR 645 thousand. The rest of the termination fees will be payable in twelve equal monthly installments. In addition, on July 5, 2019, based on the long-term incentive plan, the Company issued 31,412 shares without cost to Mr. Savion.

**C.** On June 21, 2019, the Company's Board appointed Mr. Ran Laufer as Chief Executive Officer of the Company. He joined the Company in his role as CEO on July 23, 2019, and the initial term of his service agreement extends through July 22, 2023.

**D.** On June 13, 2019, the Company extended the appointment of Eyal Horn, Chief Operating Officer (COO), on an interim basis until September 30, 2019, while the Company undertakes a search for a new COO, which is ongoing.

# Forecast Report

For the full year 2019, we expect our FFO 1 run rate to be approximately EUR 65 million.

Given the uncertainties regarding whether and in what form the "Berliner Mietendeckel" will be adopted, we are currently not providing guidance on our anticipated like-for-like rental growth.

For the full year 2019, we expect the average cost of our long-term debt to be 1.6% with an LTV target of a maximum of 40%.

We also expect the dividend payout ratio for the dividend to be paid in 2020 with respect to the full year 2019, to be up to 50% of FFO 1.

We are also confident that in the medium to long-term ADO Properties will continue to increase the value of its assets, its NAV and its NAV per share.





# Risk Report

ADO Properties S.A. continually monitors and controls risk positions in the Group in order to avoid developments that might threaten the existence of the Group and, at the same time, to exploit any opportunities that occur. The risk management system has been designed on the basis of the corporate strategy and the portfolio structure as an appropriate and effective early warning and control instrument. The established risk management system enables the Board of Directors and the Senior Management Team to identify and assess material risks at all times both within the Group and in the environment. The Board of Directors and the Senior Management Team of ADO Properties S.A. currently sees no risks that threaten the Company's existence.

## Proposed New Law ("Berliner Mietendeckel")

On June 18, 2019, the Berlin Senate, the city's government, passed a list of key items *("Eckpunktepapier")* as the basis for a proposed new law intended to limit residential rents for non-subsidized multi-facility properties in Berlin (excluding newly constructed properties).

The resolution calls for a first draft of a law to be prepared by the end of August 2019, with a final draft to be provided by mid-October for consideration in the Berlin House of Representatives, the city's parliament. The draft is intended to be passed into law in December 2019 and the law is scheduled to become effective on January 11, 2020. At this point in time, no actual draft law is available and the outcome of the legislative process remains unclear.

The principal aim of the proposed legislation is stated as fixing rents at the level of June 18, 2019, with a number of measures proposed to achieve this. The key elements of these measures include the following:

- "Rent freeze" – No increases in rent would be permitted for a period of five years, i.e. rent would remain at the current level, also in case of a new tenant moving in.
- "Rent cap" – A threshold would be set, and no rents above such threshold would be permitted. The threshold would be set at a level that takes into account the level of rent in effect before the Berlin residential real estate market became "skewed" *(in Schieflage geraten)*, as the Berlin Senate´s paper is drafted. Tenants whose existing rents are above the threshold could apply to have their rent reduced to the permitted level by an official order. This could result in the Company being required to lower certain rents below current levels.
- "Investment cap" – Increases in rent and ancillary charges resulting from CAPEX measures in excess of EUR 0.50/m²/month would be subject to an official approval, while rent increases below the threshold would be subject to reporting obligations, including an obligation to evidence resulting reductions in service charges by way of an expert opinion.
- "Fines" – Violations of the provisions of the law could be punished by fines of up to EUR 500,000 for each violation.

Given the current status in the legislative process, details of any of the above points, as well as the actual timeline in which to expect a law being passed, remain unclear. In addition, the constitutionality of the proposed legislation has been called into question, inter alia by an assessment by the Research Services *(Wissenschaftliche Dienste)* of the Bundestag, the German federal parliament.

The adoption of a law which includes one or more of the above key elements could have a negative impact on the Company's results of operations, cash flows (including FFO 1) and financial condition, which impact could be material. In addition, such law could have a negative impact on the valuation of the Company's real estate portfolio.

### Concluding Remark

This Management Report contains forward-looking statements and information. These forward-looking statements may be identified by words such as "expects", "intends", "will", or words of similar meaning. Such statements are based on our current expectations, assessments and assumptions about future developments and events and, therefore, are naturally subject to certain uncertainties and risks. The actual developments and events may differ significantly both positively and negatively from the forward-looking statements so that the expected, anticipated, intended, believed or estimated developments and events may, in retrospect, prove to be incorrect.





# Responsibility Statement

We confirm, to the best of our knowledge, that the Condensed Consolidated Financial Statements of ADO Properties S.A. presented in this Half-Year Financial Report 2019, prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union, give a true and fair view of the net assets, financial and earnings position of the Company, and that the Interim Management Report includes a fair review of the development of the business and describes the main opportunities, risks and uncertainties associated with the Company for the remaining six months of the year.

| CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER | CHIEF OPERATING OFFICER |
|---|---|---|
| **Ran Laufer** | **Florian Goldgruber** | **Eyal Horn** |

ADO

6Month Report

2019

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

BERLIN INSIDERS

3

# 3

**To the Shareholders of**

ADO Properties S.A. | 1B Heienhaff | L-1736 Senningerberg | Luxembourg

# Report of the Réviseur d'Entreprises agréé on the Review of Interim Financial Information

## Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of ADO Properties S.A. ("the Company") as at June 30, 2019, the condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three and six month periods ended June 30, 2019, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.





## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted, for Luxembourg, by the Institut des Réviseurs d'Entreprises. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2019 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, August 13, 2019

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Bobbi Jean Breboneria
Associate Partner

# Condensed Consolidated Interim Statement of Financial Position

## Assets

| In EUR thousand | Note | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investment properties | 4A | 4,328,953 | 3,766,309 | 4,044,023 |
| Advances in respect of investment properties | | 6,300 | 16,387 | 6,300 |
| Property and equipment | 4A(1) | 10,641 | 2,981 | 3,495 |
| Other financial asset | 5B | 7,127 | 6,015 | 6,615 |
| Restricted bank deposits | | 2,921 | - | 3,859 |
| Deferred expenses | 4E | 789 | 747 | 791 |
| Right-of-use assets | 3A | 1,208 | - | - |
| Deferred tax assets | | - | - | 732 |
| | | **4,357,939** | **3,792,439** | **4,065,815** |
| **Current assets** | | | | |
| Trading properties | 4B | 30,180 | 42,953 | 35,028 |
| Restricted bank deposits | | 29,528 | 27,868 | 24,752 |
| Trade receivables | | 11,292 | 9,396 | 13,313 |
| Other receivables | | 4,342 | 5,225 | 3,299 |
| Cash and cash equivalents | | 95,830 | 13,256 | 27,966 |
| | | **171,172** | **98,698** | **104,358** |
| **Total assets** | | **4,529,111** | **3,891,137** | **4,170,173** |



## Equity and liabilities

| In EUR thousand | Note | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
|---|---|---|---|---|
| **Shareholders' equity** | 4C | | | |
| Share capital | | 55 | 55 | 55 |
| Share premium | | 499,209 | 498,607 | 499,209 |
| Reserves | | 319,979 | 328,311 | 324,877 |
| Retained earnings | | 1,543,285 | 1,129,453 | 1,326,538 |
| **Total equity attributable to owners of the Company** | | **2,362,528** | **1,956,426** | **2,150,679** |
| **Non-controlling interests** | | **50,742** | **42,844** | **46,603** |
| **Total equity** | | **2,413,270** | **1,999,270** | **2,197,282** |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Corporate bonds | 4D | 397,172 | 396,668 | 396,899 |
| Convertible bonds | 4D | 155,283 | - | 154,252 |
| Other loans and borrowings | 4E | 1,111,300 | 935,173 | 1,040,909 |
| Other financial liabilities | 4F | 44,838 | 37,903 | 40,492 |
| Derivatives | 5B | 10,402 | 2,761 | 16,236 |
| Lease liabilities | 3A | 525 | - | - |
| Deferred tax liabilities | | 287,119 | 218,909 | 249,114 |
| | | **2,006,639** | **1,591,414** | **1,897,902** |
| **Current liabilities** | | | | |
| Commercial papers | | - | 160,000 | - |
| Other loans and borrowings | 4E | 49,023 | 84,885 | 17,064 |
| Other financial liabilities | 4F | 1,535 | 331 | 1,535 |
| Trade payables | | 16,190 | 14,816 | 18,497 |
| Other payables | | 41,540 | 40,317 | 37,790 |
| Lease liabilities | 3A | 690 | - | - |
| Derivatives | 5B | 224 | 104 | 103 |
| | | **109,202** | **300,453** | **74,989** |
| **Total equity and liabilities** | | **4,529,111** | **3,891,137** | **4,170,173** |

CHIEF EXECUTIVE OFFICER

**Ran Laufer**

CHIEF FINANCIAL OFFICER

**Florian Goldgruber**

Date of approval: August 13, 2019

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Profit or Loss

| In EUR thousand | Note | For the six months ended June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | For the three months ended June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | For the year ended Dec 31, 2018 (Audited) |
|---|---|---|---|---|---|---|
| Revenue | 6A | 79,696 | 73,388 | 39,707 | 38,391 | 154,853 |
| Cost of operations | 6B | (21,571) | (18,866) | (10,622) | (10,013) | (41,996) |
| **Gross profit** | | **58,125** | **54,522** | **29,085** | **28,378** | **112,857** |
| General and administrative expenses | | (9,179) | (6,939) | (4,598) | (3,637) | (18,451) |
| Changes in fair value of investment properties | 4A | 258,729 | 199,031 | 258,729 | 201,760 | 404,936 |
| **Results from operating activities** | | **307,675** | **246,614** | **283,216** | **226,501** | **499,342** |
| Finance income | | 6,886 | 703 | 11,639 | 646 | 1,399 |
| Finance costs | | (15,650) | (14,151) | (7,854) | (7,367) | (32,915) |
| **Net finance income (costs)** | 6C | **(8,764)** | **(13,448)** | **3,785** | **(6,721)** | **(31,516)** |
| **Profit before tax** | | **298,911** | **233,166** | **287,001** | **219,780** | **467,826** |
| Income tax expense | | (45,190) | (36,879) | (43,469) | (36,327) | (70,362) |
| **Profit for the period** | | **253,721** | **196,287** | **243,532** | **183,453** | **397,464** |
| **Profit attributable to:** | | | | | | |
| Owners of the Company | | 249,582 | 189,546 | 239,702 | 177,020 | 386,964 |
| Non-controlling interest | | 4,139 | 6,741 | 3,830 | 6,433 | 10,500 |
| **Profit for the period** | | **253,721** | **196,287** | **243,532** | **183,453** | **397,464** |
| **Basic and diluted earnings per share (in EUR)** | | **5.66** | **4.30** | **5.43** | **4.01** | **8.77** |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.



# Condensed Consolidated Interim Statement of Comprehensive Income

| In EUR thousand | For the six months ended June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | For the three months ended June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | For the year ended Dec 31, 2018 (Audited) |
|---|---|---|---|---|---|
| **Profit for the period** | **253,721** | **196,287** | **243,532** | **183,453** | **397,464** |
| **Items that may be reclassified subsequently to profit or loss** | | | | | |
| Hedging reserve classified to profit or loss, net of tax | – | 10 | – | – | 10 |
| Effective portion of changes in fair value of cash flow hedges | (656) | 110 | (332) | (147) | 200 |
| Related tax | 104 | (19) | 53 | 23 | (33) |
| **Total other comprehensive income (loss)** | **(552)** | **101** | **(279)** | **(124)** | **177** |
| **Total comprehensive income for the period** | **253,169** | **196,388** | **243,253** | **183,329** | **397,641** |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | 249,030 | 189,647 | 239,423 | 176,896 | 387,141 |
| Non-controlling interest | 4,139 | 6,741 | 3,830 | 6,433 | 10,500 |
| **Total comprehensive income for the period** | **253,169** | **196,388** | **243,253** | **183,329** | **397,641** |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Cash Flows

