Working together

Keeping in good condition

Being creative

At Home *in the* Neighborhood

Getting to know

Feeling at home

Being able to stay

VONOVIA SE
Annual Report 2017

VONOVIA

At Home in the Neighbor-hood

Nowadays, people are looking for more than just an apartment that they feel comfortable in and that is the right size and price. The environment in which they live, their neighborhood, is at least as important to them. This is the place where they go shopping, meet up with friends at the local café and get to know new people.

As a result, an attractive residential environment is also very important to us as a landlord. After all, happy tenants, who are comfortable in their surroundings tend to want to stay in our properties for longer. Our business model is also focusing increasingly on neighborhoods as a whole. We have since launched numerous initiatives and measures to help shape and develop them – to the benefit of our customers and in order to stabilize our success.

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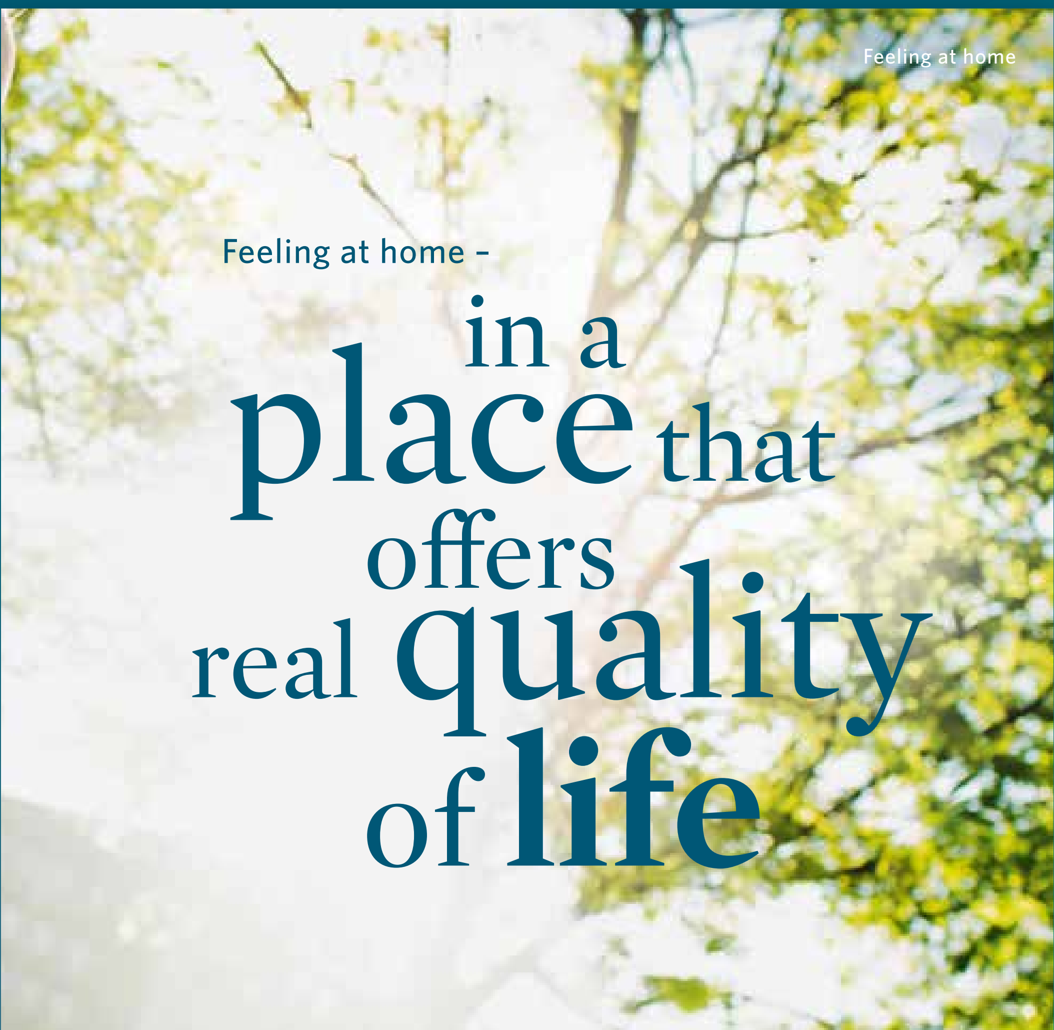

Feeling at home –

in a place that offers real quality of life

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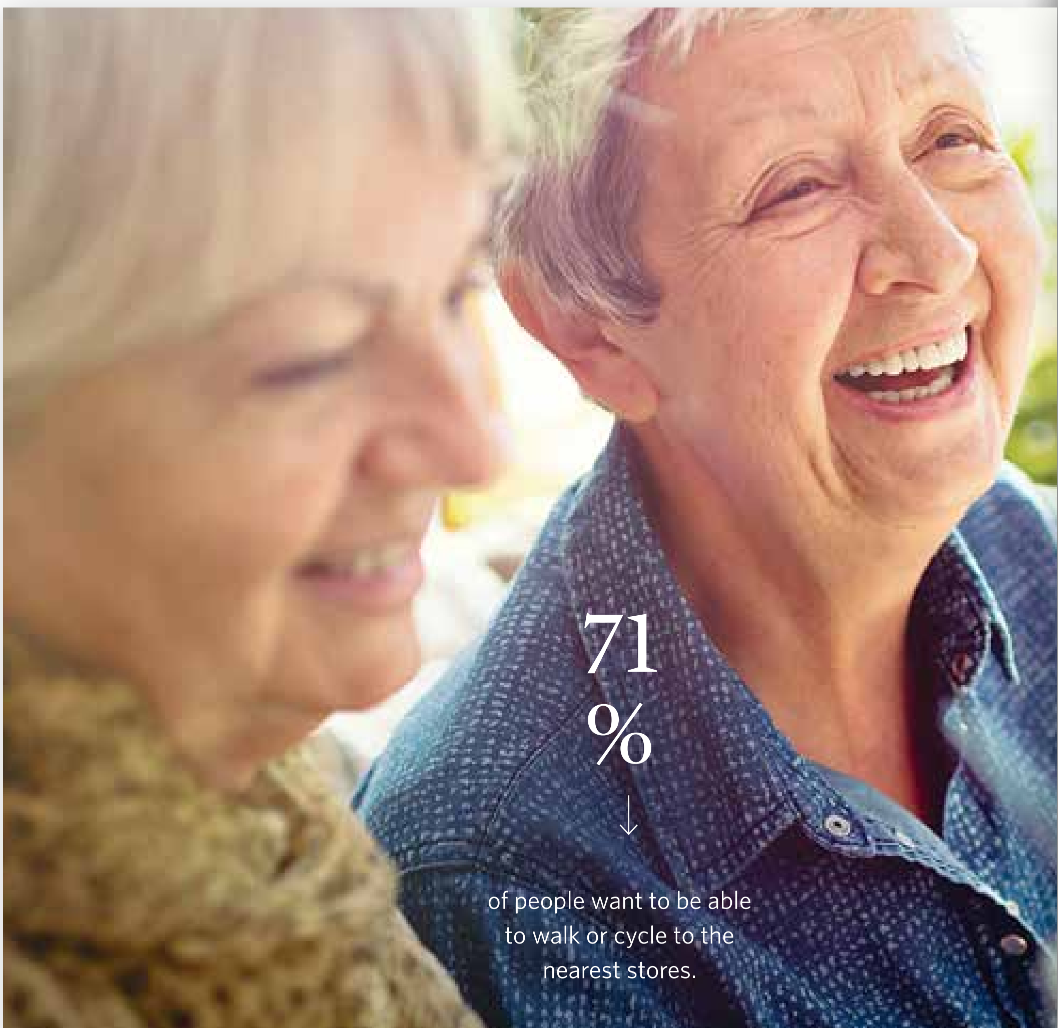

Working together

Keeping in good condition

Being creative

Getting to know

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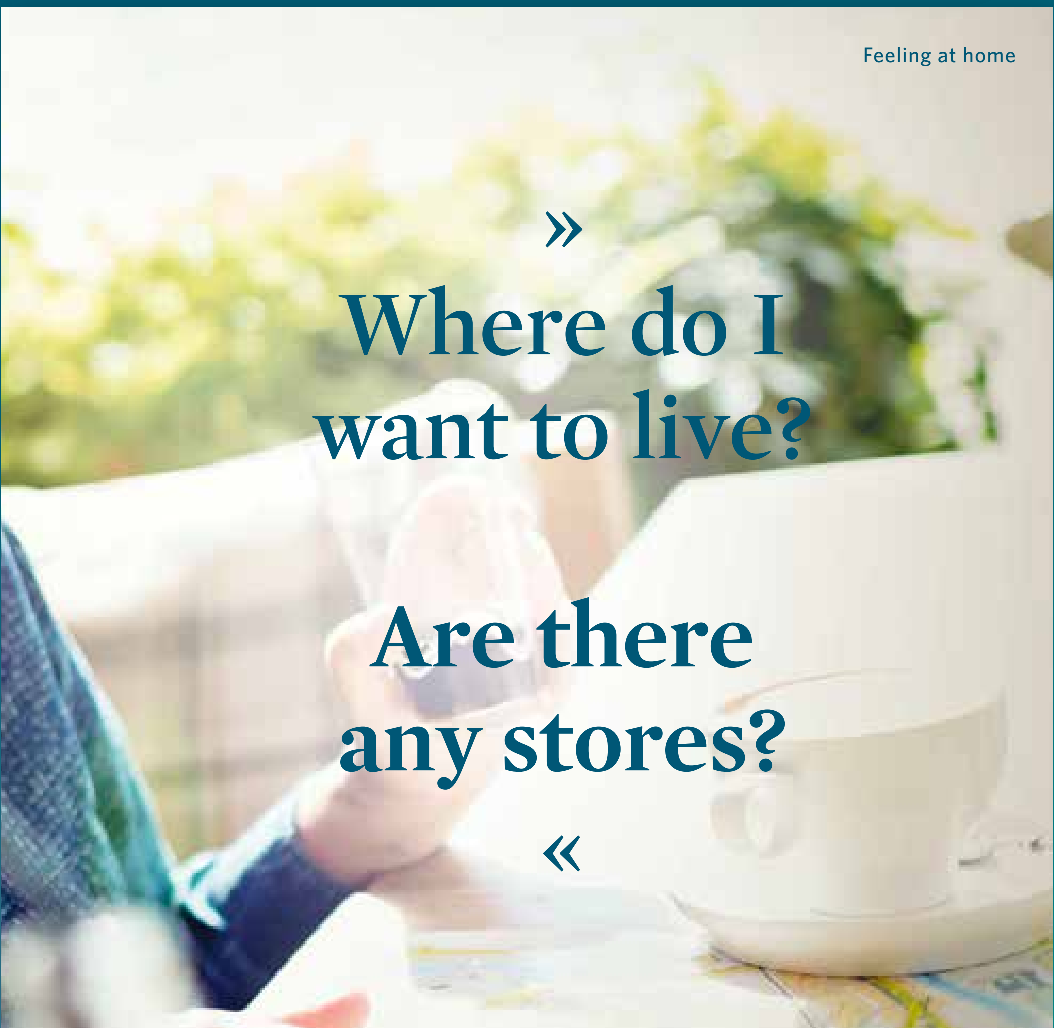

»

Where do I want to live?

Are there any stores?

«

Being able to stay

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Leisure opportunities? Coffee shops? Support?

«

Being able to stay

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Keeping in good condition

Being creative

Getting to know

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Being able to stay –

in the place you have come to call

Working together

Keeping in good condition

Being creative

Getting to know

Being able to stay

home

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75%

are ready to make their apartments senior-friendly.

13,000

vacant apartments were converted, or were starting to be converted, for senior-friendly living in 2017.

1,100

rented apartments were fitted with bathrooms at tenants' request in 2017, facilitating senior-friendly living.

€ 225 million

was the total spent on converting our properties into senior-friendly apartments.

Vonovia is providing financial support to the "Gemeinsam statt einsam" (Together is better than alone) residential project in Hanover – e. g. by helping to finance a stairlift.

Accessibility.

In order to make it easier for older tenants to move around their own homes, all of Vonovia's new apartments are classed as "accessible" properties at the very least. We design our apartments in such a way that they do not feature any floor level differences of more than two centimeters. We also equip our buildings with elevators and make sure that interior and front doors of our apartments are wide enough to ensure that even tenants who use walkers can enter them.

In existing apartments, our tenants can arrange for their bathroom to be renovated to make it fully accessible in return for a cost allocation that is added to their rent. There are three options for these "bathrooms in response to tenant requests." Some of the measures include fitting walk-in showers, wheelchair-adapted sinks and anti-slip tiles.

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The "Palette 6" Vonovia project in Kiel-Mettenhof: a meeting place for people of all ages. This helps people to identify with their neighborhood.

Remaining Part of the Community.

Older people often have mobility problems that can make getting out of the house a challenge. This is why we cooperate closely with charitable organizations and nursing care services such as the "Caritas" association, the "Johanniter" (Order of St. John charitable organization) or the welfare organization "Arbeiterwohlfahrt". After all, many people want to be able to stay in their own homes, living independently, for as long as possible.

In order to make it easier for our older tenants to stay part of the community, we also create communal areas in larger blocks of apartments where possible. This allows our tenants to make new friends, get involved in activities and put their own ideas into practice.

Alexander Weihe wants to improve the lives of Vonovia tenants, whatever stage of life they might currently find themselves in.

»We **see** ourselves as a **service provider** in the **real estate industry.**«

Alexander Weihe, Head of Product Management at Vonovia

Safe in the Knowledge That Support Is on Hand.

Due to demographic change, the real estate industry is faced with the challenge of allowing tenants to stay in their own homes, living independently, for as long as possible. In addition to construction measures, the Product Management department is working on other solutions to make life easier in old age. Vonovia is using regional pilot projects to collaborate with various partners and tests products to identify their potential for standardization. The products are not luxury items, but rather designed to solve everyday problems. One example is the mobile home distress call solution using GPS signals for older tenants who live alone. Or the "weatherproof walker box" pilot project, which is designed to prevent walkers from blocking escape routes in the hallway.

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Being creative

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Getting to know –

your neigh bors

Berlin-Marzahn is no exception to the rule: It doesn't matter how big the city is – the easiest place to meet people is at the playground.

Podolski Foundation. Together with the Lukas Podolski Foundation and other partners, Vonovia has remodeled an old amateur soccer field in Cologne. The site is now also the new home of a youth club.

Working together

Keeping in good condition

Being creative

Getting to know

A place to exercise and meet up: Vonovia has established a new recreational space in the form of an outdoor gym for residents in the Aachen district of Preuswald.

Making new friends at the tenant party. Integration and fostering good neighborly relations is a top priority for Vonovia.

Friendship Through Play.

Any child's two favorite places? The sports field and the playground. This is where they can meet up with other children to let off steam, test out their strength or just play. 5,159 playgrounds are part of our portfolio. Thanks to standardization and economies of scale when it comes to procurement, we can ensure high quality at low prices in these projects too.

Cooperation workshop in Dortmund-Westerfilde. Where do we want to see green spaces? Where do we want the pathways to run? Where should we put the playground? Vonovia actively involves its tenants in decisions like these.

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Being creative –

and turning ideas into reality

Can you sow the seeds for creativity in a neighborhood? You can definitely make sure that the environment is as conducive to creativity as possible: Vonovia is creating cultural and artistic spaces in its neighborhoods so that creative minds can actively contribute their wealth of ideas and commitment to breathe new life into the neighborhood.

At Home in the Neighborhood

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Lena Halbedel and Florian Krohm are both studying industrial design. Together, they created new furniture using bulk waste in the "VierViertel" studio.

Roots Through Aesthetics.

Together with the City of Essen cultural authorities, we launched our very first art sponsorship program, "Creativ Lab," back in 2014, organizing an ideas´ competition to give young artists the chance to showcase their work and projects. Ever since, the winners of the competition have been receiving a scholarship of € 200 a month. At the same time, we provide them with a home without charging them rent or ancillary expenses, allowing them to live and work rent-free. The design ideas that the artists have come up with have already given rise to a large number of concepts for making the neighborhood more attractive.

The "VierViertel" studio in which young creative minds can pursue their passions has since become something of an institution. As a result, we are keen to continue with these artistic traditions in the city's Eltingviertel district in the future. Last summer, we extended the support program for another two years – securing the future of the "VierViertel" until the summer of 2019.

As well as benefiting the scholarship winners themselves, the program also benefits local residents who can take part in seminars and workshops and seek inspiration from the artists.

Maren Precht studied product design and works in the "VierViertel" studio for neighborhood development. Her "We are neighbors" initiative develops ideas and projects together with residents of the Eltingviertel district for a stronger community in the form of various workshops and actions.

At Home in the Neighbor-hood

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Sculpture competition.
In September 2017, the ten artists selected as part of the competition met up in three different neighbor-hoods in Essen, Frankfurt and Berlin to familiarize themselves with the areas. Workshops were organized to provide them with information on the local history and neighborhood development.

Culture Is a Must.

What constitutes quality of life in a neighborhood? The main features include adequate infrastructure including schools, public transport and stores as well as residential buildings that are in a good condition, both in technical terms and with regard to energy efficiency. But cultural facilities are just as important. After all, the things that make a neighborhood unique depend on the distinctive touches that we add to it.

As part of a supraregional sculpture competition in the late summer of 2017, 122 artists submitted their ideas showing how they would render issues relating to social and cultural aspects of neighborhood development in artistic form. A selection committee evaluated all of the submissions and selected 30 artists to submit proposals for a sculpture to be erected in the cities of Essen, Frankfurt and Berlin. The selected winning proposals will be announced in March 2018 and the sculptures are scheduled to have been erected by 2020.

»**Sustainability** is a concept that is often difficult to comprehend - especially for **young people. Art** can breathe life into a topic and make it more tangible. That's why we were **happy to take on the challenge** and make the **bunker** available for **urban art.**«

Nils Bartels, Regional Manager Vonovia North

Joining in and having a go. Local residents also had the chance to pick up one of the spray cans and have a go at graffiti.

Street Art Meets Sustainability.

During the war, the Sandkrug bunker in Kiel's Gaarden district kept shipyard workers safe during air raids. After the Second World War, the four-story building no longer had a purpose. The bunker, which is part of Vonovia's portfolio, has been covered by a preservation order since 2010. The decades have certainly left their mark on the gray concrete façade. Last summer, this presented a perfect opportunity for street artists to add a splash of color to the gray bunker walls. As part of a project with the motto "Bunte Welt – Colour your life", they sprayed a huge graffiti scene on the bunker façade.

Under the auspices of Kiel's mayor, the project was launched by the charity "Bündnis Eine Welt Schleswig-Holstein e. V." and was realized together with the Gaarden district business agency and Vonovia. The campaign focused on the global objectives of the United Nations for a sustainable future.

Street Art. A large festival offering a whole host of different activities was organized to mark the official opening of the art project on July 21., 2017 Visitors were able to visit a pop-up street art gallery in an empty commercial property owned by Vonovia.

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Working together –

to take developments to the next level

The Eltingviertel district in Essen – a prototype for successful neighborhood development

A – Involving relevant groups

1. Vonovia
2. City of Essen
3. Neighborhood residents
4. Architects and urban planners
5. Energy utilities
6. InnovationCity

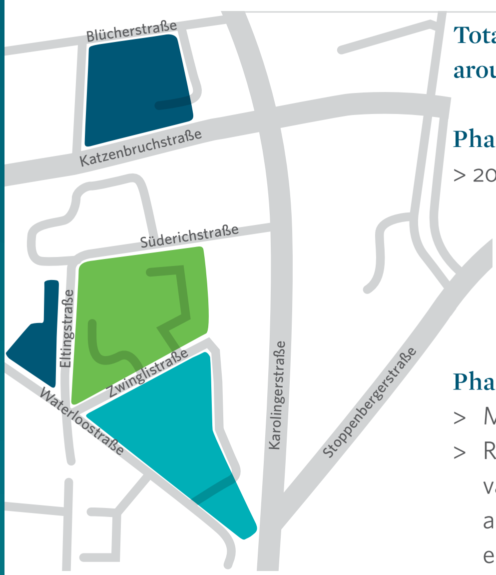
B – Holistic planning (master plan)

1. Modernization concept (Vonovia)
2. Infrastructure and open space concept
3. Energy supply concept
4. Financing (using public-sector subsidies)

C – Implementation and support within the neighborhood

1. Support for residents
2. Establishment of a neighborhood management team
3. Establishment of social and cultural projects

A → B → C



Total investment volume around € 35 million 2015–2020

Phase 1
> 2015–2017

I
Victoriahof
(176 units)
☑

Phase 2 and 3
> Modernization
> Renovation of vacant apartments and residential environment
> New construction

II
Berne- and Eltinghof
(245 units)

III
Mathiashof
(130 units)

8,400 residents

4,600 households

1,400 Vonovia units

Before:

> Weak social structure
> High vacancy rates, high level of fluctuation
> Poor-quality building structures, unattractive residential environment
> Urban development shortcomings, lack of neighborhood center
> Lack of shopping facilities

But:

Good location thanks to proximity to the university and downtown

Today:

A lively neighborhood characterized by a spirit of optimism

At Home in the Neighbor hooc

Nowadays, p
apartment t
right size an
live, their ne

Keeping in good condition –

nature's gifts

Not so long ago, external partners were responsible for maintaining the outdoor areas belonging to our real estate portfolio. Today, Vonovia is increasingly assuming responsibility for these areas itself. And that's not all. In consultation with municipal authorities and tenants, Vonovia's residential environment organization is also putting a large number of new ideas into practice to make its neighborhoods even more appealing.

"Testing workshop" for outdoor furniture, which employees of the Residential Environment Services department can try out, rate and select.

The right height is essential for sitting comfortably, even for park benches.

Dortmund-Nette. Vonovia gives out flowers to its customers at the annual flower festival; thus, nothing stands in the way of springtime balconies.

An attractive residential environment opens up a lot of opportunities ...

When you start talking to Torsten Kirberger and Ullrich Pinick about the opportunities and challenges associated with residential environment development, you will soon realize that the discussion could well take more time than you bargained for. After all, the two project managers working within Vonovia's relatively new Residential Environment Service department are certainly not short of ideas. Torsten Kirberger: "Although our area of responsibility only forms a small part of the company as a whole, it has a huge emotional impact on customer satisfaction." The decision to fell just one old tree can soon sour the mood of some inhabitants. Vice versa, a new park bench in the right location is enough to win friends for life.

With the support of two partner companies for grounds maintenance, Vonovia's residential environment organization currently manages outdoor areas spanning a vast area of almost 40 million square meters across Germany. This is the size of 5,400 soccer fields. Vonovia's in-house team now boasts more than 600 employees: Gardeners, pavers and landscape architects – together, they make sure that the outdoor areas and facilities are maintained or systematically upgraded. And the plan is to expand the team even further across the board: After all, there isn't just a lot to be done – the company also has a lot of new ideas that it wants to implement. Vonovia has also made the decision to focus more on new construction, meaning that the residential environment team will be responsible for even more large-scale gardening and landscaping projects in the future.

... and brings the neighborhoods into the spotlight

The bigger the contiguous groups of buildings that Vonovia has in a certain area, the more it pays to focus on the residential environment from the perspective of the neighborhood as a whole. This is precisely what

14,275,774 m²

of lawn is tended to by our residential environment organization.

211,632 trees

can be viewed by our tenants from their apartments.

310 km
of hedges

adorn our properties.

Dortmund-Westerfilde. At a cooperation workshop, tenants can also share their ideas on shaping their residential environment.

Vonovia did three years ago in the Eltingviertel district in Essen. Within a short amount of time, the district in the North of the city was turned into a flagship project for successful neighborhood development. Since then, numerous new projects with a similar focus have been launched in various locations. They all share a common objective: to boost the feel-good factor for Vonovia's tenants by improving the quality of the residential environment. It goes without saying that this is ultimately of economic benefit to Vonovia as well. It has been proven that an accepted residential environment also translates into lower property management costs, e.g. because there is less waste to clear up and less vandalism.

Nevertheless, there are a few critical questions worth asking: Are the costs involved appropriate in relation to the benefits? And is the topic of neighborhood management compatible with Vonovia's business approach at all? Neighborhoods are individual and shaped by regional characteristics, while Vonovia's strength lies in standardization.

Involvement as the key to success

Each neighborhood development project has its own special features, which means that there is no one-size-fits-all approach. This applies first and foremost as far as "interests and stakeholders" are concerned. Nevertheless, Vonovia can put the strengths of its business approach to good use in this respect too.

The most important aspect when embarking on a neighborhood project is an in-depth status assessment performed by Vonovia's project managers. This process involves collecting key data and holding extensive talks with local institutions. It also involves identifying and analyzing the expectations of the various stakeholders, such as tenants. Kirberger explains: "Stakeholder involvement is the name of the game when it comes to executing successful neighborhood projects. This is why we seek dialogue with relevant local groups very early on. These not only include the municipalities, but also – and most importantly – the tenants. We use tenant surveys to gather information on what they think." At this stage in the process, the project managers prefer to call upon the support of neutral bodies such as Dresdner Projektschmiede, a polling organization that specializes in tenant surveys, or local neighborhood institutions that tend already to enjoy the trust of local tenants.

While this approach might be a time-consuming one, the hard work pays off, because it allows the project managers to launch the tenant consultation process well prepared. During these talks, adopting the right approach to certain topics can allow the project managers to build trust so that they can work with the individuals involved to identify the right common course of action. A recent example involves a project in Dortmund-Westerfilde, where

Dortmund-Westerfilde. The development concept contains a shared space with seating options and tenant gardens.

outdoor areas were upgraded, play areas designed, and building entrances made fully accessible with the support of the city authorities and a combination of state and federal government funds. Neighborhood development projects are now very likely to be granted public-sector subsidies thanks to a large number of federal and state initiatives to promote the establishment and expansion of green spaces within cities. As a result, checking the subsidies available is just as much part of the project routine as tenant involvement.

Standards as the key to success

When it comes to the actual objects to be used in a project, a neighborhood's individuality is less of an issue. There might well be 300 different types of park bench, but a selection of three still offers sufficient choice. The same applies to playground equipment: instead of keeping an inventory comprising several hundreds of different types of equipment produced by various manufacturers, the range has now been whittled down to 20 pieces of playground equipment provided by one sole manufacturer. This allows Vonovia to improve safety standards without having to compromise on the fun involved for the children who will use the playground later on. Ullrich Pinick adds: "Thanks to our nationwide contractual partners, we can also develop and build special models for larger neighborhood projects at a very low cost – not only for children, but for adults too."

Once again, Vonovia's scaling strategy is immediately evident. Pinick: "We buy 4,000 bicycle stands from a manufacturer as opposed to 400. This has a clear impact on the price. The same applies to other things such as paving stones, fences and plants." Another reason why neighborhood development projects can benefit from the cost advantages is that Vonovia can achieve more than its peers with the same amount of money. In addition, a smaller number of suppliers and defined product standards result in shorter delivery periods, improved planning reliability, and, as a result, faster implementation.

Outdoor storage containers are another example: Manufacturers have traditionally offered three different sizes of container; one for walkers, one for strollers and one for bicycles. Pinick: "But we want one standard size that we can then purchase in large quantities. So we talk to the manufacturer and get them to simplify the product to meet our needs. In so far as possible, we try to ensure that everything we build can be used for multiple purposes to achieve flexibility."

Reliable processes as the key to success

In order to make sure that the outdoor areas are kept in good condition, they are inspected by caretakers on a weekly basis. This is another area in which Vonovia's strengths come to the fore: If a caretaker identifies a defect, he immediately passes the information on to the residential environment organization using his iPad, where the report is handled. Defects reported by tenants are routed to Vonovia customer service. There, a ticket is created and commissioned directly to the residential environment organization. Public safety checks on trees, playgrounds and outside areas are also conducted as a matter of routine and in line with statutory requirements.

A geographic information system (GIS) that is constantly updated is used to provide technical support to the Residential Environment Service department in its work. It provides all of the responsible employees within the Group and the external service providers with all the relevant qualitative and quantitative data on the outdoor areas – from meadows, shrubs and trees to lawns, playgrounds and the areas to be cleaned or cleared of snow and ice.

Even the small residents are taken care of: Vonovia has over 5,000 playgrounds in its portfolio.

Torsten Kirberger (l) and Ullrich Pinick (r) (Vonovia Residential Environment Service) plan the residential environment of a Vonovia property in Berlin with Sebastian Krüger (center) (Regional Manager Berlin).

»Although our **area of responsibility** only forms a **small part** of the company as a whole, it has a **huge emotional impact** on **customer satisfaction.**«

Torsten Kirberger, Ullrich Pinick, Vonovia Residential Environment Service

Vonovia has established itself as a partner

Vonovia has since made a name for itself on the basis of its strengths and expertise in the field of residential environment development. The City of Hamburg, for example, recently approached the company asking for its support with the organization of tenant workshops and the consultation process as part of an open space planning competition in the traditionally underprivileged district of Hamburg-Steilshoop. And on the other side of the Elbe River, in Hamburg-Wilhelmsburg, the city authorities and Vonovia have joined forces to think about how to achieve a more diverse resident structure, using vertical expansion, densification, and new construction measures, but also with the help of creative residential environment concepts.

The residential environment organization is growing: Over 590 employees already work in this Vonovia department.

3,315,878 m²

is the amount of outdoor area (private and public sidewalks) we sweep and clean.

2,493,249 m²

is the amount of outdoor area we shovel and grit.

The team: small and effective

Given just how much the core Residential Environment Services team at Vonovia achieves, it has a very streamlined structure. Or a very efficient structure, as Vonovia likes to describe it. At present, the more than 100 medium-sized and large-scale projects the department is currently working on are being tackled by ten open space planners and project managers, including Kirberger and Pinick. This approach works thanks to the particularly strong spirit of cooperation between the individuals involved and the very close collaboration with regional managers, real estate managers, and local partners. The fact that the landscape architects, planners, and project managers constantly provide each other with feedback also proves to be a huge advantage – and one that is probably unique in this form: This feedback keeps the need for the sort of unpopular extra work that can make a project so much more expensive to a minimum.

And what's next on the agenda?

The duties assigned to Torsten Kirberger and Ullrich Pinick, who are both responsible for landscaping, remain varied and keep them constantly on the move. In Bielefeld-Sennestadt, for example, they are currently working with the regional management team on relocating walkways so that they lead straight to the buildings. This will allow pedestrians to avoid the neglected green spaces (= garbage traps), which are generally difficult to maintain, and will also serve to cut costs. There are also plans to improve the parking situation and to implement a state-of-the-art mobility concept featuring car-pooling spaces and electric charging stations for cars and bicycles. These measures will satisfy customer needs and create structural advantages. The project is to be rounded off by the remodeling of a neighborhood square.

In Dortmund-Westerfilde, the plans developed together with the city authorities are still being completed: the team is currently looking into accessible garbage collection points as a small additional project. The current plans involve digging the garbage cans so deep into the ground that they can be used from a height of 1.10 meters, i. e. by a child or wheelchair user. This creates customer satisfaction.

In Aachen-Preuswald, one project is focusing on the further development of a neighborhood square. The principle target groups are senior citizens and students. In order to be able to navigate the square at a leisurely pace, the senior citizens need places where they can stop to catch their breath every now and again. As the resting areas were removed at some point, the square needs a new set of benches. And the students? The best way to improve their quality of life nowadays is to offer a WiFi connection. Implementing this idea would be another new project for Vonovia. But this shouldn't be a problem: after all, putting innovative ideas into practice is now part of Vonovia's day-to-day business and will remain so for as long as this is beneficial to both its customers and Vonovia.

Key Figures

Financial Key Figures in € million	**2013**	**2014**	**2015**	**2016**	**2017**
Rental income	728.0	789.3	1,414.6	1,538.1	1,667.9
Adjusted EBITDA Operations	442.4	503.4	957.6	1,094.0	1,224.2
Adjusted EBITDA Rental	433.0	482.6	924.4	1,046.2	1,150.0
Adjusted EBITDA Value-add Business*	10.5	23.6	37.6	57.0	102.1
Adjusted EBITDA Other	-1.1	-2.8	-4.4	-9.2	-27.9
Income from disposal of properties	353.5	287.3	726.0	1,227.9	1,206.4
Adjusted EBITDA Sales	27.7	50.1	71.1	92.5	110.8
Adjusted EBITDA	470.1	553.5	1,028.7	1,186.5	1,335.0
EBITDA IFRS	431.0	500.3	838.4	1,083.7	1,271.8
FFO 1	223.5	286.6	608.0	760.8	920.8
thereof attributable to Vonovia shareholders	218.4	275.1	555.5	713.4	866.2
thereof attributable to Vonovia hybrid capital investors	–	–	33.0	40.0	40.0
thereof attributable to non-controlling interests	5.1	11.5	19.5	7.4	14.6
FFO 2	251.2	336.7	662.1	823.8	1,012.4
AFFO	203.5	258.3	520.5	689.2	835.1
FFO 1 per share in €	0.95	1.00	1.30	1.63	1.90
Income from fair value adjustments of investment properties	553.7	371.1	1,323.5	3,236.1	3,434.1
EBT	689.6	589.1	1,734.5	3,859.8	4,007.4
Profit for the period	484.2	409.7	994.7	2,512.9	2,566.9
Cash flow from operating activities	259.6	453.2	689.8	828.9	946.0
Cash flow from investing activities	171.3	-1,177.9	-3,239.8	416.4	-1,350.1
Cash flow from financing activities	-353.2	1,741.7	4,093.1	-2,812.4	-870.5
Maintenance and modernization	228.4	345.5	686.3	792.4	1,124.8
thereof for maintenance expenses and capitalized maintenance	157.6	173.8	330.7	320.1	346.2
thereof for modernization	70.8	171.7	355.6	472.3	778.6

Key Balance Sheet Figures in € million	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2017**
Fair value of the real estate portfolio	10,326.7	12,759.1	24,157.7	27,115.6	33,436.3
Adjusted NAV	5,123.4	6,472.0	11,273.5	14,328.2	18,671.1
Adjusted NAV per share in €	21.74	22.67	24.19	30.75	38.49
LTV in %	48.1	49.3	46.9	41.6	39.8

Non-Financial Key Figures	**2013**	**2014**	**2015**	**2016**	**2017**
Number of units managed	201,737	232,246	397,799	392,350	409,275
thereof own apartments	175,258	203,028	357,117	333,381	346,644
thereof apartments owned by others	26,479	29,218	40,682	58,969	62,631
Number of units bought	0	31,858	168,632	2,815	24,847
Number of units sold	6,720	4,081	15,174	26,631	11,780
thereof Privatize	2,576	2,238	2,979	2,701	2,608
thereof Sell portfolio**	4,144	1,843	12,195	23,930	9,172
Vacancy rate in %	3.5	3.4	2.7	2.4	2.5
Monthly in-place rent in €/m²	5.40	5.58	5.75	6.02	6.27
Organic rent increase in %	1.9	2.5	2.9	3.3	4.2
Number of employees (as of Dec. 31)	2,935	3,850	6,368	7,437	8,448

EPRA Key Figures in € million	**2013**	**2014**	**2015**	**2016**	**2017**
EPRA NAV	5,123.4	6,578.0	13,988.2	17,047.1	21,284.6
EPRA NAV per share in €	21.74	23.04	30.02	36.58	43.88
EPRA NNNAV	–	–	9,739.8	12,034.4	14,657.5
EPRA earnings	–	–	329.2	450.0	573.1
EPRA net initial yield in %	–	–	4.5	4.1	3.7
EPRA topped-up net initial yield in %	–	–	4.5	4.1	3.7
EPRA vacancy rate in %	3.1	3.0	2.5	2.2	2.3
EPRA cost ratio (incl. direct vacancy costs) in %	–	–	31.9	28.4	26.2
EPRA cost ratio (excl. direct vacancy costs) in %	–	–	30.2	27.0	24.7

* Previously "Adjusted EBITDA Extension"
** Previously "Non-Core/Non-Strategic"
The key figures from prior years have been adjusted to match the definitions of the 2017 fiscal year. The key figures per share are based on the shares carrying dividend rights on the corresponding reporting date: values for 2014, 2013 TERP adjusted.