| In EUR thousand | Note | For the six months ended June 30, 2019 (Unaudited) | For the six months ended June 30, 2018 (Unaudited) | For the three months ended June 30, 2019 (Unaudited) | For the three months ended June 30, 2018 (Unaudited) | For the year ended Dec 31, 2018 (Audited) |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Profit for the period | | 253,721 | 196,287 | 243,532 | 183,453 | 397,464 |
| Adjustments for: | | | | | | |
| Depreciation | | 747 | 224 | 432 | 113 | 527 |
| Change in fair value of investment properties | 4A | (258,729) | (199,031) | (258,729) | (201,760) | (404,936) |
| Net finance costs (income) | 6C | 8,764 | 13,448 | (3,785) | 6,721 | 31,516 |
| Income tax expense | | 45,190 | 36,879 | 43,469 | 36,327 | 70,362 |
| Share-based payment | | 263 | 277 | 138 | 139 | 546 |
| Change in short-term restricted bank deposits related to tenants | | (1,420) | (1,726) | (659) | (957) | (1,624) |
| Change in restricted bank deposits from condominium sales | | (2,641) | (1,466)(*) | (1,763) | (862)(*) | (3,320) |
| Change in trade receivables | | 2,021 | 991 | 1,937 | 138 | (2,926) |
| Change in other receivables | | (933) | 399 | 1,988 | 914 | 2,427 |
| Change in trading properties | | 4,848 | 5,659 | 2,186 | 3,138 | 13,585 |
| Change in trade payables | | (2,250) | (1,625) | (548) | 1,810 | 4,623 |
| Change in other payables | | 195 | 392 | 233 | 1,199 | (156) |
| Income tax paid | | (6,592) | (806) | (6,206) | (505) | (4,155) |
| **Net cash from operating activities** | | **43,184** | **49,902** | **22,225** | **29,868** | **103,933** |
| **Cash flows from investing activities** | | | | | | |
| Purchase and CAPEX of investment properties | 4A | (31,357) | (63,820) | (15,936) | (34,786) | (117,118) |
| Advances paid for investment property purchase | | - | (9,250) | - | (8,000) | - |
| Purchase of property and equipment | | (2,448) | (365) | (1,393) | (215) | (1,182) |
| Interest received | | 6 | 47 | 2 | 47 | 143 |



| In EUR thousand | Note | For the six months ended June 30, 2019 (Unaudited) | For the six months ended June 30, 2018 (Unaudited) | For the three months ended June 30, 2019 (Unaudited) | For the three months ended June 30, 2018 (Unaudited) | For the year ended Dec 31, 2018 (Audited) |
|---|---|---|---|---|---|---|
| Acquisition of subsidiaries, net of acquired cash | | - | (196,831) | - | (162,150) | (216,685) |
| Change in short-term restricted bank deposits, net | | 218 | (200)(*) | 218 | (158)(*) | 808 |
| **Net cash used in investing activities** | | **(33,581)** | **(270,419)** | **(17,109)** | **(205,262)** | **(334,034)** |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from issuance of convertible bonds, net | 4D | - | - | - | - | 163,740 |
| Long-term loans received | 4E | 79,427 | 7,695 | 79,427 | - | 121,637 |
| Repayment of long-term loans | 4E | (8,094) | (15,850) | (4,224) | (4,585) | (93,283) |
| Proceeds from issuance of commercial papers | | - | 240,000 | - | 240,000 | 673,000 |
| Repayment of commercial papers | | - | (80,000) | - | (80,000) | (673,000) |
| Repayment of short-term loans | | - | (2,300) | - | - | (2,300) |
| Short term loans received | 4E | 30,000 | - | 30,000 | - | - |
| Upfront fees paid for credit facilities | 4E | (305) | (1,093) | (143) | (378) | (1,377) |
| Interest paid | | (9,310) | (9,202) | (5,348) | (4,576) | (24,873) |
| Payment of lease liabilities | 3A | (358) | - | (183) | - | - |
| Compensation fee payments in respect of other financial liabilities | 4F | - | (537) | - | (537) | (537) |
| Payment from settlement of derivatives | | - | (10) | - | - | (10) |
| Dividend distributed | 4C | (33,098) | (26,460) | (33,098) | (26,460) | (26,460) |
| **Net cash from financing activities** | | **58,262** | **112,243** | **66,431** | **123,464** | **136,537** |
| **Change in cash and cash equivalents during the period** | | **67,865** | **(108,274)** | **71,547** | **(51,930)** | **(93,564)** |
| **Cash and cash equivalents at the beginning of the period** | | **27,965** | **121,530** | **24,283** | **65,186** | **121,530** |
| **Cash and cash equivalents at the end of the period** | | **95,830** | **13,256** | **95,830** | **13,256** | **27,966** |

(*) Immaterial adjustment of comparative data.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

# Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended June 30, 2019 (Unaudited)

| In EUR thousand | Share capital | Share premium | Hedging reserves | Capital reserve from transactions with controlling shareholder | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2019** | **55** | **499,209** | **(859)** | **325,736** | **1,326,538** | **2,150,679** | **46,603** | **2,197,282** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | – | – | – | – | 249,582 | 249,582 | 4,139 | 253,721 |
| Other comprehensive loss for the period, net of tax | – | – | (552) | – | – | (552) | – | (552) |
| **Total comprehensive income (loss) for the period** | **–** | **–** | **(552)** | **–** | **249,582** | **249,030** | **4,139** | **253,169** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Changes in put option (see note 4F) | – | – | – | (4,346) | – | (4,346) | – | (4,346) |
| Dividend distributed (see note 4C) | – | – | – | – | (33,098) | (33,098) | – | (33,098) |
| Share-based payment | – | – | – | – | 263 | 263 | – | 263 |
| **Balance as at June 30, 2019** | **55** | **499,209** | **(1,411)** | **321,390** | **1,543,285** | **2,362,528** | **50,742** | **2,413,270** |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.