The Company and its Shares

Combined Management Report

Consolidated Financial Statements

Information

REFERENCES

to page(s) in the Report → **p. 167**
to website **www.vonovia.de**
to page(s) in the Sustainability Report **SR 2016, p. 18**

Dear Shareholders, Ladies and Gentlemen,

Almost five years have now passed since we went public with what was then our new business model. Our objective was an ambitious one: We aimed to achieve nothing less than to use our strategy to reconcile what had, until then, been considered opposing interests of our target groups in a manner that would allow all of them to benefit: our investors, our tenants and employees, as well as society at large.

Today, we know that our idea was the right approach. Quarter after quarter, we continue to show that customer orientation is not just one of many factors, but rather plays the decisive role in our ability to manage residential properties successfully in the long term. The only prerequisite: We have to pursue an entrepreneurial approach – utilize efficiency potential, be creative and exhaust the commercial opportunities that arise.

Our 4+1 strategy, which essentially relies on a scalable business model, financing, portfolio management and property-related services as well as on making acquisitions as and when opportunities present themselves, has guided us along this path in recent years. The application of this strategy has not only changed the quality of our portfolio and the way in which we manage our properties, but has also resulted in us offering a much wider range of services: Today, we are more than just a property manager. We are a service provider that understands its customers increasingly better and is able to offer them growing support with innovative products and services. We also have our solid financial position to thank for our ability to achieve this – we have all of the possible options open to us in terms of our further development.

Let's take a look at developments over the last fiscal year: In 2017, we picked up exactly where we had left off in the previous year in terms of continuing with our strong operating performance. In the Rental segment, we implemented our modernization and new construction measures as planned. Our innovative new building solutions using a standardized series construction system allowed us to underpin the role in which we see ourselves, namely as a company that provides impetus for the industry as a whole. In the Value-add Business segment, we successfully expanded the services provided by the craftsmen's organization and our residential environment organization. At the same time, we also witnessed growth in our condominium administration, the supply of cable TV to tenants, and metering and insurance services. In the Sales segment, we continued to pursue our strategy of selective sales, reducing our portfolio significantly in regions that are not strategically relevant to us. We sold a total of just under 12,000 apartments in 2017 and acquired almost 25,000.

Rolf Buch
Chairman of the Management Board (CEO)

Dr. A. Stefan Kirsten
Member of the Management Board (CFO)

Klaus Freiberg
Member of the Management Board (COO)

Gerald Klinck
Member of the Management Board (CCO)

We were able to either reach or outstrip our **quantitative targets**: Including the conwert portfolio for the first time, the adjusted NAV per share rose by around 25% year-on-year to € 38.49 thanks to the very positive development of our property values. Increased efficiency, positive financing effects and growth in our Value-add Business segment, which comprises property-related services, pushed the FFO 1 up by 21% to € 920.8 million. This meant that it was once again up slightly on the most recent forecast. We had aimed to achieve a stabilization in our customer satisfaction indicator, the CSI. In actual fact, however, it climbed by 1.6%.

In addition to these operational achievements, we were also successful in other areas: We completed the integration of the conwert Group comprising 208 companies and also achieved a legal merger of Gagfah S. A. with our company. Over the last fiscal year, we borrowed funds of around € 2.9 billion from a variety of sources and repaid loans worth more than 3.2 billion. Our financing remains stable, meaning that we can cover our liquidity needs on the capital market at all times. The key indicator in this regard, the loan-to-value ratio, came to 39.8% as of December 31, 2017.

Our **share price** showed exceptionally good performance last year, climbing by almost 34% and clearly outperforming the DAX (+12.5%). We see this as confirmation that, thanks to its stable business model, Vonovia is seen as a reliable player by stock market investors.

In 2018, we want to successfully continue on the path we have forged and further strengthen our leading position on the residential real estate market. In order to achieve this, we will be working on making further improvements to our customer services and expanding our service business. Energy services and energy distribution are a new service area that we believe holds the promise of good development.

We will be stepping up our investment program in 2018: All in all, the aim is to achieve a maintenance and modernization volume of € 1.4 billion. This includes the construction of new apartments, the addition of stories to existing properties and modernization in response to tenant requests. Capitalized maintenance will increase to a volume of more than € 360 million. In the current fiscal year, we will continue to dispose of properties that do not fit with our real estate portfolio in the long term, after which this process will be close to completion.

This means that our figures will continue to improve overall: Despite the sales, we expect our rental income to remain stable, meaning that, together with improvements in other operating earnings items, we will be able to increase our FFO 1 further, bringing it to a value of between € 960 million and € 980 million, a figure that does not include acquisitions.

As far as our dividend is concerned, we will be proposing the distribution of € 1.32 per share to the Annual General Meeting on May 9, 2018. This would see the dividend increase by 18% year-on-year. When given the choice of either a cash dividend or a stock dividend last year, half of our shareholders opted for a stock dividend. We believe that this relatively high value is a clear sign of confidence.

What does the future hold for us strategically? The positive developments seen in recent years have boosted the confidence in our business model. Our numerous talks with market participants have shown that the opportunities and challenges facing many European metropolitan areas are similar to those in Germany. This is why, after performing an in-depth analysis, we have decided to add a European component to our strategy, which was previously focused on Germany, i. e. to turn our 4+1 strategy into a 4+2 strategy. This decision gives us the option not only of purchasing portfolios where opportunities present themselves in Germany, but also of pursuing activities in other European countries.

We took the first step in this direction in October, when we concluded a partnership agreement with the French **Groupe SNI**, which is now operating under its new name CDC habitat. CDC habitat is France's biggest landlord with around 348,000 apartments. We want to use our collaboration to evaluate common growth and investment opportunities.

In addition, we made a purchase offer to the shareholders in the Austrian company **BUWOG AG** for their shares at the beginning of February of this year, after having published a corresponding announcement in December 2017. The acquisition of the conwert portfolio means that we have already been managing a small portfolio in Austria since last year. The acceptance of the offer would see the Austrian portfolio grow to around 24,000 apartments in the future.

BUWOG's portfolio includes a total of around 49,000 apartments, 55% of which are located in Germany, in cities including Berlin and Hamburg. In Austria, BUWOG's portfolio is spread over Vienna in particular and the regional centers of Graz, Klagenfurt, Salzburg and Villach. The successful integration of the portfolio would allow us to achieve cost advantages of € 30 million a year.

In order to exploit these cost advantages, realize integration projects like these and – in general – to be able to efficiently manage such an extensive portfolio, we need employees who are committed to common goals. My colleagues on the Management Board and I would like to **thank** the now almost 8,500 Vonovia employees for their considerable commitment.

We were deeply saddened to learn of the passing of Dr. Wulf H. Bernotat last year. He had been Chairman of Vonovia's Supervisory Board since June 2013 and supported our company's ascent from the IPO to the MDAX and then into the DAX 30. As a Chairman, whose thoughts and actions were always guided by a sense of entrepreneurial spirit, he made a particular contribution to supporting our strategic realignment, playing a decisive role in shaping our company's development.

We would like to thank you, our shareholders, for the trust you have placed in us with your investment in our company. We are confident that we will be able to continue successfully on our positive trajectory with our extended strategy – ensuring both your satisfaction and the satisfaction of the people who form the basis for our joint success: our tenants and our customers.

Bochum, Germany, March 2018

Sincerely,

Rolf Buch
Chairman of the Management Board

Rolf Buch (CEO)

Management Board

The Management Board of Vonovia SE consisted of four members as of December 31, 2017.

Rolf Buch
Chairman of the Management Board (CEO)

As Chief Executive Officer, Rolf Buch is responsible for transactions, general counsel, HR management, auditing, corporate communications, land management and sustainability. Before joining the company in 2013, Buch was a Member of the Management Board at Bertelsmann SE and Chairman of the Management Board at Arvato AG. During his time at Arvato, the company grew into a global BPO service provider with over 60,000 employees in more than 40 countries and became the fastest-growing division of Bertelsmann SE. Buch began his career at Bertelsmann in 1991 after studying mechanical engineering and business management at RWTH Aachen University.

Dr. A. Stefan Kirsten
Member of the Management Board (CFO)

As Chief Financial Officer, Dr. A. Stefan Kirsten is responsible for finance, accounting, tax, insurance and investor relations. In his last position, Dr. Kirsten was CEO of the trading and real estate group Majid Al Futtaim Group LLC in the United Arab Emirates. Before that, he was, among other things, CFO of Metro AG and ThyssenKrupp AG. Dr. Kirsten studied business management and IT at the FernUniversität in Hagen, a distance-learning university, and Göttingen University. He obtained his PhD (earning the title of Dr. rer. pol.) at the University of Lüneburg. Since 1995, he has been lecturing at various German and foreign universities, including his appointment at the Westphalian University of Applied Science in Gelsenkirchen, where he has been lecturing since 2001 after being awarded an honorary professorship.

Klaus Freiberg
Member of the Management Board (COO)

As Chief Operating Officer, Klaus Freiberg is responsible for product management, IT, customer service, residential environment, technical caretaking services and the local rental business in the various regions (North, South, Southeast, East, Central, West). He held various leadership positions within the Arvato Group (Bertelsmann) in the period between 1995 and 2010, where he assumed responsibility for, and worked on the optimization of, the Service Centers of Deutsche Post and Deutsche Telekom, among other things. Klaus Freiberg is a recognized expert in making companies customer-focused. Klaus Freiberg completed his degree in history, social sciences and economics at the Westfälische Wilhelms University of Münster in 1990.

Gerald Klinck
Member of the Management Board (CCO)

As Chief Controlling Officer, Gerald Klinck is responsible for controlling, property valuation, central procurement and Immobilien Treuhand. Gerald Klinck joined the GAGFAH Group in 2011 and was appointed as CFO a year later. By this point in time, he already had 15 years of experience in the real estate sector. Gerald Klinck started his career at HSH Nordbank AG, where he was appointed to join the management team of HSH N REAL ESTATE CONSULTING GmbH as CFO in 2003 after heading up the organizational unit responsible for equity investments. The business management graduate moved to GEHAG GmbH, which was incorporated into Deutsche Wohnen AG, in 2006, where he was responsible for corporate control and planning. He became a member of the extended management team of Deutsche Wohnen AG in 2009. Gerald Klinck studied business management in Lüneburg, majoring in financing.

Supervisory Board

The Supervisory Board currently consists of eleven members. In accordance with the Articles of Association, the election to be held at the Annual General Meeting on May 9, 2018, is to appoint a replacement for the twelfth mandate performed by Dr. Wulf H. Bernotat up until August 26, 2017.

Prof. Dr. Edgar Ernst
Chairman (since September 7, 2017)
Deputy Chairman (until September 7, 2017)
President of the German Financial Reporting Enforcement Panel

Burkhard Ulrich Drescher
Managing Director of InnovationCity Management GmbH

Dr. Florian Funck
Member of the Management Board of Franz Haniel & Cie. GmbH

Dr. Ute Geipel-Faber
Self-employed management consultant

Hendrik Jellema
Chairman of Stiftung Berliner Leben

Daniel Just
Chairman of Bayerische Versorgungskammer

Hildegard Müller
Member of the Management Board of innogy SE

Prof. Dr. Klaus Rauscher
Deputy Chairman (since September 7, 2017)
Self-employed management consultant

Dr. Ariane Reinhart
Member of the Management Board of Continental AG

Clara-Christina Streit
Self-employed management consultant

Christian Ulbrich
Global CEO & President Jones Lang LaSalle Incorporated
Member of the Board of Directors of Jones Lang LaSalle Incorporated

Members Who Left the Supervisory Board

Dr. Wulf H. Bernotat
Chairman (until August 26, 2017)
Former CEO of E.ON AG

Supervisory Board Committees

Executive and Nomination Committee
Dr. Wulf H. Bernotat, Chairman (until August 26, 2017)
Prof. Dr. Edgar Ernst, Chairman (since September 7, 2017)
Hildegard Müller
Prof. Dr. Klaus Rauscher
Clara-Christina Streit
Dr. Ariane Reinhart

Audit Committee
Prof. Dr. Edgar Ernst, Chairman
Dr. Wulf H. Bernotat (until August 26, 2017)
Burkhard Ulrich Drescher
Dr. Florian Funck
Hendrik Jellema

Finance Committee
Clara-Christina Streit, Chairwoman
Dr. Wulf H. Bernotat (until August 26, 2017)
Prof. Dr. Edgar Ernst (since September 7, 2017)
Dr. Ute Geipel-Faber
Daniel Just
Christian Ulbrich

Report of the Supervisory Board

Ladies and Gentlemen,

We were able to support the Management Board of Vonovia SE through a very positive 2017 fiscal year: The Management Board continued to pursue its long-term strategic approach and exploited the company's good market position in order to further develop the strategy in the interests of the company and its shareholders. The operating business showed successful ongoing development: The company improved its performance data, forged ahead with the extensive investment program and made good progress with the expansion of its service business. These developments once again allowed Vonovia to achieve very good annual financial performance. As part of the expansion of the opportunistic growth strategy to cover foreign regions, a move which we support, the company entered into a cooperation with Group SNI (CDC habitat), a French company that pursues a similar business approach to Vonovia. This was followed, at the end of the year, by a takeover offer made to the shareholders in the Austrian company BUWOG AG. All in all, we are very satisfied with the development of Vonovia SE in 2017.

It is with great sadness that we continue to mourn the passing, on August 27, of Dr. Wulf H. Bernotat, the long-standing Chairman of the Supervisory Board who remained in office in the 2017 fiscal year as well, and deeply regret the fact that he is no longer able to share in this success. Dr. Wulf H. Bernotat had been at the helm of the Supervisory Board since 2013 and played a particular role in shaping Vonovia's development. He accompanied and supported the company's strategic realignment with a combination of true entrepreneurial spirit, vision and experience. It is with a great sense of solidarity that we pay tribute to Dr. Bernotat posthumously for the extraordinary contribution he made to Vonovia's success.

In the 2017 fiscal year, the Supervisory Board continuously monitored the Management Board's management activities and provided the Management Board with regular advice concerning the running of the company. We were able at all times to establish that their actions were lawful, expedient and regular. The Management Board fulfilled its information obligations to an appropriate extent at all times, notifying us regularly, promptly and comprehensively, both in writing and verbally, of all circumstances and measures that were relevant to the company. This also included notifying us of any discrepancies between the planning and the actual course of business events.

In both committees and plenary meetings, we always had ample opportunity to critically appraise the reports and proposals submitted by the Management Board and to contribute our own suggestions. We discussed and tested the plausibility of all business occurrences of significance to the company, as communicated to us by the Management Board in written and verbal reports, in detail. Where required by law or the Articles of Association, we granted our consent to individual business transactions.

Cooperation Between the Management Board and the Supervisory Board

Up until August 26, 2017, the Supervisory Board consisted of twelve members, and thereafter of eleven. We were on hand to support the Management Board in the various meetings held and also in its key decisions. We also kept a close eye on the company's business development outside of meetings. The Management Board regularly informs us about key events and the company's strategic direction as part of a collaboration based on trust.

In my role as Supervisory Board Chairman, I remained in close contact with the Management Board even between Supervisory Board meetings, regularly exchanging information and ideas. Other senior management and supervisory personnel were promptly notified of any important findings or judgments, and at the latest by the next board meetings.

During the fiscal year, the only conflicts of interest of Management Board or Supervisory Board members, which are to be reported immediately to the Supervisory Board, related to the Supervisory Board's decision to make a takeover offer to the shareholders of BUWOG AG; Vienna/Austria. A member of the company's Supervisory Board, who is also a shareholder in BUWOG AG, did not take part in the consultation or decision-making processes that took place on December 1, 15 and 17, 2017. Important transactions involving Supervisory Board members and other related parties within the meaning of IAS 24, including family members and intermediate companies, were reviewed on a regular basis.

Focal Points of Our Work

In line with the duties assigned to the Supervisory Board by law, the Articles of Association and the rules of procedure, we closely scrutinized the Group's operational, economic and strategic progress last year.

In 2017, our advisory sessions and resolutions focused, in particular, on Vonovia's strategic and operational further development. This included the expansion of the service offering, the implementation of the investment program, including the investments in new living space, the exploitation of opportunities resulting from digitization, the portfolio strategy, internationalization and opportunities for further portfolio expansion. We also took an in-depth look at the future management structure of the company.

Meetings

In the 2017 fiscal year, the Supervisory Board met a total of nine times to pass resolutions: five times at meetings (March, May, August, September, December) four times using conference calls (July, October, twice in December) and twice via written circular (January, February). Any members absent from the various meetings had always been excused. Four members were excused from the conference call held on July 10, 2017, one was excused from the meeting on August 1, 2017, one from the meeting on September 7, 2017, two from the conference call on October 9, 2017 and two from the conference calls held on December 15 and December 17, 2017 in each case.

Participation in the nine Supervisory Board meetings averaged 88% in the 2017 fiscal year. No member of the Supervisory Board only took part in half of the meetings or less during their term of office in the fiscal year under review. The same applies to the committees.

In preparation for the meetings, the Management Board submitted timely, comprehensive and valid written reports and resolution proposals to us.

On January 3, 2017, we determined, and passed, a resolution via written circular on the maximum number of new shares for the non-cash capital increase in connection with the voluntary public takeover offer that Vonovia SE made to the shareholders of conwert Immobilien Invest SE.

On February 24, 2017, we approved the submission of the "Declaration of Conformity by the Management Board and the Supervisory Board of Vonovia SE to the Recommendations of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)."

On March 6, 2017, the Supervisory Board met to adopt the balance sheet: We approved the company's annual and consolidated financial statements as of December 31, 2016 and prepared the agenda and the resolution proposals for the Annual General Meeting. This also included the proposal for the first-time optional dividend payment in the form of a stock dividend. Under the "HR-related matters" agenda item, the Supervisory Board discussed, and passed resolutions on, the remuneration and target achievement issues that had been prepared by the Executive and Nomination Committee, as well as the extension of CEO Rolf Buch's contract until February 28, 2023. The status of the acquisition of conwert Immobilien Invest SE, Vienna/Austria, was also discussed: We discussed the resulting financial synergies in detail, addressed the issues relating to the operational integration of the German properties and passed a resolution on a capital increase for other conwert shares offered during the grace period. We also discussed the company's operating business performance and approved the neighborhood development project in Berlin-Tegel involving the modernization of 1,100 apartments and the construction of 360 apartments in the period leading up to 2023. Other topics included financial performance, Vonovia's situation in the capital market environment and corporate governance from an outsider's perspective.

At the meeting held on May 8, 2017, the Supervisory Board took a detailed look at business developments on the basis of the key operating figures. We addressed a number of topics, including the investment programs, the expansion of the technical service and the expansion of the multimedia and metering services. In order to evaluate the company's performance, we discussed a comparison of key figures between Vonovia and various peer group companies, paying particular attention to expense, cost and interest rate structures. As far as financial performance is concerned, we discussed the rent ceiling and the link between the investment programs and rental price developments in Vonovia's portfolio. Another agenda item was the development of the company on the capital market and the feedback from investors and analysts. In connection with the transactions requiring our approval, we approved two capital increases: The first was made in connection with the scrip dividend and the second related to the merger of Gagfah S. A. and Vonovia SE in return for payment of compensation for the Gagfah shares that were canceled in the form of new shares in Vonovia. We also approved the construction of 950 new apartments in Berlin-Siemensstadt. Within the context of HR matters, we also discussed the remuneration paid to the Chairman of the Management Board and succession planning for the Management Board, taking the requirements associated with a diversity concept into account. A final topic for discussion was a media response report showing that Vonovia is now outperforming numerous competitors.

At a conference call held on July 10, 2017, we discussed the extension of Gerald Klinck's contract as a Management Board member and Vonovia's future structure regarding its functions/executive divisions, considering the proportion of women.

At the meeting held on August 1, 2017, we evaluated the Audit Committee's reports for the first quarter of 2017 and the first half of 2017 as well as the strategic audit objectives and the fee paid to the auditor for the 2017 fiscal year. Based on the preparatory work performed within the Executive and Nomination Committee, we discussed the situation relating to Management Board succession and followed Gerald Klinck's wish not to extend the contract as a member of the Management Board beyond the agreed contract end date. In light of the general diversity requirements, we set targets for the period leading up to December 31, 2021, by which time we aim to have a Supervisory Board that is at least 30% female and a Management Board that is at least 20% female. The meeting also focused on strategy: Within this context, we discussed the opportunities available for reducing the complexity of the company structures, optimizing interest rates and making use of other debt instruments. In terms of operational and strategic matters, we looked, among other things, at the expansion of services (energy distribution, electromobility), the greater use of digital channels for business success and the stepped-up moves to develop the portfolio by focusing on neighborhood development. We also looked at the option of strategic investments and at expanding Vonovia's strategy to make greater inroads into international markets. Furthermore, we discussed operating and financial performance as well as liability management as a package of measures to refinance bonds that are currently issued.

At the meeting held on September 7, 2017, the Supervisory Board unanimously elected Prof. Dr. Edgar Ernst as Chairman of the Supervisory Board with immediate effect after Dr. Wulf H. Bernotat stepped down his position as Chairman of the Supervisory Board and died a short while later. Prof. Dr. Klaus Rauscher was also unanimously elected Deputy Chairman by the Supervisory Board at this meeting. The Supervisory Board confirmed Prof. Dr. Ernst as Chairman of the Audit Committee and approved the associated deviation with the recommendation set out in the German Corporate Governance Code, which Vonovia had complied with in the past. The Supervisory Board elected Prof. Dr. Edgar Ernst as member of the Finance Committee, also with immediate effect. In addition, the Supervisory Board decided not to fill the vacant twelfth mandate for the time being, but rather to combine this process with the next elections for the Supervisory Board as a whole, which were scheduled for the next Annual General Meeting.

At a conference call held on October 9, 2017, we discussed the draft of a decision paper prepared by the Finance Committee on the regional expansion of the company's strategy and decided to include internationalization as a new component of Vonovia's strategy. We also discussed the further development of the Internet-based landlord platform and decided to have an external service provider perform an efficiency review on the Supervisory Board's work.

The results of the efficiency review were presented and discussed at the meeting held on December 1, 2017. In connection with the 2018 budget planning process, the Supervisory Board discussed the possible termination of the sale of the "Non-Core" properties and the issue of increasing rent by way of modernization and new construction. We also addressed the company's five-year plan, including the plans to expand the Value-add Business and continue the investment strategy. Given the new strategic option of achieving further growth abroad, too, we discussed the fundamental opportunity to acquire the Austrian listed company BUWOG AG. Other agenda items related to operating business performance, financial performance, systematic neighborhood development and the status/construction process of the new company headquarters.

On December 15, 2017, we used a conference call to discuss the potential acquisition of the Austrian company BUWOG AG in detail, including the strategy, the expected synergies and the risks associated with this sort of transaction. Following a detailed discussion, we gave the Management Board our consent to commence negotiations on the conclusion of a business combination agreement as the basis for a voluntary public takeover offer made to the shareholders and convertible bondholders of BUWOG AG.

On December 17, 2017, we used another conference call to continue our discussion on a potential public takeover offer to be made to the shareholders of BUWOG. In addition to the price range for an offer, we also discussed the financing side of things and the possible expansion of the Management Board and Supervisory Board of Vonovia SE to include BUWOG representatives as part of the "friendly takeover." We decided to let the Finance Committee make the final decision on the further measures associated with the takeover offer.

Work of the Committees

In order to perform our duties effectively, we formed an Audit Committee, a Finance Committee and an Executive and Nomination Committee. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition, the committees passed further resolutions that we had delegated to them instead of passing them on the Supervisory Board as a whole.

Audit Committee

The Audit Committee had five, later on four, members in the reporting year: The Chairman was Prof. Dr. Edgar Ernst. The other members were Dr. Wulf H. Bernotat (until August 26, 2017), Burkhard Drescher, Dr. Florian Funck and Hendrik Jellema. One position has been vacant since August 27, 2017. The Audit Committee met four times in 2017 (March, May, August, November) and made one decision using the written procedure (January).

The Committee used the written procedure on January 3, 2017 to pass a resolution allowing KPMG to perform non-audit services in Austria and Germany at the conwert Immobilien Invest SE Group, Vienna/Austria and its subsidiaries. This authorized KPMG to perform tax consultancy services in particular as part of its support for the ongoing tax audit. This did not restrict the impartiality of the activities associated with the audit of the annual financial statements.

At the meeting held on March 6, 2017, the Committee reviewed the annual and consolidated financial statements as of December 31, 2016, and drew up a proposal for the appropriation of profit. The assessment looked, in particular, at the auditor's report and the development of goodwill. The Committee developed a proposal for the selection of an auditor for the 2017 fiscal year and for this auditor's appointment as the auditor responsible for the audit of the condensed consolidated interim financial statements and interim Group management reports. Other topics covered included an internal audit report on the status of the audits and a compliance status report.

At the meeting held on May 23, 2017, the Committee looked at the condensed consolidated interim financial statements for the first quarter of 2017, taking the first-time consolidation of the conwert Group and the portfolio changes into account. It passed a resolution on the extension of the guidelines on non-audit services provided by the auditor to cover conwert SE and Vonovia Finance B. V. In light of the more stringent requirements imposed by the European Securities and Markets Authority, ESMA, the Committee adjusted the definition of non-recurring items (one-offs) from the 2018 fiscal year and, in a wider context, also discussed the presentation of EBITDA after adjustments to reflect acquisitions. The Committee also looked at the report on risk management, the internal audit status, the report on the company's tax position and the compliance report.

At its meeting held on August 1, 2017, the Committee approved the shortened consolidated interim financial statements as of June 30, 2017, passed a resolution on the commissioning of KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual and consolidated financial statements as of December 31, 2017 and discussed the possible key audit matters presented in the auditor's report with the auditor. Other topics included the auditor's status report on non-audit services, the report on the internal control system (ICS), the compliance status report, the internal audit status report and the commissioning of the Internal Audit department to audit the company's Sustainability Report for 2016.

At the meeting held on November 7, 2017, the Committee discussed the nine-monthly financial statements, risk management and the status of the assignments passed on to Internal Audit. Within this context, the Committee discussed the commissioning of the Internal Audit department to audit the Sustainability Report for 2017 and defined the audit plan and the auditing budget of the Internal Audit department for 2017 as a whole. Other topics of discussion included the preliminary results of the property valuation, the compliance report and the report on major legal disputes.

Finance Committee

In the fiscal year under review, the Finance Committee consisted of five members. The Chairperson was Clara-Christina Streit. The other members were Dr. Wulf H. Bernotat (until August 26, 2017), Dr. Ute Geipel-Faber, Daniel Just and Christian Ulbrich. Prof. Dr. Edgar Ernst joined the Committee on September 7, 2017. The Finance Committee met six times during the reporting year (January, May, August, October, twice in December), with three meetings being held as conference calls (January, October, December). In addition, the Committee concluded two resolutions via written circular (March, June). The Finance Committee had been previously authorized by the Supervisory Board to make all decisions on matters outside the scope of the topics for which it is generally responsible.

At a conference call held on January 16, 2017, the Committee discussed, and passed a resolution on, the issue of bonds worth € 1 billion as part of the EMTN program to refinance a loan from the GAGFAH subportfolio. On March 28, 2017, the Finance Committee passed a resolution, using the written procedure, on a further non-cash capital increase as part of the takeover of conwert for conwert shares that had been offered during the grace period. At a meeting held on May 16, 2017, the Committee discussed, and passed a resolution on, two capital increases in line with the general resolution on the appropriation of profit that had previously been passed by the Annual General Meeting: One resolution paved the way for the general granting of a scrip dividend as opposed to a pure cash dividend, although a resolution still had to be passed on the exact number of new shares. The second resolution related to the merger of Gagfah S. A. with Vonovia SE and set in motion the process for paying a settlement to the Gagfah shareholders in the form of shares in Vonovia based on a set exchange ratio.

On June 12, 2017, the Finance Committee used the written procedure to approve the more detailed resolution passed by the Management Board on the implementation of a non-cash capital increase as part of the dividend option for shareholders in Vonovia SE. At a meeting held on August 1, 2017, the Committee performed a retrospective analysis of the first-time granting of a scrip dividend. The offer acceptance rate corresponded to 50% of the shareholdings, which was considered a success. In addition, the Committee discussed a package of measures, within the context of liability management, to refinance hybrid bonds, taking equity measures into consideration with the aim of reducing borrowing costs. Within this context, the Committee also discussed the opportunities and risks associated with the issue of convertible bonds.

The Supervisory Board had delegated the further development of the acquisition policy principles to the Finance Committee, which was then to prepare corresponding decisions for the Supervisory Board. In line with this assignment, the Committee discussed the development of a decision paper based on which internationalization would be included as a new component of Vonovia's strategy at a conference call held on October 9, 2017. The first step was to involve entering into a cooperation with the French state-owned real estate company SNI, which has its registered headquarters in Paris and focuses on social housing. The aim of the collaboration was to share experience and knowledge as well as to allow Vonovia to familiarize itself with the French real estate market. At the meeting, the Committee also discussed options for making greater use of the opportunities resulting from digitization for the company, for example the greater use of (shared) distribution platforms and the establishment of internal competencies.

At a meeting held on December 1, 2017, the Committee discussed the Management Board's analysis of future interest rate developments and what was ultimately their limited impact on the company's business. It also discussed the potential acquisition of BUWOG AG, Vienna/Austria, as part of a "friendly takeover" in line with Vonovia's acquisition criteria. On December 18, the Finance Committee discussed, and passed a resolution on, the status and main results of the negotiations on the acquisition of BUWOG AG during a conference call. It approved the conclusion of a business combination agreement with BUWOG AG. Under this agreement, the shareholders of BUWOG were to be made a voluntary public takeover offer corresponding to € 29.05 per share in BUWOG. Within this context, the Committee approved the financing of the cash consideration for the takeover offer using a loan and the issue of bonds as part of the EMTN program.

Executive and Nomination Committee

In the fiscal year under review, the Executive and Nomination Committee consisted of five members. It was chaired by Dr. Wulf H. Bernotat up until August 26, 2017. He was succeeded by Prof. Dr. Edgar Ernst with effect from September 7, 2017. The other members included Hildegard Müller, Clara-Christina Streit, Prof. Dr. Klaus Rauscher and Dr. Ariane Reinhart. The Executive and Nomination Committee held five meetings in 2017 (February, March, August, September, December) and one conference call (November).

At the meeting held on February 17, 2017, the Committee developed resolution proposals for the Supervisory Board on the 2016 short-term incentive plan (target achievement), the contractual Management Board remuneration, target agreements for the 2017 short-term incentive plan, the long-term incentive plan for the Management Board (2017 tranche), the extension of Mr. Buch's contract by a further five years and the assumption of an advisory board mandate by the Supervisory Board member Hendrik Jellema. At the meeting held on March 6, the Committee approved the assumption of a mandate by the Chairman of the Management Board Rolf Buch as a member of the Board of Directors of D. Carnegie & Co AB (publ), Stockholm/Sweden. At the meeting held on August 1, 2017, the Committee developed a recommendation for a resolution setting the proportion of women for the stipulation period leading up to December 31, 2021. It also discussed the issue of succession planning for Management Board positions in general.

Following the resignation of Dr. Wulf H. Bernotat, the Committee developed recruitment proposals for the positions that had become vacant in the meeting held on September 7, 2017. In a conference call on November 9, 2017, the Committee once again addressed the issue of filling the position of Supervisory Board Chairman, in particular, and discussed the selection process for appointing a Management Board member for the Controlling executive division. At the meeting held on December 1, 2017, the Committee discussed the results of the efficiency review performed on the work of the Supervisory Board, the status of the process involved in selecting the new Chairman of the Supervisory Board, and developed a recommendation for a resolution on the definition of a diversity concept for the Management

Board and the Supervisory Board in accordance with the CSR Directive Implementation Act. The Committee also discussed, and passed a resolution on, the next steps to be taken in connection with the selection of a new Chief Controlling Officer.

Corporate Governance

The Management Board and Supervisory Board of Vonovia SE are committed to the principles of good corporate governance. As a result, the members of the Supervisory Board once again looked at the German Corporate Governance Code in the reporting year. On February 21, 2018, the Management Board and the Supervisory Board issued an updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG). The Management Board also reports, including on behalf of the Supervisory Board, on corporate governance at Vonovia in the Declaration on Corporate Governance. Both declarations will be permanently published by the company on its website for perusal.

Audit

After being appointed at the Annual General Meeting on May 16, 2017, to audit financial statements for the 2017 fiscal year, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has duly audited the annual financial statements and consolidated financial statements of Vonovia SE for the 2017 fiscal year as well as the corresponding management report and the accounting on which they were based and has expressed an unqualified opinion thereon. In accordance with Section 317 (4) of the German Commercial Code (HGB), KPMG also assessed the risk early warning system of Vonovia SE.

The auditor has affirmed its independence to the Chairman of the Audit Committee and duly declared that no circumstances exist that could give grounds for assuming a lack of impartiality on its part. The audit assignment was awarded to KPMG AG Wirtschaftsprüfungsgesellschaft by the Chairman of the Audit Committee in line with the Committee's resolution and the choice of auditor made by the shareholders at the Annual General Meeting.

The annual financial statements were prepared by the Management Board in accordance with the German commercial law and stock corporation law provisions including the generally accepted accounting practice. The consolidated financial statements were prepared by the Management Board in accordance with the International Financial Reporting Standards (IFRS), as applied in the European Union, as well as the supplementary provisions applicable pursuant to Section 315e (1) HGB.

For the annual financial statements and the consolidated financial statements, Vonovia SE prepared a combined management report based on the requirements set out in Sections 315, 298 (2) HGB.

Every member of the Supervisory Board received copies of the annual financial statements, the consolidated financial statements and the combined management report and the auditor's report in good time. On the basis of the preliminary examination and assessment by the Audit Committee, about which the Audit Committee Chairman reported to the Supervisory Board, the Supervisory Board has scrutinized in detail the annual financial statements, consolidated financial statements and combined management report of Vonovia SE for the 2017 fiscal year and also considered the Management Board's proposal for the appropriation of profit. The Supervisory Board has observed its duty to review the Non-financial Declaration to be published for the first time in accordance with the CSR Directive Implementation Act.