For the six months ended June 30, 2018 (Unaudited)

| In EUR thousand | Share capital | Share premium | Hedging reserves | Capital reserve from transactions with controlling shareholder | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2018** | **55** | **498,607** | **(1,036)** | **331,674** | **966,090** | **1,795,390** | **36,103** | **1,831,493** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | – | – | – | – | 189,546 | 189,546 | 6,741 | 196,287 |
| Other comprehensive income for the period, net of tax | – | – | 101 | – | – | 101 | – | 101 |
| **Total comprehensive income for the period** | **–** | **–** | **101** | **–** | **189,546** | **189,647** | **6,741** | **196,388** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Changes in put option (see note 4F) | – | – | – | (2,428) | – | (2,428) | – | (2,428) |
| Dividend distributed | – | – | – | – | (26,460) | (26,460) | – | (26,460) |
| Share-based payment | – | – | – | – | 277 | 277 | – | 277 |
| **Balance as at June 30, 2018** | **55** | **498,607** | **(935)** | **329,246** | **1,129,453** | **1,956,426** | **42,844** | **1,999,270** |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

For the three months ended June 30, 2019 (Unaudited)

| In EUR thousand | Share capital | Share premium | Hedging reserves | Capital reserve from transactions with controlling shareholder | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at April 1, 2019** | **55** | **499,209** | **(1,132)** | **325,376** | **1,336,543** | **2,160,051** | **46,912** | **2,206,963** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | – | – | – | – | 239,702 | 239,702 | 3,830 | 243,532 |
| Other comprehensive loss for the period, net of tax | – | – | (279) | – | – | (279) | – | (279) |
| **Total comprehensive income (loss) for the period** | **–** | **–** | **(279)** | **–** | **239,702** | **239,423** | **3,830** | **243,253** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Changes in put option (see note 4F) | – | – | – | (3,986) | – | (3,986) | – | (3,986) |
| Dividend distributed (see note 4C) | – | – | – | – | (33,098) | (33,098) | – | (33,098) |
| Share-based payment | – | – | – | – | 138 | 138 | – | 138 |
| **Balance as at June 30, 2019** | **55** | **499,209** | **(1,411)** | **321,390** | **1,543,285** | **2,362,528** | **50,742** | **2,413,270** |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.



For the three months ended June 30, 2018 (Unaudited)

| In EUR thousand | Share capital | Share premium | Hedging reserves | Capital reserve from transactions with controlling shareholder | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at April 1, 2018** | **55** | **498,607** | **(811)** | **331,476** | **978,754** | **1,808,081** | **36,411** | **1,844,492** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | – | – | – | – | 177,020 | 177,020 | 6,433 | 183,453 |
| Other comprehensive loss for the period, net of tax | – | – | (124) | – | – | (124) | – | (124) |
| **Total comprehensive income (loss) for the period** | **–** | **–** | **(124)** | **–** | **177,020** | **176,896** | **6,433** | **183,329** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Changes in put option (see note 4F) | – | – | – | (2,230) | – | (2,230) | – | (2,230) |
| Dividend distributed | – | – | – | – | (26,460) | (26,460) | – | (26,460) |
| Share-based payment | – | – | – | – | 139 | 139 | – | 139 |
| **Balance as at June 30, 2018** | **55** | **498,607** | **(935)** | **329,246** | **1,129,453** | **1,956,426** | **42,844** | **1,999,270** |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

For the year ended December 31, 2018 (Audited)

| In EUR thousand | Share capital | Share premium | Hedging reserves | Capital reserve from transactions with controlling shareholder | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2018** | **55** | **498,607** | **(1,036)** | **331,674** | **966,090** | **1,795,390** | **36,103** | **1,831,493** |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | – | – | – | – | 386,964 | 386,964 | 10,500 | 397,464 |
| Other comprehensive income for the year, net of tax | – | – | 177 | – | – | 177 | – | 177 |
| **Total comprehensive income for the year** | **–** | **–** | **177** | **–** | **386,964** | **387,141** | **10,500** | **397,641** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Issuance of ordinary shares, net | (*) | 602 | – | – | (602) | – | – | – |
| Changes in put option (see note 4F) | – | – | – | (5,938) | – | (5,938) | – | (5,938) |
| Dividend distributed | – | – | – | – | (26,460) | (26,460) | – | (26,460) |
| Share-based payment | – | – | – | – | 546 | 546 | – | 546 |
| **Balance as at December 31, 2018** | **55** | **499,209** | **(859)** | **325,736** | **1,326,538** | **2,150,679** | **46,603** | **2,197,282** |

(*) Represents an amount less than EUR 1 thousand.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.





# Note 1 – ADO Properties S.A.

ADO Properties S.A. (the "Company") was incorporated on November 13, 2007 as a private limited liability company in Cyprus and until June 8, 2015, its legal name was "Swallowbird Trading & Investments Limited". The Company holds and operates a portfolio of mainly residential assets in Berlin, Germany.

The Company deleted its registration in Cyprus and moved its registered office and central administration to Luxembourg by decision of the general meeting of shareholders dated June 8, 2015 and adopted the form of a private limited liability company *(société à responsabilité limitée)* under Luxembourg law. The Company was then converted into a public limited liability company *(société anonyme)* under Luxembourg law by decision of the general meeting of shareholders dated June 16, 2015 and changed its name to "ADO Properties S.A." (B-197554). The address of the Company's registered office is Aerogolf Center, 1B Heienhaff, L-1736 Senningerberg, Luxembourg.

On July 23, 2015, the Company completed an initial public offering ("IPO") and its shares have since been traded on the regulated market (Prime Standard) of Frankfurt Stock Exchange.

The Company is a direct subsidiary of ADO Group Ltd ("ADO Group"), an Israeli company traded on the Tel Aviv Stock Exchange.

The condensed consolidated interim financial statements of the Company as at June 30, 2019 and for the three and six-month period then ended comprise the Company and its subsidiaries (together referred to as the "Group").

# Note 2 – Basis of Accounting

## A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as applicable in the European Union ("EU"). They do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant for understanding the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2018.

These condensed consolidated interim financial statements are presented in Euro ("EUR"), and have been rounded to the nearest thousand except where otherwise indicated. Due to rounding, the figures reported in tables and cross-references may deviate from their exact values as calculated.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on August 13, 2019.

## B. Use of estimates and judgments

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended December 31, 2018.

# Note 3 – Accounting Policies

Except as described below in note 3A, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements should therefore be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2018.