At the joint meeting on March 5, 2018 with the Audit Committee and at the subsequent Supervisory Board meeting held on the same day, the auditor reported both on their findings including the strategic audit objectives and key audit matters. The strategic audit objectives and the particularly important audit issues or the key audit matters set out in the auditor's report had been defined by the auditor, within the context of the latter's independent mandate, in the second half of 2017 and had already been discussed and agreed upon with the Audit Committee in advance.

In the 2017 fiscal year, the audit focused in particular on the valuation of the German investment properties, the identification and valuation of acquired assets, the debts made in connection with the acquisition of the conwert Group and the assessment of goodwill.

The auditor gave detailed answers to our questions. After an in-depth review of all documentation, we found no grounds for objection. As a result, we concurred with the auditors' findings. On March 5, 2018, we followed the Audit Committee's recommendation and approved the annual financial statements and consolidated financial statements of Vonovia SE as well as the combined management report. The annual financial statements are thus duly adopted.

Dividend

The Supervisory Board considered the Management Board's proposal for the appropriation of profit. It gave particular consideration to the liquidity of the company/the Group, tax-related aspects, financial and investment planning. Following this audit, the Supervisory Board agrees with the proposal set out by the Management Board to be made to the Annual General Meeting namely the proposal that, from the profit of Vonovia SE for the 2017 fiscal year, a dividend of € 1.32 per share or € 640,333,090.32 in total on the shares of the share capital as of December 31, 2017, be paid to the shareholders and the remaining amount be carried forward to the new account or be used for other dividends on shares carrying dividend rights at the time of the Annual General Meeting that go beyond those as of December 31, 2017.

The dividend is paid either in cash or in the form of shares in the company. The shareholders' right to opt for a dividend paid out in shares is communicated separately in a timely manner together with other information, particularly on the number and type of shares.

Personnel

There were no staff changes within the Management Board in the reporting period. On January 17, 2018, we appointed Helene von Roeder to the Management Board to assume the executive division of Gerald Klinck, who, on his own request, will not be extending his contract as Chief Controlling Officer after his departure.

On August 27, 2017, the previous Chairman of the Supervisory Board, Dr. Wulf H. Bernotat, sadly died.

Concluding Remarks

We would like to thank the Management Board, all employees and Vonovia's employee representatives for what was, once again, excellent performance last year.

Bochum, Germany, March 5, 2018

On behalf of the Supervisory Board

Prof. Dr. Edgar Ernst

Corporate Governance Report

In this Declaration on Corporate Governance (also known as the Corporate Governance Report), we report, in accordance with Sections 289a and 315 (5) of the German Commercial Code (HGB) and No. 3.10 of the German Corporate Governance Code (GCGC), on the principles of management and corporate governance. The declaration contains the Declaration on Conformity, information on corporate governance practices, a description of how the Management Board and Supervisory Board work and key corporate governance structures. The corporate governance declaration has been published on the Vonovia website under Investor Relations and does not form part of the management report. Pursuant to Section 317 (2) (4) HGB, the disclosures pursuant to Sections 289 a, 315 (5) HGB are not included in the audit performed by the auditor of the annual financial statements. **http://investoren.vonovia.de**

Fundamental Information

Fundamental Understanding

Corporate governance is the responsible management and supervision of a company. The Management Board and the Supervisory Board are committed to the principles of corporate governance. The principles are the basis for the sustainable success of the company and therefore serve as guidelines for conduct in the company's daily management and business.

Good corporate governance strengthens the trust of our shareholders, business associates, customers, employees and the general public in Vonovia SE. It increases the company's transparency and strengthens our Group's credibility. With balanced corporate governance, the Management Board and the Supervisory Board wish to safeguard Vonovia SE's competitiveness, strengthen the trust of the capital market and the general public in the company and sustainably increase the company's value.

Standards of Corporate Governance

As a major housing company, we are aware of the particular significance of our entrepreneurial actions for society at large. As a result, we are also committed to the general principles of corporate governance as well as all the main aims and principles of the corporate governance initiative of the German real estate industry, which we have been a member of since November 14, 2003. The initiative supplements the corporate governance principles to include housing-specific aspects and is committed to even greater transparency, an improved image and a more competitive real estate sector.

Corporate governance, acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis, is an essential requirement for the Vonovia Group, embracing all areas of the business.

Our corporate culture is founded on transparent reporting and corporate communications, on corporate governance aimed at the interests of all stakeholders, fair and open dealings between the Management Board, the Supervisory Board and employees as well as on compliance with the law.

The Code of Conduct provides the ethical and legal framework within which we act and want to maintain a successful course for the company. The focus is on dealing fairly with each other but also in particular on dealing fairly with our tenants, suppliers, customers and investors. The Code of Conduct specifies how we assume our ethical and legal responsibility as a company and is the expression of our company values.

Information on the Company's Governing Constitution

The designation Vonovia comprises Vonovia SE and its Group companies. Vonovia is a European company (SE) in accordance with the German Stock Corporation Act (AktG), the SE Act and the SE Regulation. Its registered headquarters is in Bochum. It has three governing bodies: the Annual General Meeting, the Supervisory Board and the Management Board. The duties and authorities of those bodies derive from the SE Regulation (SE-VO), the German Stock Corporation Act and the Articles of Association. Shareholders, as the owners of the company, exercise their rights at the Annual General Meeting.

According to the two-tier governance system, Vonovia SE has a Management Board and a Supervisory Board. In the two-tier governance system, the management of business and the monitoring of business are strictly separated from each other. The duties and responsibilities of these two bodies are clearly specified by law in the German Stock Corporation Act.

In accordance with the governing laws, in particular the SE Regulation and the German SE Employee Participation Act (SEBG), the Supervisory Board is only made up of representatives of the shareholders. The highest representative body of the employees is the Group works council. A works council was also set up at the level of Vonovia SE.

The Management Board and Supervisory Board of a company listed in Germany are obliged by law (Section 161 of the German Stock Corporation Act) to report once a year on whether the officially published and relevant recommendations issued by the government commission German Corporate Governance Code, as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been, or will not be, applied and, if not, why.

The Management Board reports in its declaration, also on behalf of the Supervisory Board, on important aspects of corporate governance pursuant to Section 289a of the German Commercial Code (HGB) and No. 3.10 of the German Corporate Governance Code (GCGC).

Declaration of Conformity to the GCGC Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of Vonovia SE declare that the company complies with the recommendations made by the "Government Commission on the German Corporate Governance Code (GCGC)" as published on February 7, 2017, and since the last Declaration of Conformity in September 2017, in the official section of the federal gazette by the German Federal Ministry of Justice subject to the exceptions set out below, and that it will continue to do so in the future:

> Pursuant to Section 5.3.2 (3) (3) GCGC, the Chairman of the Supervisory Board is not supposed to be the Chairman of the Audit Committee. Following the departure of the previous Chairman of the Supervisory Board, the Supervisory Board elected the former Deputy Chairman, Prof. Dr. Edgar Ernst, as Chairman on September 7, 2017 and with effect until the Annual General Meeting to be held in May 2018. Prof. Dr. Edgar Ernst is also the Chairman of the Audit Committee. As Prof. Dr. Edgar Ernst is the member of the current Supervisory Board with the greatest specialist expertise in the field of accounting, he is to remain the Chairman of the Audit Committee. As a result, Vonovia has made the provisional decision not to comply with the recommendation. Following the constitution of the new Supervisory Board after the upcoming elections of all Supervisory Board members scheduled for the Annual General Meeting in May 2018, the plan is to comply with Section 5.3.2 (3) (3) GCGC again.

The company's Supervisory Board and Management Board would like to point out that the company has made a public takeover offer to the shareholders of BUWOG AG, Vienna/Austria, for the acquisition of all shares in BUWOG AG. If the takeover offer is successful, the company will become a majority shareholder in BUWOG AG before the end of the first quarter of 2018. If the transaction is successful, the two Boards expect that, due to the expected work involved in the first-time consolidation of BUWOG AG in the company's consolidated financial statements, it will not be possible to make the financial information for the second, and possibly also for the third, quarter of 2018 available to the public within 45 days of the end of the reporting period as necessary in accordance with Section 7.1.2 (3), 2nd half-sentence GCGC. As soon as this prospect appears likely, the Management Board and Supervisory Board will publish a deviation from the recommendation set out in the German Corporate Governance Code (GCGC) in an updated Declaration of Conformity.

Shareholders and Annual General Meeting

Shareholder Information: Shareholders can obtain full and timely information about our company on our website and can access current as well as historical company data. Among other information on its website, Vonovia regularly posts all financial reports, important information on the company's governing bodies (including resumes), its corporate governance documentation

(Declaration of Conformity), information requiring ad hoc disclosure and press releases.

Directors' Dealings: Information on directors' dealings notifiable pursuant to Article 19 of the Market Abuse Regulation is published by Vonovia without delay in accordance with the Regulation and is made available on the company's website.

Financial Calendar: Shareholders and interested members of the financial community can use a regularly updated financial calendar on the website to obtain information on publication, conference and information dates, roadshows and the timing of the Annual General Meeting early on.

Annual General Meeting and Voting: The Annual General Meeting decides in particular on the appropriation of profit, the ratification of the acts of the members of the Management Board and of the Supervisory Board, the appointment of the external auditor, amendments to the Articles of Association as well as specific capital measures and individually elects the shareholders' representatives to the Supervisory Board.

Our shareholders can exercise their voting rights at the meeting or instruct a proxy of their choice or one of the proxies provided for that purpose by the company. Our shareholders are also able to submit a postal vote. The details regarding the postal voting procedure are in the respective shareholder's invitation to the Annual General Meeting.

The entire documentation for the Annual General Meeting and opportunities to authorize, and issue instructions to, the company's proxies as well as to submit a postal vote are available to shareholders at all times on the Vonovia website.

There are no plans to allow the Annual General Meeting to be followed on the Internet.

Remuneration Paid to Executive Bodies: The remuneration paid to the Management Board and the Supervisory Board is set out in detail every year in the combined management report in line with the corporate governance requirements. The basic principles of the remuneration system for Management Board members have been approved by the Annual General Meeting. The Chairman of the Supervisory Board will submit subsequent changes to the Annual General Meeting.

Supervisory Board

Duties and Responsibilities

The Supervisory Board appoints, supervises and advises the Management Board and is directly involved in decisions of fundamental importance to the company. The Supervisory Board performs its work in accordance with the legal provisions, the Articles of Association, its rules of procedure and its resolutions. It currently consists of eleven members. Proposals for twelve members to be elected for four fiscal years are to be presented to the 2018 Annual General Meeting again due to the expiry of the term of office. The Supervisory Board continuously oversees the management and advises the Management Board.

The Supervisory Board examines and adopts the annual financial statements and the management report. It assesses and confirms the proposal for the appropriation of profit, as well as the consolidated financial statements and the combined management report, on the basis of the report prepared by the Audit Committee. The Supervisory Board reports in writing to the shareholders at the Annual General Meeting on the result of its examination.

The Chairman of the Supervisory Board is an independent member. The same applies to the Chairmen of the committees which the Supervisory Board has set up.
→ p. 19 et seq.

The Chairman of the Supervisory Board chairs the meetings and coordinates communications. The members of the Supervisory Board generally have the same rights and obligations. Supervisory Board resolutions are above all passed in the Supervisory Board meetings but also, if necessary, using the written procedure or by other communication means. At least two meetings are held every six months. In addition, if necessary and on the basis of the rules of procedure of the Supervisory Board, a meeting of the Supervisory Board or its committees can be convened at any time at the request of a member or the Management Board. In the 2017 fiscal year, the Supervisory Board had nine meetings – including conference calls – and made decisions using the written procedure in two cases.

The Supervisory Board is composed in such a way that its members as a group have the knowledge, ability and specialist experience required to properly complete its tasks and are all familiar with the real estate industry as the sector in which the company operates. Each Supervisory Board member shall ensure that he or she has enough time to carry out his or her mandate.

At least one member of the Supervisory Board has expertise in the fields of accounting or auditing (Section 100 (5) of the German Stock Corporation Act).

Two Supervisory Board members, who are also members of the management board of a listed company, do not have any other supervisory board mandates, over and above the Supervisory Board mandate at Vonovia, at non-Group listed companies or on supervisory bodies of non-Group entities that make similar requirements. At the time at which this declaration was prepared, no Supervisory Board members exercised directorships or advisory tasks for important competitors of the company (see below Conflicts of Interest).

The Supervisory Board performs regular efficiency reviews that are performed, in alternation, as self-evaluations using a written survey conducted among the members and with the involvement of an independent and experienced moderator in the form of personal interviews.

Supervisory Board Committees

The Supervisory Board sets up an Executive and Nomination Committee, an Audit Committee and a Finance Committee from among its members. Further committees are formed as required. Committees are made up of at least four members of the Supervisory Board. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition, they pass resolutions on behalf of the entire Supervisory Board. The basis for committee work was the transfer of tasks and responsibilities within the scope of the legal provisions.

The **Executive and Nomination Committee** is made up of the Chairman of the Supervisory Board and four other members to be elected by the Supervisory Board. The Chairman of the Supervisory Board is the Chairman of the Executive and Nomination Committee. The tasks of this committee are, in particular, to prepare the appointment of Management Board members, to advise on the remuneration system, to assign responsibilities and to decide in cases of legal and loan transactions with members of the Management Board and conflicts of interest.

The Supervisory Board appoints one of the members of the **Audit Committee** as the Chairman of the Audit Committee. When electing the committee members, the Supervisory Board shall ensure that the Chairman of the Audit Committee has specialist knowledge and experience in the application of accounting principles and internal control processes. The Committee Chairman should be independent and not be a former member of the company's Management Board whose appointment ended less than two years before their appointment as Chairman of the Audit Committee. The Supervisory Board Chairman is not supposed to hold the position of Audit Committee Chairman (please refer to the Declaration of Conformity).

The Audit Committee handles, in particular, the monitoring of the accounting process, the effectiveness of the internal control system, risk management system and internal audit system, the audit of the annual financial statements and – unless another committee is entrusted therewith – compliance.

The Audit Committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if applicable, the consolidated financial statements) and, in place of the Supervisory Board, reaches the agreements with the auditor (in particular the issuing of the audit mandate to the auditor, the determination of strategic audit objectives and the fee agreement). The Audit Committee takes suitable action to determine and monitor the independence of the auditor. In place of the Supervisory Board, the Audit Committee adopts resolutions on the approval of the contracts with the auditor on additional, non-audit-related consultancy services, insofar as, according to corporate governance procedures for the Management Board, these contracts require approval.

The **Finance Committee**, which consists of the Supervisory Board Chairman or the latter's Deputy Chairman and four other members, prepares the resolutions of the Supervisory Board on the following matters:

a) Financing and investment principles, including the capital structure of the Group companies and dividend payments

b) Principles of the acquisition and disposal policies, including the acquisition and disposal of individual shareholdings of strategic importance

In place of the Supervisory Board, the Finance Committee adopts resolutions in particular on general guidelines and principles for the implementation of this financial strategy, including the handling of currency risks, interest, liquidity and other financial risks, the handling of credit risks and the implementation of external financing principles as well as on important transactions regarding the acquisition and disposal of properties and shares in companies as well as on the acquiring of financing.

Management Board

Duties and Responsibilities

The Management Board members are jointly accountable for independently managing the company in the company's best interests while complying with the applicable laws and regulations, the Articles of Association and the rules of procedure. In doing so, they must take the interests of the shareholders, the employees and other stakeholders into account.

The Management Board is monitored and advised by the Supervisory Board. It has adopted the rules of procedure in consultation with the Supervisory Board. The Management Board has a Chairman who coordinates the work of the Management Board and represents it in dealings with the Supervisory Board. The Chairman of the Management Board has the right to veto Management Board resolutions.

The members of the Management Board are Rolf Buch (Chairman) as well as Klaus Freiberg, Dr. Stefan A. Kirsten and Gerald Klinck. Further information can be found in the 2017 Annual Report. → p. 6 The decision has been made not to establish any Management Board committees.

The Management Board informs the Supervisory Board regularly, in due time and comprehensively in line with the principles of diligent and faithful accounting in accordance with the law and the reporting duties specified by the Supervisory Board.

The Management Board develops the company's strategy, coordinates it with the Supervisory Board and implements it. The Management Board ensures that all statutory provisions and the company's internal policies are complied with. The Management Board also ensures appropriate risk management and risk controlling in the company.

It submits the corporate planning for the coming fiscal year to the Supervisory Board as well as the midterm and strategic planning. The Management Board informs the Supervisory Board Chairman without delay of important events that are essential for the assessment of the situation and the development of the company or for the management of the company as well as of any shortcomings that occur in the monitoring systems.

The Management Board requires the approval of the Supervisory Board for certain important transactions. Transactions and measures that require Supervisory Board approval are submitted to the Supervisory Board in good time.

The Management Board members are obliged to disclose any conflicts of interest to the Supervisory Board without delay and to inform the other Management Board members accordingly.

The Management Board members are subject to a comprehensive non-competition obligation. Management Board members may only take up sideline activities, in particular positions on supervisory boards outside the Group, with the approval of the Supervisory Board.

Important transactions between the company, on the one hand, and the Management Board members as well as persons they are close to or companies they have a personal association with, on the other hand, require the approval of the Supervisory Board. Reference is made to such relations in the remuneration report.

Recruitment of Members of Executive Bodies

In accordance with the German Corporate Governance Code, the Supervisory Board and the Management Board must be composed in such a way that these bodies/their members as a group have the knowledge, ability and specialist experience required to properly complete their tasks. The requirements were extended and set out by law with the entry into force of the CSR Directive Implementation Act. At the meeting held on December 1, 2017, the Supervisory Board developed further details of the criteria and objectives for recruiting individuals to the Management and Supervisory Boards, taking the abovementioned requirements into account, and passed the following new resolution:

Recruitment of Members of the Supervisory Board

Composition: As a listed company that is not subject to co-determination, the Supervisory Board of Vonovia SE is to include twelve members, an appropriate number of whom are to be independent within the meaning of the Code. All members should have sufficient time available to perform the duties associated with their mandate with due regularity and care.

When proposing candidates to fill new Supervisory Board positions to the Annual General Meeting, the Supervisory Board should have performed an extensive review to ensure that the candidates standing for election meet the corresponding professional and personal requirements (see below) and must disclose the candidates' personal and business-related relationships with the company, the governing bodies of the company and any shareholders with a material interest in the company. Shareholders are deemed to hold a material interest if they hold more than 10% of the voting shares in the company, either directly or indirectly.

Other general criteria governing composition include:
> No more than two former members of the Management Board shall be members of the Supervisory Board.
> Supervisory Board members shall not exercise directorships or similar positions or advisory tasks for important competitors of the company.
> If a (designated) member belongs to the management board of a listed company, this member shall not accept more than a total of three supervisory board mandates in non-group listed companies or on supervisory bodies of non-group entities that make similar requirements.
> The standard limit for length of membership on the Supervisory Board has been set at a maximum of 15 years.
> The age limit has been set at 75 at the time of election to the Supervisory Board.

Skills profile: The Supervisory Board of Vonovia SE should be composed so as to ensure qualified supervision of, and provision of advice to, the Management Board. The candidates nominated for election to the Supervisory Board should be able, on the basis of their knowledge, skills and professional experience, to perform the duties of a Supervisory Board member of a listed real estate company that is active on the international capital market.

In terms of their personality, the candidates nominated for election should show integrity, professionalism and commitment. The aim is to ensure that the Supervisory Board as a whole offers all of the knowledge and experience that the Group considers to be important for ensuring Vonovia's operational and financial further development.

Independence: The Supervisory Board shall include what it considers an adequate number of independent members. Material conflicts of interest that are not merely of a temporary nature, e.g., arising from functions on executive bodies or advisory roles performed at the company's major competitors, should be avoided. A Supervisory Board member is, in particular, not to be considered independent if they have personal or business relations with the company, its bodies, a controlling shareholder or a company associated with such a shareholder that may cause a substantial and not merely temporary conflict of interest.

Diversity: When nominating candidates for election, the Supervisory Board should also take diversity into account. In accordance with the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in Privatwirtschaft und im öffentlichen Dienst), the Supervisory Board should comprise at least 30% women and 30% men. In addition, at least one woman should be a member of the Nomination Committee. Vonovia's Supervisory Board should meet both criteria.

When assessing potential candidates for reelection or to fill a Supervisory Board position that has become vacant, qualified women should be included in the selection process and given appropriate consideration when the nominations are made.

Target Achievement: The objectives regarding the composition of the Supervisory Board set out above have been met: There are four female members of the Supervisory Board (33%). Hildegard Müller, Clara-Christina Streit and Dr. Ariane Reinhart are members of the Executive and Nomination Committee. The Supervisory Board includes an appropriate number of independent members. In the Supervisory Board's opinion, all eleven members of the Supervisory Board are independent within the meaning of No. 5.4.2 of the Code.

Recruitment of Members of the Management Board

In accordance with the German Corporate Governance Code, the Management Board is responsible for managing the company in the best interests of the company, meaning that it considers the needs of the shareholders, the employees and other stakeholders, with the objective of sustainable value creation. The Management Board develops the strategy for the company, agrees it with the Supervisory Board and ensures its implementation. The Management Board ensures that all provisions of law and the company's internal policies are complied with and endeavors to achieve their compliance by the group entities (compliance). The Management Board is also responsible for ensuring appropriate risk management and risk control and, when filling management positions, must take the diversity principles into account in accordance with the objectives that have been set internally.

Composition: In accordance with the Articles of Association, the Management Board of Vonovia SE consists of at least two members. The Supervisory Board appoints the Management Board members for a term of office of up to six years, after which members can be reappointed for up to six further years in each case. The Supervisory Board can appoint a Chairman of the Management Board and a Deputy Chairman of the Management Board.

The decisions made by the Supervisory Board on the composition of the Management Board should be based on a careful analysis of the existing and future challenges facing the company.

The Management Board of Vonovia SE should be composed so as to ensure that, as the management body, it can perform the duties set out above reliably and in full. When taken as a whole, it should combine all of the knowledge and experience required to ensure that the Group can pursue its operational and financial objectives in an effective and sustainable manner in the interests of the shareholders and other stakeholders.

While membership of the Management Board is not limited to a certain period of time, the contract of employment of a Management Board member ends when the member turns 67 at the latest.

Skills profile: Newly appointed Management Board members should be able, on the basis of their knowledge, skills and professional experience, to reliably perform the duties assigned to them in a listed real estate company that is active on the international capital market. In addition to having good professional and fundamental general qualifications, they should also show integrity, professionalism and commitment.

Independence: The Management Board should perform its management duties in a manner that is free of any conflicts of interest. Functions on executive bodies or advisory roles performed at major competitors of the company should be avoided.

Diversity: When looking for candidates to fill a Management Board position that has become vacant, the Supervisory Board should include qualified women in the selection process and give them appropriate consideration. Gender should be irrelevant when it comes to filling Management Board positions. The Supervisory Board has set a target of at least 20% women on the Management Board, to be met by December 31, 2021. For the two levels of management below the Management Board, the target for the proportion of women comes to 30%.

Target Achievement: At the time at which this declaration was made, the targets set out above for the composition of the Management Board had not been met in full. The Management Board consists of four male members who are able to manage the Group appropriately on the basis of their experience and skills. At the time at which this declaration was made, the first level of management below the Management Board comprises 17.6% women. The aim is to have achieved the new target of 30% by December 31, 2021. At 30.8%, the proportion of women set by the Management Board for the second level of management below the Management Board has already been met.

Cooperation Between the Management Board and the Supervisory Board

The Management Board develops the strategy of the company in cooperation with the Supervisory Board and discusses the current status of its implementation with the Supervisory Board at regular intervals. Furthermore, the Management Board regularly informs the Supervisory Board in written or verbal reports of topics including the development of business and the situation of the company. In this way, the Supervisory Board receives detailed documents from the Management Board regularly and without delay on the economic development and the company's current situation as well as the half-yearly risk management and compliance reports, that deal with the most important risks for the business of Vonovia SE, as well as compliance management. On the basis of these reports, the Supervisory Board monitors the company's management by the Management Board, as well as via its committees where particular powers are delegated to these committees. The Supervisory Board meets on a regular basis without the Management Board if personnel matters relating to the Management Board are to be discussed.

Avoidance of Conflicts of Interest

During the fiscal year, the only conflicts of interest of Management Board or Supervisory Board members, which are to be reported immediately to the Supervisory Board, related to the Supervisory Board's decision to make a takeover offer to the shareholders of BUWOG AG; Vienna/Austria. A member of the company's Supervisory Board, who is also a shareholder in BUWOG AG, did not take part in the consultation or decision-making processes that took place on December 1, 15 and 17, 2017. There was no need to discuss or make decisions on legal matters, in particular lending transactions with members of executive bodies or individuals related to them.

Accounting and Financial Statement Auditing

The Annual General Meeting selected KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for the annual financial statements and consolidated financial statements. In the audit assignment awarded to the auditor of the annual financial statements by the Audit Committee, an agreement has also been reached on adherence to the provisions set out in No. 7.2.1 (2) and 7.2.3 GCGC. We prepare the annual financial statements of Vonovia SE in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) to be applied in the EU. In addition, we prepare a combined management report as required by the German Commercial Code and the German Stock Corporation Act (AktG). The Management Board is responsible for financial accounting. The Supervisory Board examines and adopts or approves the annual financial statements, the consolidated financial statements and the combined management report.

In addition to our annual financial statements, we also prepare interim statements for the first and third quarters, as well as an interim financial report for the first half-year in accordance with the German Securities Trading Act.

Both the interim statements and the interim financial report are discussed by the Audit Committee of the Supervisory Board in consultation with the Management Board before they are published.

Under German stock corporation and commercial law, there are special requirements for internal risk management that apply to Vonovia. Therefore, our risk management system covers risk inventory, analysis, handling and elimination. In accordance with Section 317 (4) of the German Commercial Code applicable to listed companies, KPMG assesses in its audit the risk early warning system as part of the risk management system.

Furthermore, we maintain standard documentation of all our internal control mechanisms throughout the Group and continually evaluate their effectiveness. Our auditor has not reported any material weaknesses in the accounting-related internal control system detected in its audit to the Management Board and the Supervisory Board.

In the combined management report, we provide comprehensive information on the main features of the internal control and risk management system with regard to the accounting process and the Group accounting process in accordance with our reporting duties pursuant to Sections 289 (5), and 315 (2) No. 5 of the German Commercial Code.

Vonovia SE on the Capital Market

Positive Developments on the International Capital Markets

The international capital markets can look back on a good 2017.

The DAX closed the year at 12,917.64 points, up by 12.5% year-on-year, significantly exceeding the EuroStoxx50, which climbed by around 6.5%. The U.S. leading indices exceeded the performance of both the DAX and the EuroStoxx50: the Dow Jones index rose by around 25.1% in 2017 to close the year at around 24,719 points. The Nasdaq Composite gained approximately 28.2% in 2017, while S&P 500 increased by around 19.4% during the course of the year. The Nikkei also made gains of 19.1% in 2017.

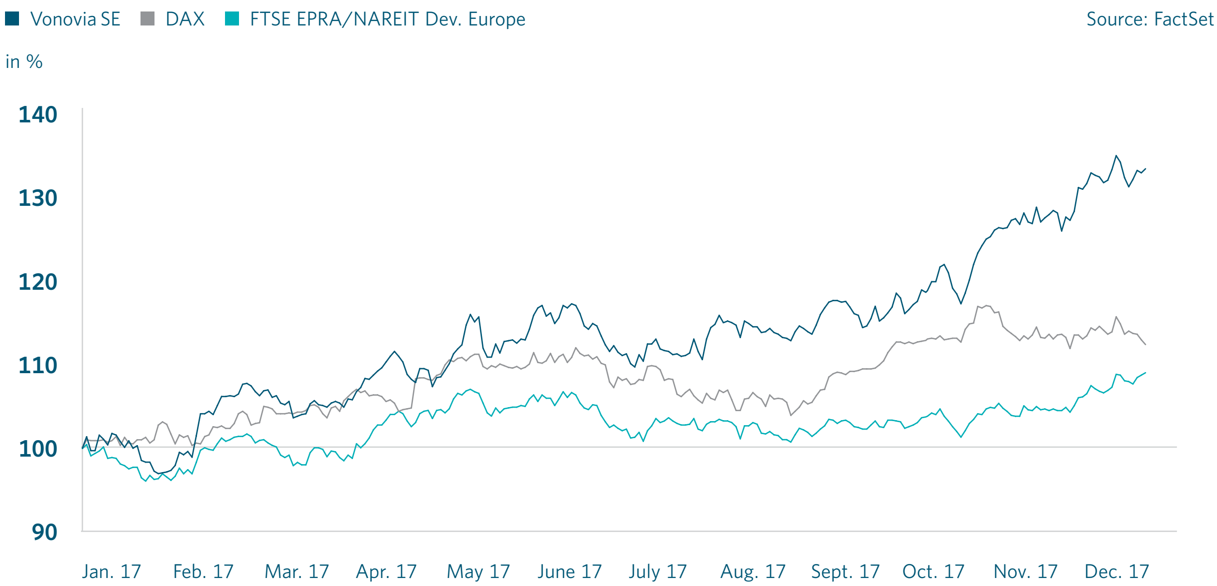
Strong Share Price Development

Vonovia's shares significantly outperformed the German leading index, the DAX, in the course of the year. In the 2017 fiscal year, Vonovia's share price rose by approximately 33.9%, climbing from a closing price of € 30.91 on December 31, 2016, to a closing price of € 41.39 on December 29, 2017.

Vonovia's shares benefited not only from positive business development but also from the sustained low interest rate environment and the high demand for German real estate stocks. On December 18, 2017, the day on which Vonovia SE announced the planned takeover of BUWOG, Vonovia's shares rose to a new all-time high of € 41.88.

We believe that the environment – which is characterized by an imbalance between high demand for, and a short supply of, affordable housing in urban locations, the ongoing environment of low interest rates and a continued keen interest in the German real estate sector – remains positive.

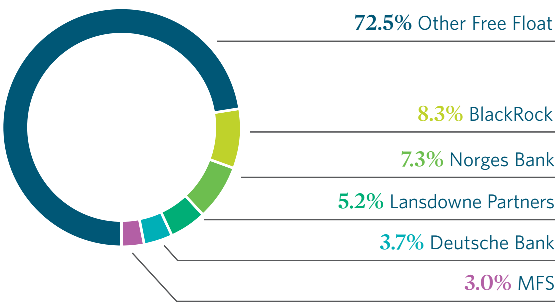
Share Price Performance of Vonovia's Shares



Vonovia's market capitalization amounted to € 20.1 billion at the end of the year.

Shareholder Structure

Major Shareholders (as of December 31, 2017)



Based on the German stock exchange's definition of free float, only the interest held by Norges Bank (Ministry of Finance on behalf of the State of Norway) does not count towards the free float. This means that 92.7% of Vonovia's shares were in free float on December 31, 2017. In line with Vonovia's long-term strategic focus, the majority of its investors have a similarly long-term focus. The company's investors include pension funds, sovereign wealth funds and international asset managers. There is also a large number of individual shareholders.

2017 Annual General Meeting

The Annual General Meeting of Vonovia SE was held in Bochum on May 16, 2017; 66.88% of the share capital was represented. In the presence of around 350 guests and shareholders, all of the agenda items were carried by a large majority, including the proposal to distribute a dividend of € 1.12 per share for the 2016 fiscal year. This corresponds to an increase of 19% year-on-year and to a dividend yield of 3.6% based on the closing price of € 30.91 on the reporting date of December 31, 2016. The cash dividend for the 2016 fiscal year was paid out from a contribution account for tax purposes. It was therefore paid out to shareholders without capital gains tax or the solidarity surcharge being deducted. Vonovia also offered a stock dividend as an alternative option to a cash dividend for the first time. This meant that every shareholder had the choice of receiving the dividend in cash or opting for the receipt of new shares in order to benefit more strongly from the future increase in value of the company. During the subscription period, 49.86% of shareholders opted for the stock dividend as opposed to the cash dividend. As proposed, the Annual General Meeting also resolved to replenish authorized capital. Doing so will fully ensure the continued financial flexibility of the company by comprehensively strengthening the equity of the company, as needed. In 2018, Vonovia also plans to move into the new corporate headquarters in Bochum. In connection with this, the Annual General Meeting approved the move of the registered office and the related shift to the Bochum local court as the responsible registry court.

Committed Investor Relations Activities

Vonovia SE is committed to transparent, ongoing dialog with its shareholders and potential investors. In the 2017 fiscal year, Vonovia participated in a total of 22 investors' conferences and 15 roadshows in key financial centers in Europe, North America, Asia and South Africa. In addition, Vonovia took part in various investor forums and numerous one-on-one meetings and conference calls were held with investors and analysts to keep them informed of current developments and special issues.

Our annual Capital Markets Day was held on June 19 and 20, 2017, and attracted 50 external participants. The exceptional choice of venue, the Vonovia Ruhrstadion soccer stadium in Bochum, highlighted the company's ties to its home city and reinforced Vonovia's innovative approach. The conference program gave the participants an in-depth insight into the company's operating business. In addition to a management presentation, the focus was on the topics of "modular construction," "operational platform and customer service," as well as the Value-add Business segment (property-related services). The presentations were rounded off by visits to Dortmund, where Vonovia had just completed new apartments using series construction, and to the Duisburg customer service center, where the participants were able to convince themselves of Vonovia's professional operations on the basis of state-of-the-art technology.

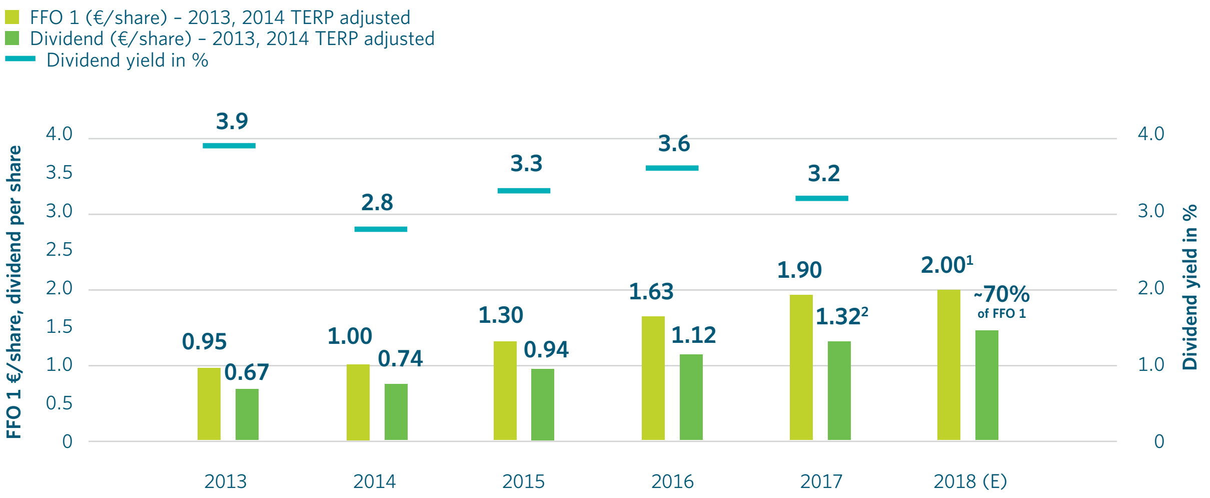
The Investor Relations team also organized and carried out numerous property tours for interested investors and analysts on location with colleagues from the operational areas of the company. The aim of these events was to provide the participants with firsthand insight into Vonovia's real estate portfolio and processes. Investor Relations also held detailed presentations on Vonovia and the situation on the German residential real estate market at informational events for private shareholders.