## A. Initial application of new standards, amendments to standards and interpretations

As from January 1, 2019, the Group applies the new standards and amendments to standards described below:

- IFRS 16 *Leases*

The Group has initially adopted IFRS 16 from January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group elected to apply the standard using the modified retrospective approach, with an adjustment to the balance of retained earnings as at January 1, 2019 and without a restatement of comparative data. In respect of all the leases, the Group elected to apply the transitional provisions such that on the date of initial application it recognized a liability at the present value of the balance of future lease payments discounted at its incremental borrowing rate at that date calculated according to the average duration of the remaining lease period as from the date of initial application, and concurrently recognized a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard did not have an effect on the Group's equity at the date of initial application.

Furthermore, as part of the initial application of the standard, the Group has chosen to apply the following expedients:

- Applying the practical expedient regarding the recognition and measurement of leases where the underlying asset has a low value;
- Applying the practical expedient regarding the recognition and measurement of short-term leases, for both leases that end within 12 months from the date of initial application and leases for a period of up to 12 months from the date of their inception for all groups of underlying assets to which the right-of-use relates.

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

**(1)** The right to obtain substantially all the economic benefits from use of the identified asset; and
**(2)** The right to direct the identified asset's use.

For lease contracts that contain non-lease components, such as services or maintenance that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognized EUR 1,470 thousand of right-of-use assets and a EUR 1,470 thousand lease liability as at January 1, 2019.

As at June 30, 2019, the balance of right-of-use assets amounted to EUR 1,208 thousand and of the lease liability to EUR 1,215 thousand. Also in relation to those leases under IFRS 16, the Group recognized depreciation and interest costs instead of operating lease expense. During the six months ended June 30, 2019, the Group recognized EUR 345 thousand of depreciation changes and EUR 20 thousand interest costs from these leases.

- IFRIC 23 *Uncertainty Over Income Tax Treatments*

The Group has initially adopted IFRIC 23 *Uncertainty Over Income Tax Treatments* from January 1, 2019, but it does not have a material effect on the Group's condensed consolidated interim financial statements.





## B. New IFRS standards and interpretations not yet adopted

- IFRS 3 *Business Combinations*

The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

The Group has not yet commenced examining the effects of adopting the Amendment on the condensed consolidated interim financial statements.

# Note 4 – Selected Notes to the Condensed Consolidated Interim Statement of Financial Position

## A. Investment properties

| In EUR thousand | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
|---|---|---|---|
| **Balance as at 1 January** | **4,044,023** | **3,271,298** | **3,271,298** |
| Additions by way of acquiring subsidiaries | – | 209,409 | 229,077 |
| Additions by way of acquiring assets | – | 63,109 | 87,150 |
| Capital expenditure | 31,301 | 23,462 | 51,562 |
| Transfer from investment properties (1) | (5,100) | – | – |
| Fair value adjustments | 258,729 | 199,031 | 404,936 |
| **Total** | **4,328,953** | **3,766,309** | **4,044,023** |

(1) During the reporting period, the Group reclassified a building from investment properties to property and equipment in a total amount of EUR 5,100 thousand, representing its fair value for the reclassification date. The transfer was evidenced by a change in use (commencement of owner-occupation).

According to the Group's fair value valuation policies for investment properties, investment properties generally undergo a detailed valuation as at June 30 and December 31 of each year. The fair value of the investment properties as at June 30, 2019 was determined by valuation expert CBRE, an industry specialist that has appropriate, recognized professional qualifications and up-to-date experience regarding the location and category of the properties. The fair value measurement for all of the investment properties has been categorized as Level 3 fair value due to prevailing use of unobservable inputs to the adopted valuation method.

The Group values its portfolio using the discounted cash flow (DCF) method. Under the DCF methodology, the expected future income and costs of the property are forecasted over a period of 10 years and discounted to the date of valuation. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account.

Within the discussions to embark the increasing rents in Berlin, several citizens and politicians requested for the expropriation of housing associations and rental freezing. Based on these public discussions a paper to freeze rents of existing and new leases (except for subsidized or newly constructed apartments) for residential apartments in Berlin was published by the Berlin Senate as of June 18, 2019. The rental freezing is planned for five years with a retroactive effect from June 18, 2019 (the "Berliner Mietendeckel").

From CBRE point of view the realization of the "Berliner Mietendeckel" as of valuation date is uncertain. By now, economical and legal effects / outcomes of the "Berliner Mietendeckel" are not predictable. CBRE states that in terms of market sentiment from the direct investors' side, they so far haven't seen any decreases in pricing. Further, the appraiser did not observe any decreasing prices for condominiums in the market as of valuation date. However, the valuer noted, that investors are more cautious and sometimes transactions are on hold.

Based on the above stated, CBRE did not incorporate any changes in the cash flow of the DCF model. The fair values as of June 30, 2019 are further increasing.

The following table gives an overview of the main valuation parameters and valuation results:

| June 30, 2019 | Central | S-Bahn ring | S-Bahn ring (1960-1990) | City ring | City ring (1960-1990) | Total |
|---|---|---|---|---|---|---|
| Fair value (EUR thousand) | 1,588,733 | 518,830 | 720,220 | 338,380 | 1,162,790 | 4,328,953 |
| Value per m² (EUR) | 3,234 | 2,852 | 2,578 | 2,670 | 2,103 | 2,652 |
| Average residential in-place rent (EUR/m²) | 7.44 | 7.17 | 7.13 | 7.41 | 6.00 | 6.83 |
| CBRE market rent (EUR/m²) | 9.56 | 9.16 | 8.15 | 8.93 | 7.05 | 8.30 |
| Average new letting rent (EUR/m²)(*) | 13.23 | 10.68 | 10.09 | 9.84 | 7.56 | 10.11 |
| Multiplier (current rent) | 34.06 | 33.32 | 30.10 | 29.95 | 29.35 | 31.62 |
| Multiplier (CBRE market rent) | 27.39 | 26.09 | 25.62 | 24.64 | 24.46 | 25.88 |
| Multiplier (new letting rent) | 19.72 | 22.39 | 20.69 | 22.36 | 23.63 | 22.80 |
| Discount rate (%) | 4.54% | 4.64% | 4.67% | 4.84% | 4.83% | 4.67% |
| Capitalization interest rate (%) | 2.58% | 2.70% | 2.81% | 2.87% | 2.89% | 2.74% |

(*) Based on the last three months.

| June 30, 2018 | Central | S-Bahn ring | S-Bahn ring (1960-1990) | City ring | City ring (1960-1990) | Total |
|---|---|---|---|---|---|---|
| Fair value (EUR thousand) | 1,387,499 | 462,670 | 622,850 | 267,120 | 1,026,170 | 3,766,309 |
| Value per m² (EUR) | 2,852 | 2,483 | 2,296 | 2,507 | 1,824 | 2,335 |
| Average residential in-place rent (EUR/m²) | 7.08 | 6.83 | 7.03 | 7.17 | 5.89 | 6.59 |
| CBRE market rent (EUR/m²) | 8.92 | 8.60 | 7.80 | 8.51 | 6.78 | 7.87 |
| Average new letting rent (EUR/m²) | 13.00(**) | 10.02 | 10.54 | 9.00 | 7.29 | 9.98(**) |
| Multiplier (current rent) | 32.10 | 30.54 | 26.91 | 28.38 | 26.14 | 28.93 |
| Multiplier (CBRE market rent) | 25.88 | 24.22 | 23.89 | 23.70 | 22.04 | 24.05 |
| Multiplier (new letting rent) | 17.76 | 20.80 | 17.67 | 22.42 | 20.50 | 18.96 |
| Discount rate (%) | 4.69% | 4.85% | 4.79% | 4.90% | 5.07% | 4.84% |
| Capitalization interest rate (%) | 2.73% | 2.90% | 2.94% | 2.93% | 3.13% | 2.91% |

(**) The average new letting rent in Central Locations and in total is positively impacted by 20 units that were let in one building; however, this impact will not be repeated in the same magnitude going forward. Without this effect, the average new letting rent would have been EUR 11.27 on Central Locations and EUR 9.36 in total.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

| December 31, 2018 | Central | S-Bahn ring | S-Bahn ring (1960-1990) | City ring | City ring (1960-1990) | Total |
|---|---|---|---|---|---|---|
| Fair value (EUR thousand) | 1,478,973 | 481,740 | 678,360 | 316,010 | 1,088,940 | 4,044,023 |
| Value per m² (EUR) | 3,011 | 2,650 | 2,435 | 2,494 | 1,970 | 2,479 |
| Average residential in-place rent (EUR/m²) | 7.23 | 6.98 | 7.10 | 7.24 | 5.93 | 6.70 |
| CBRE market rent (EUR/m²) | 9.00 | 8.77 | 7.99 | 8.59 | 6.96 | 8.02 |
| Average new letting rent (EUR/m²) | 11.90 | 9.77 | 10.13 | 8.91 | 7.30 | 9.42 |
| Multiplier (current rent) | 32.73 | 31.96 | 28.53 | 28.34 | 27.93 | 30.14 |
| Multiplier (CBRE market rent) | 26.85 | 25.31 | 24.69 | 23.84 | 23.23 | 25.01 |
| Multiplier (new letting rent) | 20.30 | 22.70 | 19.47 | 23.00 | 22.16 | 21.28 |
| Discount rate (%) | 4.61% | 4.73% | 4.77% | 4.93% | 4.97% | 4.77% |
| Capitalization interest rate (%) | 2.65% | 2.79% | 2.91% | 2.96% | 3.02% | 2.84% |

## B. Trading properties

During the six months ended June 30, 2019, the Group completed the sale of 38 condominium units for a total consideration of EUR 8.2 million (during the first six months of 2018: 35 units for EUR 8.4 million and during the full year 2018: 66 units for EUR 20.3 million) recorded under revenues in this condensed consolidated interim statement of profit or loss.

## C. Equity

A dividend in the amount of EUR 33 million (EUR 0.75 per share) was paid based on a decision of the Annual General Meeting which took place on June 20, 2019.

## D. Corporate bonds and convertible bonds

On July 20, 2017, the Company placed unsecured, fixed-rate corporate bonds with a total nominal amount of EUR 400 million with institutional investors. The bonds carry an interest rate of 1.5% (effective interest rate of 1.64%) per annum and mature on July 26, 2024. The gross proceeds resulting from the transaction amounted to EUR 398.6 million with an issue price of 99.651%. The net proceeds of the bond were mainly used to fund acquisitions.

On November 16, 2018, the Company placed senior, unsecured convertible bonds in a total nominal amount of EUR 165 million with institutional investors, convertible into new and/or existing ordinary registered shares of the Company. The coupon has been set at 1.25% p.a. (effective interest rate of 1.34%), payable semi-annually in arrears. The bonds will mature on November 23, 2023.

The Company undertakes not to incur any financial indebtedness after the issue date of the bonds, and will also procure that its subsidiaries will not incur any financial indebtedness after the issue date of the bond (except for refinancing existing financial indebtedness), if immediately after giving effect to the incurrence of such additional financial indebtedness (taking into account the application of the net proceeds of such incurrence) the following tests would not be met: (i) Loan-to-Value ratio (LTV) ≤ 60%; (ii) secured Loan-to-Value ratio ≤ 45%; (iii) unencumbered asset ratio ≥ 125%; and (iv) interest coverage ratio (ICR) ≥ 1.8.

As at June 30, 2019, the Company is fully compliant with all covenant requirements.

## E. Other loans and borrowings

Loans and borrowings have increased in comparison with December 31, 2018 mainly due to the following:

On June 28, 2019, the Group received a bank loan in the amount of EUR 80 million to finance existing assets. The new loan carries an annual fixed interest rate of 1.07% per annum for an 8-year term.

As at June 30, 2019, other loans and borrowings carry an average effective interest rate (i.e. considering the swap interest hedging effect from variable to fixed interest) of 1.7% per annum (as at June 30, 2018: 1.9% and as at December 31, 2018: 1.8%). The average maturity of other loans and borrowings is 4 years (as at June 30, 2018: 4.5 years and as at December 31, 2018: 4.3 years).

All bank loans are non-recourse loans from German banks with the related assets (investment properties and trading properties) as their only security.