In 2018, we will continue to communicate openly with the capital market. Various roadshows, conferences and participation in investor forums have already been planned. Information can be found in the Financial Calendar on our Investor Relations website. http://investoren.vonovia.de

Positive Analyst Assessments

At present, 30 international analysts publish studies on Vonovia on a regular basis (as of December 31,2017). The average target share price was € 42.69 as of December 31, 2017. Of these analysts, 65% issued a "buy" recommendation, with 35% issuing a "hold" recommendation and no analysts recommending that investors sell the company's shares. Four brokers have currently

Attractive Dividend



1 Average forecast value
2 Planned dividend proposal for the 2018 AGM

Successful Development of Vonovia's Shares Over a Period of Several Years

	2013	2014	2015	2016	2017
Annual closing price (€)	17.13*	26.75*	28.55	30.91	41.39
High (€)	18.79*	26.75*	33.23	36.81	41.88
Low (€)	16.75*	17.13*	24.19	24.99	29.96
No. of shares as of Dec. 31	224,242,425*	271,622,425*	466,000,624	466,000,624	485,100,826
Market cap as of Dec. 31 (€ billion).	3.84*	7.3*	13.3	14.4	20.1
Average transaction volume per day (VWAP in € million)	17.9*	20.8*	28.8	31.2	35.2
Dividend per share (€)	0.67*	0.74*	0.94	1.12	1.32
Dividend yield (%)	3.9	2.8	3.3	3.6	3.2

* Values are adjusted for TERP
Source: Factset

Share Information

First day of trading	July 11, 2013
Subscription price	€ 16.50
Total number of shares	485,100,826
Share capital in €	€ 485,100,826
ISIN	DE000A1ML7J1
WKN	A1ML7J
Ticker symbol	VNA
Common code	094567408
Share class	Registered shares with no par value
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated market (Prime Standard)
Indices & weight Dec. 31, 2017	DAX (1.8%) | Stoxx Europe 600 (0.2%) | MSCI Germany (1.6%) | GPR 250 World (1.6%) | FTSE EPRA/NAREIT Europe Index (9.0%)

suspended their coverage of Vonovia due to the planned BUWOG takeover.

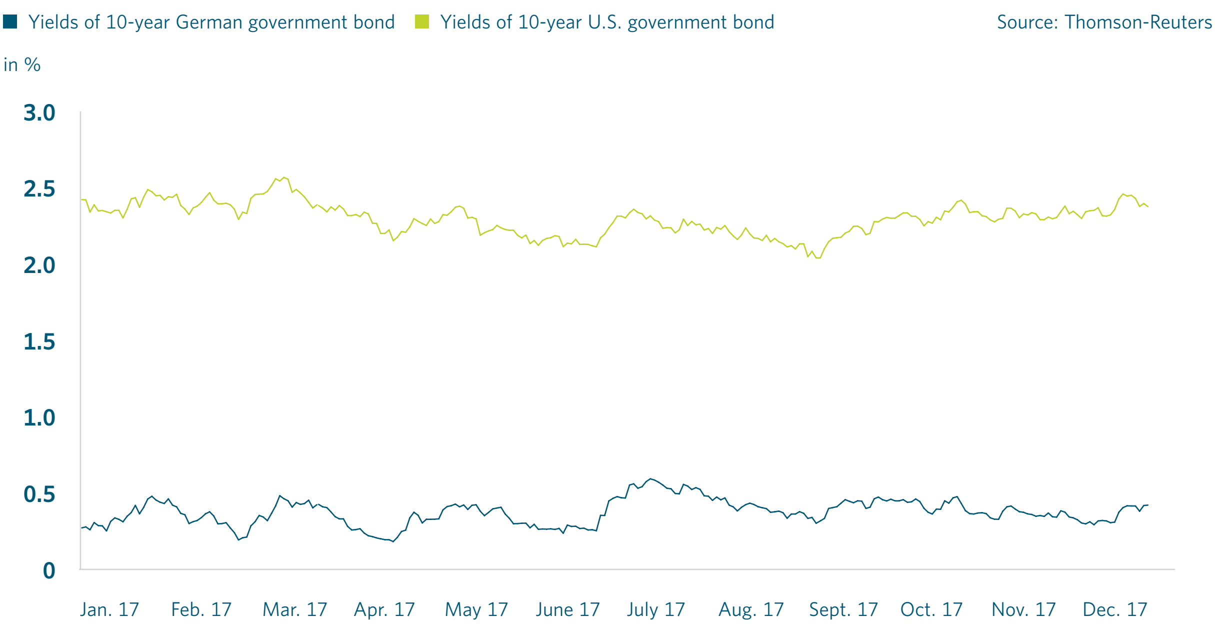
The continuity of our business strategy is also reflected in our dividend policy. Our aim is to distribute around 70% of our FFO 1 to our shareholders. This provides our shareholders with an attractive distribution while also ensuring, in the long run, that the funds we need to maintain our portfolio, for example, remain within the company. Since our IPO in 2013, we have been able to increase our dividend per share by at least 10% every year. As far as the 2017 fiscal year is concerned, we plan to propose a dividend per share of € 1.32 to the Annual General Meeting, which represents an increase of 18% as against 2016.

Financing Environment

In 2017, the international financial markets were characterized by a favorable economic outlook and the expectations of market participants regarding monetary policy. In the euro area, the European Central Bank's decision to continue the securities purchase program until at least September 2018 laid the foundation for a stable interest rate environment on the whole. The yield on ten-year German Government bonds fluctuated in 2017, but without any sustained trend towards higher market interest rates.

In the U.S., the markets were dominated by expectations regarding the planned tax reform, which was imple-

German and U.S. Government Bonds



mented at the end of the year, and by the Federal Reserve's announcement that it would be reducing its total assets. The Federal Reserve's plans mark what is now likely to be the last phase in its bond purchasing program.

Political uncertainty surrounding the North Korea conflict, the ongoing Brexit negotiations or Catalonia's push for independence only played a minor role for market participants with a limited regional impact.

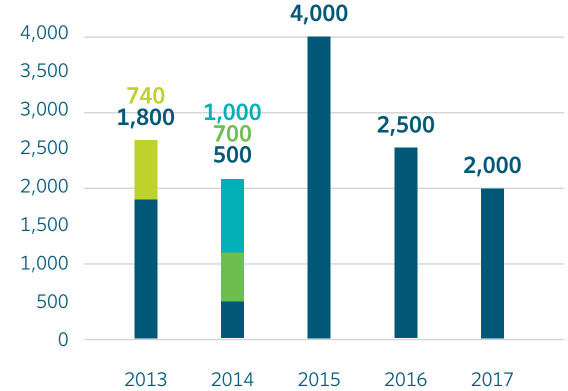
One of the World's Biggest Capital Market Issuers

The rating agency Standard & Poor's has assigned Vonovia a long-term corporate credit rating of 'BBB+' with a stable outlook and a short-term credit rating of 'A-2'. Our first-class credit rating gives us unrestricted access to the international capital markets, on which we were able to establish ourselves within a short period of time. With an average issue volume of € 2.8 billion a year between 2015 and 2017, we rank 11th out of the top 15 euro-investment grade issuers based on analyses performed by Dealogic.

Vonovia's Issue Volume Per Year

€-Bonds/EMTN US$-Bonds Debt Hybrid Equity-Hybrid

Source: Company data



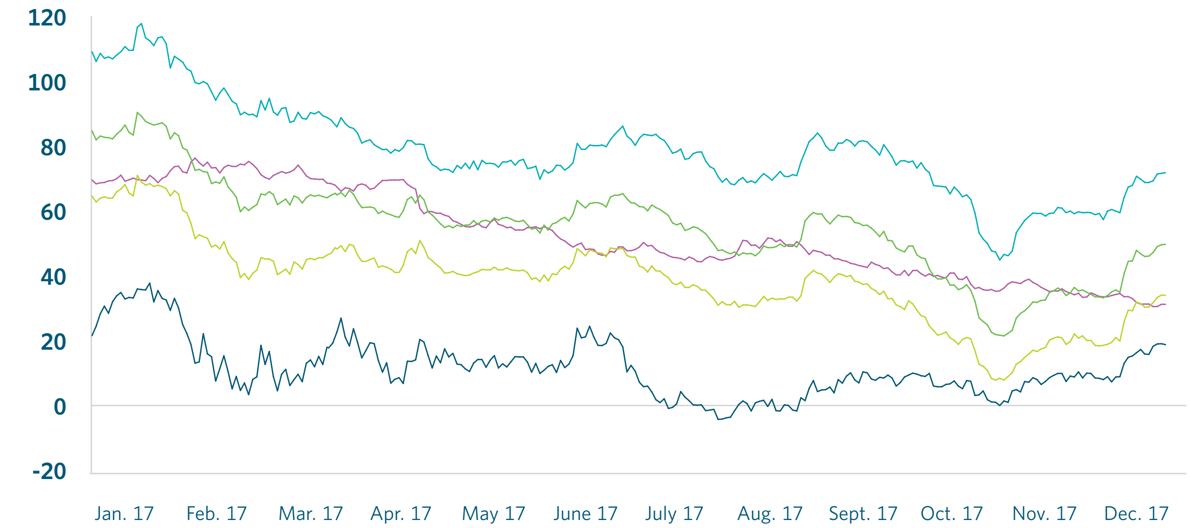
Successful Financing Measures in 2017

The global investment demand among investors remained high due to the positive economic environment and the expansive monetary policy pursued by many central banks. As a result, there was also high demand

Spread Development (in Basis Points)

2 Years 5 Years 7 Years 10 Years iTraxx EU 5y

Source: Thomson-Reuters



for the bonds placed by Vonovia in the past on the secondary market. This was reflected in a further drop in risk spreads. In 2017, Vonovia was able to place an issue volume of € 2.0 billion in total on the primary market (2016: € 2.5 billion) at an extremely attractive volume-weighted average interest cost of 0.91% p.a. (2016: 1.00% p.a.). In order to increase its flexibility as far as refinancing strategies are concerned, Vonovia implemented a commercial paper program with an issue volume of up to € 500 million in 2017. Details on the financing portfolio can be found in the notes to the consolidated financial statements.

Capital Market Outlook

As Vonovia does not have any operating business or business relationships in the UK, Brexit is not expected to have any direct negative consequences for Vonovia. This means that the implications of Brexit for Vonovia are likely to be neutral at the very least.

The reputation of German real estate stocks as a safe haven could be enhanced as a result of Brexit if investors opt to pull capital out of real estate stocks in the UK and seek alternative investment opportunities. This sort of increased demand could actually have a positive impact on the performance of Vonovia's shares.

We concur with a large number of analysts and market participants and expect very receptive borrowing markets and attractive financing conditions to continue in the medium term due to the positive economic outlook and the exceptionally high levels of liquidity. Given the global nature of the borrowing markets, we do not currently expect the ongoing Brexit negotiations to have any impact in this regard either.

With a level of debt that is consistently in the Pfandbrief-eligible range and their investment grade rating, Vonovia's debt instruments will remain a sought-after investment even if liquidity levels drop. We do not expect to see any direct correlation between interest rate developments and earnings given the long maturities of our financing instruments and the steady maturity profile. Rather, it is evident that the supply/demand situation and, as a result, rental development has much more of an impact on earnings. In addition, the results of the Value-add Business are completely unrelated to interest rates.

Combined Management Report

Fundamental Information about the Group

The Company

According to the latest estimates of the Federal Statistical Office, around 82.5 million people are living in at least 41.7 million apartments in Germany. In addition to our basic physiological needs, a roof over our heads is another fundamental human requirement; as well as offering protection and shelter, our home is also an expression of our personal lifestyle.

At the time of the 2011 Census, the proportion of owner-occupied apartments came to around 43%, with rented apartments accounting for around 57%. The vast majority of these apartments are made available by private small-scale landlords. In addition to private small-scale landlords, there are cooperative, public-sector and church landlords in Germany as well as private-sector professional landlords such as Vonovia. The latter provide a total of around 3.2 million apartments.

The real estate industry as a whole plays a key role for the German economy, with real estate, renting and business activities alone contributing 10.8% to gross output in 2017. The real estate industry, within the narrower sense of the term, is home to around 302,000 companies employing a total workforce of approx. 467,000.

In this environment, Vonovia holds and manages a housing stock of around 350,000 apartments in almost all of Germany's attractive cities and regions. The total fair value comes to around € 33 billion, with net assets based on the EPRA definition (EPRA European Public Real Estate Association) coming to approximately € 21 billion. In addition to its own apartments, Vonovia manages around 63,000 apartments for third parties. This makes Vonovia Germany's leading nationwide residential real estate company, albeit with a very low market share due to the highly fragmented nature of the market.

As Germany's largest real estate company, we feel a special responsibility to our customers, but also to society and our shareholders. In order to live up to this, we view ecological and social aspects alongside economic factors as highly important when making our business decisions. We look into developments and trends and engage in comprehensive discussions with various stakeholders.

As part of our business activities, we are also looking increasingly at the situation in entire residential neighborhoods, as this has an impact on the appeal of our apartments for our customers and, as a result, on the value of our residential properties. We use major investments in energy-efficient renovation and modernization to keep our properties up-to-date. We are also responding to the rising demand for senior-friendly accommodation by converting a large number of apartments to meet this demand.

Vonovia's business model is based on two pillars: the nationwide rental of good-quality and, most importantly, affordable living space and the provision of fairly priced property-related services. These property-related services mainly relate to cable TV, bathroom renovations in response to tenant requests, automated meter reading and senior-friendly apartment modernization. This is supported by our craftsmen's and residential environment organization.

As a modern service company, Vonovia focuses on customer orientation and, as a result, on the satisfaction of its customers, namely its tenants. Being able to offer tenants affordable and attractive homes is a prerequisite for the company's successful development. A central service center together with local caretakers and the company's own technical and residential environment organization ensure that our tenants' concerns are attended to in a timely, straightforward and reliable manner. This plays a key role in ensuring that our customers feel that they have good support in their residential environment.

In addition to its successful long-term and modern property management, Vonovia also develops the real estate portfolio through targeted acquisitions and sales. The goals associated with new portfolios acquisitions include strengthening its overall regional presence in Germany, realizing operational and financial economies of scale and optimizing structures. In addition, Vonovia will be using densification and vertical expansion to build an increasing number of new apartments in order to reflect the rising demand for living space due to migration to metropolitan areas.

As one of Germany's leading residential real estate companies, Vonovia maintains close dialog not only with customers, but also with numerous other stakeholder groups that are important for the company's development. These mainly include its employees, investors, suppliers and service providers, as well as social interest groups, including non-governmental and non-profit organizations. Among other things, we also use our sustainability reporting to meet these stakeholders' expectations in terms of information.

In this combined management report, we will, for the first time, be responding to the legislative initiative on non-financial reporting by making a non-financial declaration in a separate chapter. We will be using this chapter to report on the key aspects, namely environmental issues, employee issues, social issues, human rights and measures to combat corruption.

Corporate Structure

The parent company of the Vonovia Group is organized in the legal form of a European company (SE). Vonovia SE is directed by a Management Board, which is responsible for conducting business and developing the Group's strategy. Implementation occurs in close coordination with the Supervisory Board, which is regularly briefed by the Management Board regarding the development of business, strategy and potential opportunities and risks. The Supervisory Board oversees the activities of the Management Board.

The **parent company, Vonovia SE**, performs the function of the management holding company for the Group. In this role, it is responsible for determining and pursuing the overall strategy and implementing the company's goals. It also performs property management, financing, service and coordination tasks for the Group. Furthermore, it is responsible for the management, control and monitoring system as well as risk management.

Vonovia's core operating rental business is currently divided into six **regional business areas**. These are, in turn, split into **business units**, each of which is responsible for an average of around 9,800 housing units on location as part of a decentralized structure. The caretaker, craftsmen's and residential environment organization is also based on a regional structure.

Responsibility for product management, new construction and modernization, acquisition and sales are centralized.

In order to carry out its management functions, Vonovia has established a series of service companies, particularly for commercial and operational support functions, which are centralized in **shared service centers**. By pooling the corporate functions on a uniform management platform, Vonovia achieves harmonization, standardization and economies of scale objectives and the other Group companies thus do not need to perform such functions themselves. This bundling is a prerequisite for the successful digitization of the process chain.

Vonovia SE has its registered headquarters in Germany. Since 2017, its registered office has been in Bochum. The head office (principal place of business) is located at Universitätsstrasse 133, Bochum.

As of December 31, 2017, 350 legal entities/companies formed part of the Vonovia Group. A detailed list of Vonovia SE shareholdings is appended to the notes to the consolidated financial statements.

The management of the business is based on the strategic approaches of the company and is conducted via the three **segments: Rental, Value-add Business and Sales**.