As at June 30, 2019, under the existing loan agreements, the Group is fully compliant with its obligations (including loan covenants) to the financing banks.

On March 9, 2018, the Group signed a EUR 200 million revolving credit facility with a 2-year term and two extension options, each for one year. The relating upfront fees were recognized under deferred expenses in the condensed consolidated interim statement of financial position and will be amortized over four years. On January 30, 2019, the Group exercised one extension option for one year. On June 20, 2019, the Group drew down an amount of EUR 30 million from the revolving credit facility for a one-month term. The amount was repaid after the reporting date.

## F. Other financial liabilities

In relation to purchase agreements of 94%-94.9% of the shares of property holding companies, the Company entered into an agreement with ADO Group to purchase the remaining 5.1%-6% of the shares of the property holding companies. As part of the agreement, it was decided that upon the completion of a period of ten years following the closing of the transaction, ADO Group shall have the right to sell its interest to the Company for the higher of: (i) the fair value of the shares; and (ii) the amount paid by ADO Group to purchase its interest less any dividends distributed to ADO Group by the property companies during the 10-year period.

Based on profit transfer agreements, ADO Group is entitled to an annual compensation fee in respect of its interest in the German property holding companies.

The Company recognized the put option and compensation fee as a financial liability measured at fair value at each reporting date, whereas the changes in the fair value are recognized in equity. In respect of the put option and the compensation fee, the following balances are included in the condensed consolidated interim statement of financial position:

| In EUR thousand | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
|---|---|---|---|
| **Current liabilities** | | | |
| Compensation fee | 1,535 | 331 | 1,535 |
| **Non-current liabilities** | | | |
| Compensation fee | 1,766 | 785 | 1,766 |
| Put option | 43,072 | 37,118 | 38,726 |
| **Total** | **46,373** | **38,234** | **42,027** |



# Note 5 – Financial Instruments

All of the aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2018.

## A. Financial instruments measured at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, restricted and other bank deposits and trade and other payables are considered to be the same or approximate to their fair value due to their short-term nature.

The fair values of the other liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | June 30, 2019 (Unaudited) | | June 30, 2018 (Unaudited) | | Dec 31, 2018 (Audited) | |
|---|---|---|---|---|---|---|
| In EUR thousand | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Corporate bonds | 397,172 | 393,728 | 396,668 | 397,880 | 396,899 | 375,992 |
| Convertible bonds | 155,283 | 160,793 | - | - | 154,252 | 156,387 |
| Commercial papers | - | - | 160,000 | 160,000 | - | - |
| Variable rate loans and borrowings(*) | 76,324 | 78,527 | 75,460 | 80,357 | 76,895 | 79,207 |
| Fixed rate loans and borrowings(*) | 1,083,999 | 1,105,839 | 944,598 | 943,521 | 981,078 | 1,002,513 |
| **Total** | **1,712,778** | **1,738,887** | **1,576,726** | **1,581,758** | **1,609,124** | **1,614,099** |

(*) Including the current portion of long-term loans and borrowings.

## B. Fair value hierarchy of financial instruments measured at fair value

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| | June 30, 2019 (Unaudited) | | June 30, 2018 (Unaudited) | | Dec 31, 2018 (Audited) | |
|---|---|---|---|---|---|---|
| In EUR thousand | Level 2 | Level 3 | Level 2 | Level 3 | Level 2 | Level 3 |
| Other financial asset (1) | - | 7,127 | - | 6,015 | - | 6,615 |
| Derivative financial liabilities (2) | 10,626 | - | 2,865 | - | 16,339 | - |
| Other financial liabilities (3) | - | 46,373 | - | 38,234 | - | 42,027 |





NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**(1)** Other financial asset relates to the Group's option for purchasing the non-controlling interest in a transaction completed at the end of 2013. This other financial asset is measured at fair value.

**(2)** The fair value of the interest rate swaps, including both current and non-current liabilities, is measured by discounting the future cash flows over the period of the contract and using market interest rates appropriate for similar instruments. The credit risk used by the bank is not a material component of the valuation made by the bank, and the other variables are market-observable.

The fair value of the derivative component of convertible bonds is determined by an external valuer, calculated by reference to the market terms of similar convertible securities.

**(3)** Other financial liabilities relates to a put option and an annual compensation fee granted to ADO Group (see note 4F) measured at fair value. The fair value is calculated based on the expected payment amounts, and the liability is discounted to present value using the market interest rate at the reporting date.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

# Note 6 – Selected Notes to the Condensed Consolidated Interim Statement of Profit and Loss

## A. Revenue

| | For the six months ended | | For the three months ended | | For the year ended |
|---|---|---|---|---|---|
| In EUR thousand | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
| Net rental income | 67,449 | 61,587 | 33,796 | 31,785 | 127,982 |
| Selling of condominiums | 8,335 | 8,442 | 4,042 | 4,777 | 20,265 |
| Income from facility services | 3,912 | 3,359 | 1,869 | 1,829 | 6,606 |
| **Total** | **79,696** | **73,388** | **39,707** | **38,391** | **154,853** |

## B. Cost of operations

| | For the six months ended | | For the three months ended | | For the year ended |
|---|---|---|---|---|---|
| In EUR thousand | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
| Salaries and other expenses | 6,337 | 4,502 | 3,135 | 2,105 | 10,320 |
| Cost of utilities recharged, net | 771 | 586 | 336 | 169 | 1,843 |
| Selling of condominiums – cost | 6,033 | 7,020 | 2,906 | 3,906 | 15,817 |
| Property operations and maintenance | 8,430 | 6,758 | 4,245 | 3,833 | 14,016 |
| **Total** | **21,571** | **18,866** | **10,622** | **10,013** | **41,996** |



## C. Net finance income (costs)

| | For the six months ended | | For the three months ended | | For the year ended |
|---|---|---|---|---|---|
| In EUR thousand | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) | Dec 31, 2018 (Audited) |
| Interest on bonds | 5,307 | 3,255 | 2,670 | 1,636 | 6,927 |
| Change in fair value of derivative component of convertible bond | (6,368) | – | (11,145) | – | 3,896 |
| Interest on other loans and borrowings | 9,344 | 9,763 | 4,689 | 4,853 | 19,214 |
| One-off refinance costs | – | 440 | – | 440 | 613 |
| Other finance expenses (income) | 481 | (10) | 1 | (208) | 866 |
| **Total** | **8,764** | **13,448** | **(3,785)** | **6,721** | **31,516** |

# Note 7 – Segments Reporting

The basis of segmentation and the measurement basis for segment profit or loss are the same as presented in note 25 regarding operating segments in the annual consolidated financial statements for the year ended December 31, 2018.

## A. Information about reportable segments

Information regarding the results of each reportable segment is included below.

| | For the six months ended June 30, 2019 (Unaudited) | | |
|---|---|---|---|
| In EUR thousand | Residential property management | Privatization | Total consolidated |
| External income from residential property management | 71,069 | 292 | 71,361 |
| External income from selling condominiums | – | 8,335 | 8,335 |
| **Consolidated revenue** | **71,069** | **8,627** | **79,696** |
| **Reportable segment gross profit** | **55,575** | **2,550** | **58,125** |
| General and administrative expenses | | | (9,179) |
| Changes in fair value of investment properties | | | 258,729 |
| Finance income | | | 518 |
| Finance costs | | | (9,282) |
| **Consolidated profit before tax** | | | **298,911** |
| Income tax expense | | | (45,190) |

| In EUR thousand | For the six months ended June 30, 2018 (Unaudited) Residential property management | Privatization | Total consolidated |
|---|---|---|---|
| External income from residential property management | 64,484 | 462 | 64,946 |
| External income from selling condominiums | – | 8,442 | 8,442 |
| **Consolidated revenue** | **64,484** | **8,904** | **73,388** |
| **Reportable segment gross profit** | **52,780** | **1,742** | **54,522** |
| General and administrative expenses | | | (6,939) |
| Changes in fair value of investment properties | | | 199,031 |
| Finance income | | | 703 |
| Finance costs | | | (14,151) |
| **Consolidated profit before tax** | | | **233,166** |
| Income tax expense | | | (36,879) |

| In EUR thousand | For the three months ended June 30, 2019 (Unaudited) Residential property management | Privatization | Total consolidated |
|---|---|---|---|
| External income from residential property management | 35,516 | 149 | 35,665 |
| External income from selling condominiums | – | 4,042 | 4,042 |
| **Consolidated revenue** | **35,516** | **4,191** | **39,707** |
| **Reportable segment gross profit** | **27,785** | **1,300** | **29,085** |
| General and administrative expenses | | | (4,598) |
| Changes in fair value of investment properties | | | 258,729 |
| Finance income | | | 494 |
| Finance costs | | | 3,291 |
| **Consolidated profit before tax** | | | **287,001** |
| Income tax expense | | | (43,469) |





| In EUR thousand | For the three months ended June 30, 2018 (Unaudited) Residential property management | Privatization | Total consolidated |
|---|---|---|---|
| External income from residential property management | 33,393 | 221 | 33,614 |
| External income from selling condominiums | – | 4,777 | 4,777 |
| **Consolidated revenue** | **33,393** | **4,998** | **38,391** |
| **Reportable segment gross profit** | **27,343** | **1,035** | **28,378** |
| General and administrative expenses | | | (3,637) |
| Changes in fair value of investment properties | | | 201,760 |
| Finance income | | | 646 |
| Finance costs | | | (7,367) |
| **Consolidated profit before tax** | | | **219,780** |
| Income tax expense | | | (36,327) |

| In EUR thousand | For the year ended December 31, 2018 (Audited) Residential property management | Privatization | Total consolidated |
|---|---|---|---|
| External income from residential property management | 133,736 | 852 | 134,588 |
| External income from selling condominiums | – | 20,265 | 20,265 |
| **Consolidated revenue** | **133,736** | **21,117** | **154,853** |
| **Reportable segment gross profit** | **107,966** | **4,891** | **112,857** |
| General and administrative expenses | | | (18,451) |
| Changes in fair value of investment properties | | | 404,936 |
| Finance income | | | 1,399 |
| Finance expense | | | (32,915) |
| **Consolidated profit before tax** | | | **467,826** |
| Income tax expense | | | (70,362) |

# Note 8 – Subsequent Events

**A.** On July 22, 2019, the contract of Mr. Rabin Savion as Chief Executive Officer (CEO) expired. The Company and Mr. Savion agreed by mutual consent not to extend his appointment as CEO of the Company. According to the mutual termination agreement signed on June 13, 2019, Mr. Savion was entitled to receive a total amount of EUR 1,332 thousand to be settled in cash (EUR 82 thousand for the period between January 1, 2019 and July 22, 2019, based on the short-term incentive plan, and the rest as termination fees). On July 24, 2019, the Company paid to Mr. Savion an amount of EUR 645 thousand. The rest of the termination fees will be payable in twelve equal monthly installments. In addition, on July 5, 2019, based on the long-term incentive plan, the Company issued 31,412 shares free of charge to Mr. Savion.

**B.** On June 21, 2019, the Company's Board appointed Mr. Ran Laufer as Chief Executive Officer of the Company. He joined the Company in his role as CEO on July 23, 2019, and the initial term of his service agreement extends through July 22, 2023.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

ADO

6Month Report

2019

# FINANCIAL CALENDAR & IMPRINT

4

BERLIN INSIDERS

# Financial Calendar 19

**November 13, 2019**

Publication
Nine-Month
Financial Report
(Q3 2019)

## Imprint

**Concept & Coordination**

Julia Hasinski
Head of Public Relations & Marketing
ADO Properties GmbH

**Design & Content Concept**

brandcooks GmbH
Hamburg, Zurich,
Cape Town

**Artwork & Content Realization**

brandcooks GmbH
Hamburg, Zurich,
Cape Town

BERLINSIDERS
COLORS OF ADO
Half-Year Financial Report
2019
COLORS OF BERLIN
www.ado.properties
EXHIBITION
ADO
ADO Properties S.A.
1B Heienhaff
1736 Senningerberg
Grand Duchy of Luxembourg
T +352 278 456 710
E ir@ado.properties
W www.ado.properties