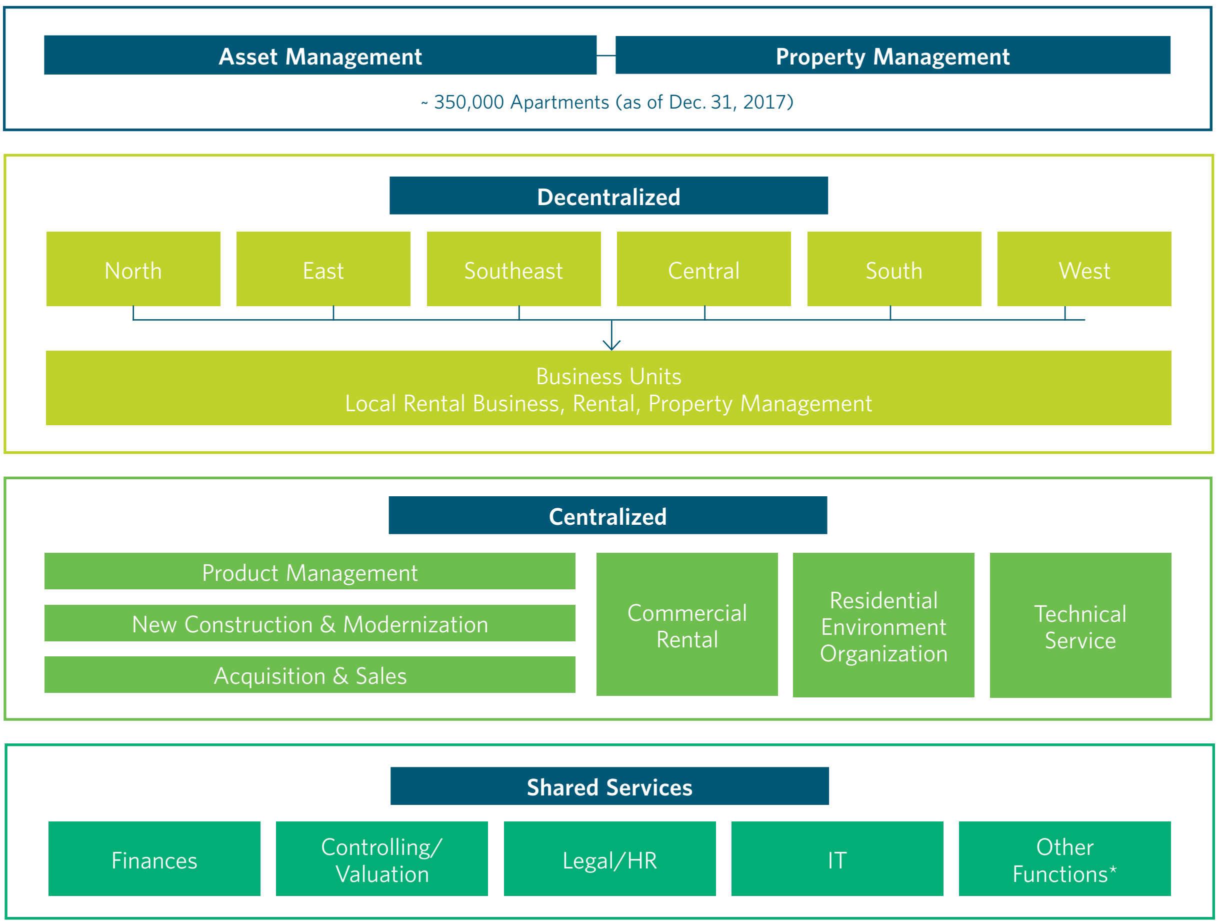
The **Rental segment** combines all of the business activities that are aimed at the value-enhancing management of the properties.

The **Value-add Business segment** bundles all of the customer-oriented services in which Vonovia has expanded its core business. These services have close ties to and/or influence the rental business. The Value-add Business segment also includes the activities performed by the craftsmen's and residential environment organization, our new construction activities, the condominium administration business and insurance.

The **Sales segment** is derived from the Operate sector of our portfolio and bundles all real estate sales from the portfolio. This includes the individual sale of apartments from the Privatize subportfolio and the sale of entire buildings or pieces of land from the "Non-Strategic" and "Non-Core" subportfolios; combined, these will be reported as "Non-Core" sales.

Details on the management of our business can be found in the chapter on our management system.
→ p. 52 et seq.

Corporate Structure



* Other shared services Areas: Audit, Corporate Communications, Central Purchasing, Insurance, Investor Relations, Accounting, Taxes

Societal Megatrends and Overall Conditions on the Residential Real Estate Market

Vonovia's business model is influenced by key environmental developments. The main megatrends are (1) demographic change and migration, (2) climate change and the replacement of fossil fuels with alternative sources of energy as well as (3) social change. (4) digitization is also becoming increasingly important. The real estate industry is also influenced by a large number of statutory regulations.

(1) Demographic change The German population is aging rapidly and presenting the real estate industry with considerable challenges, particularly when it comes to senior-friendly homes. This development is reinforcing the growing demand by single- and two-person households. Migration within Germany, from rural and non-urban regions to urban areas, and immigration to Germany, a trend that has been accelerated by the influx of refugees from global crisis regions, is creating greater demand for suitable and affordable living space in conurbations. More than 30 metropolitan areas or "high-influx cities" are reaping above-average benefits from this migration trend. Magnet behavior, shown primarily by younger age groups, is characterized mainly by the growing importance of living in locations that offer a vibrant urban lifestyle.

(2) Climate change and alternative energies: A sustained, significant reduction in energy consumption and the replacement of fossil fuels with alternative sources of energy are key prerequisites for the success of the energy transition. Buildings account for a large share of total energy consumption. Vonovia is aware of its responsibility in this area, which is why it has launched a program for the energy-efficient refurbishment of its buildings. In addition, Vonovia uses modern and resource-conserving technologies when installing new heating units.

(3) Social change: The process of social change is characterized by growing social disparities, meaning that Vonovia has to engage in active neighborhood management in order to ensure a pleasant residential environment. Efficient portfolio management also plays an essential role in this ensuring that rents remain affordable and that ancillary costs remain low in the long term.

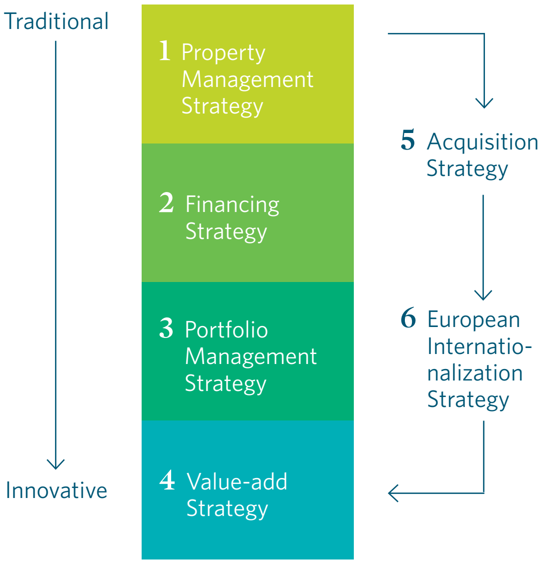
(4) Digitization: Digital transformation is also having an increasing impact on Vonovia's business model. Developments in the field of digitization, i. e., primarily the exponential increase in computing power, networking (Internet of Things (IoT)) and platform solutions, mobile devices, robotic process automation (RPA) and artificial intelligence (AI) are being monitored on an ongoing basis to evaluate the impact on our business model and adapt where appropriate. We evaluate digitization and the benefits that it offers with regard to our processes and our customers. For Vonovia, Smart Real Estate already means the extensive digitization of business processes with a level of sophistication that includes RPA and even extends as far as the first few AI approaches, for example in contract and portfolio data analysis. In our new construction activities, we are using Building Information Modeling (BIM) solutions. Evidence of networking can be found, in particular, within the value chain in our management platform, which facilitates ongoing improvements in how we interact with our customers using corresponding apps and portal solutions, and in the coordination of the local customer service, the craftsmen's and residential environment organization and the commercial support functions. We are also, however, increasingly seeing approaches for smart home building solutions, from smart grid, to assistance systems and predictive maintenance. Vonovia is not pursuing digitization as an end in itself, but rather to boost customer satisfaction, improve the basis on which decisions are made, further develop its business model and processes and reduce the use of resources.

Strategy

A 4 + 1 Strategy Becomes a 4 + 2 Strategy

Our reputation and customer satisfaction remain the cornerstones of our strategy. Since 2013, our strategy has been based on four pillars, to which a fifth, joining

The 4+2 Pillars of our Strategy



strategic approach, our acquisition strategy, was added. These four basic strategic approaches include traditional property management, portfolio management, the financing strategy and the innovative aspect of the Value-add strategy, which was previously known as the “Extension” business. These four basic strategic approaches entail an increasing proportion of innovative elements for the market. The fifth pillar, our acquisition strategy, is designed to strengthen the impact of the first four strategic approaches as the opportunity arises.

This strategy has proved to be extremely successful in previous years. A comparison of the specific situation in Germany with European neighboring countries has shown that Germany has an efficient real estate market. This has led to the decision to use the expertise we have acquired in Germany in other parts of Europe, too. This is why the “4 + 1 strategy” has been turned into a “4 + 2 strategy.” In accordance with this, Vonovia has also concluded a framework agreement with the French SNI Group on joint collaboration. In addition, a public takeover offer for all shares in BUWOG AG, Vienna, was submitted to the Austrian Financial Market Authority on January 18, 2018.

In detail, our 4 + 2 strategy elements can be described as follows:

Property Management Strategy

The core element of the property management strategy is the sophisticated, scalable management platform which benefits primarily from its customer-oriented local business units, the Group-wide bundling of services in shared service centers, the appropriate automated systems designed to deal with mass processes, and cost-efficient operations. The aim of continuous improvements to the management platform is to improve the quality and efficiency of customer service. Mastering complexity is the top priority within this context. The cost per unit (cpu) is our benchmark. We use our management platform to manage the maintenance and modernization process as well as procurement. As part of the further development of the platform and its processes, we keep a constant eye on digitization developments to generate further optimization potential for our platform.

Financing Strategy

The financing strategy pursues various yet complementary goals: These are centered on ensuring adequate, but also optimized, liquidity at all times, a balanced structure and maturity of debt capital, optimization of financing costs and credit rating maintenance. Our aim is to maintain an ideal level of debt, measured in a loan-to-value ratio of between around 40% and 45%.

Thanks to its broad range of equity and debt capital providers and the ‘BBB+’ long-term corporate credit rating awarded to our company by S&P, our company has excellent access to the international debt and equity capital markets. This gives us flexible access to capital based on favorable financing conditions at all times, securing Vonovia’s liquidity on a permanent basis.

This comprehensive access to the international debt and equity capital markets gives a German residential real estate company a clear strategic competitive edge. Recently, this was always evident in the context of our acquisitions and the modernization measures that have been implemented. Without fast and free access to the equity and debt capital markets, it would not have been possible to carry out these measures.

Portfolio Management Strategy

To date, we have split our overall real estate portfolio into the "Strategic" portfolio, which focuses on value-enhancing property management using the "Operate," and "Upgrade Buildings" and "Optimize Apartments" approaches on the one hand and, on the other, into the "Non-Strategic" portfolio, which includes locations and properties that are not absolutely essential to the Group's further strategic development, and the "Privatize & Non-Core" portfolio, which is intended to be sold directly.

In the future, the "Strategic" portfolio will be split into the "Operate" and "Invest" subportfolios. The "Invest" subportfolio will bundle the two former investment subportfolios "Upgrade Buildings" and " Optimize Apartments." This portfolio can capture the much greater variety of Vonovia investment programs more comprehensively. The new structure prevents any overlap and keeps the structure simple at the same time. The "Strategic" portfolio, which represents 92.2% of the overall portfolio in terms of fair value, contains locations that offer development potential that is above average and for which we are pursuing a value-enhancing property management strategy.

In the subportfolio "Operate" of the "Strategic" portfolio, we want to further increase the value of the properties by increasing rents, reducing vacancy levels and carrying out sustainable maintenance measures.

In the "Invest" subportfolio of the "Strategic" portfolio, we are generating additional added value by implementing an extensive program of investments that responds to climate protection concerns and focuses on investments in energy-efficient renovation. Most of our investments are in heat insulation for facades and roofs, as well as in new windows and heating systems. When it comes to investing in our apartments, our measures to improve residential standards are based on our customers' needs. As well as modernizing or renovating bathrooms, installing new flooring and offering modern electrical installations, this also includes the demand for senior-friendly fittings.

The "Sell" portfolio includes locations and properties that are likely to have below-average development potential in terms of rent growth in the medium term and are located in areas that can be described as peripheral compared with Vonovia's overall portfolio and in view of future acquisitions. This means that they do not represent strategic regions either. Properties in this portfolio are reviewed on a regular basis and offer additional sales potential.

The "Non-Core" properties will now be allocated to the "Non-Strategic" portfolio. As a result of the ongoing sales from the two previous "Non-Strategic" and "Non-Core" subportfolios, we felt that it made sense to bundle the remaining properties earmarked for sale, which are not intended for the privatization business, in one "Sell" portfolio.

In the "Privatize" portfolio, our focus is on generating additional added value by selling owner-occupied apartments and single-family houses at a premium compared with their fair value.

The properties in Austria are combined in the "Vonovia Austria" portfolio.

Value-add Strategy

The Value-add strategy supplements our core business to include customer-oriented services, e. g., services that are closely related to and/or influence the rental business. As part of this strategy, we continually evaluate additional service ideas to boost customer satisfaction and add the corresponding services to our offering. Those areas of the Value-add strategy that have already been established successfully largely include the craftsmen's organization, the residential environment organization, multimedia services and metering services. In addition, our services are currently tapping into the area of decentralized energy supplies or home automation.

By ensuring that all technical services, in particular the maintenance and modernization services, are assumed by our own craftsmen's organization, we can make the units more attractive in general and help to boost customer satisfaction. In addition, our residential environment organization consisting of our own employees is responsible for looking after outdoor areas, green spaces, playgrounds and refuse collection points within our properties, particularly in conurbations. We have also established our own caretaker organization in recent years, with employees on hand to provide on-site support for our existing properties. This systematic insourcing allows us to increase the proportion of services we provide ourselves on an ongoing basis, allowing us to ensure that our own employees are on-site in the various property locations. This allows the Group to improve the quality of repair work, react more quickly to customer complaints and ultimately increase customer satisfaction.

We want to continue to create new living space in our portfolio in the future as part of our densification strategy. The first set of new construction projects has already been successfully completed and others are in the planning stages. These also include moves to add extra stories to existing buildings. New construction and vertical expansion projects are realized using a standardized series construction system with the help of pre-configured segments, making them much quicker to complete. Modular construction using pre-configured elements allows standardization and scaling at a low cost, while ensuring reliable project implementation at the same time. We want to implement our projects with our own qualified employees in the future, also in projects relating to new construction and neighborhood development.

Acquisition Strategy

Our Group has been growing in recent years thanks to a large number of acquisitions. Our scalable operational management system allows us to generate economies of scale from the full and swift integration of newly acquired companies and portfolios. Over the past few years, we have been able to prove, time and again, that this strategy pays off.

Making the most of this competitive advantage and using the expertise that has been built up within our organization over time, we are constantly analyzing portfolios that could constitute potential takeover targets. In accordance with our portfolio management strategy and our Value-add strategy, we do not consider acquisitions to be the only way in which to achieve growth, but rather see them as key additional strategic levers that help to strengthen the impact of the core strategies.

We pursue our acquisitions as and when opportunities present themselves. Acquisitions have to be expected to increase value before they are conducted. Such increases in value are generally assessed in terms of strategic suitability, increases in FFO 1 per share and a neutral impact on the NAV per share. Furthermore, an acquisition must not pose any risk to the company's stable 'BBB+' long-term corporate credit rating.

Despite a shorter supply of attractive portfolios, Vonovia remains committed to the implementation of its acquisition strategy as there are still opportunities for successful takeovers and integration measures available.

European Internationalization Strategy

The German real estate market has become a lot more professional over the last 20 years since measures were taken to liberalize it. Most European markets are still organized in a way that resembles the German market 20 years ago. The transfer of expertise is expected to result in professionalization in other European countries. Our experience and expertise as a leading German real estate company serves as a reference in order to generate added value by tapping into other European markets. The potential target markets include those that are not yet as professional as the German real estate market and those that offer attractive overall conditions in terms of rental market growth and household growth.

Our activities on other European markets must not impact on our domestic business and must entail risk potential that can be controlled or limited.

Any activities on other European markets will initially be organized via high-profile and reliable joint venture partners. This will involve making contact with European partner companies, corresponding investors or political institutions in order to help accurately assess investment opportunities, cooperation options and opportunities for market entry. Vonovia will pursue its internationalization strategy as and when opportunities present themselves.

Our Service Promise

Our company has all sorts of relationships with its stakeholder groups. They have expectations of Vonovia that we want to address and meet with the service that we provide as Germany's leading real estate company. This is why we maintain open dialog with our stakeholders and are committed to the principles of sustainable corporate governance – in economic, social and ecological terms. Compliance with the law is just as much a key cornerstone of our corporate culture as our Code of Conduct, which is an expression of our company values and specifies how we assume our ethical and legal responsibility as a company. We have put an adequate compliance management structure in place to ensure compliance with the law and internal regulations (you can find further information in the chapter entitled "Opportunities and Risks" → p. 96 et seq.).

Our customers, the tenants, expect to have an affordable home offering contemporary living standards combined with a corresponding package of services. As far as our responsibility towards the general public is concerned, we want to use the holistic neighborhood development projects in order to create a pleasant living environment. At the same time, we want to secure reliable, adequate yields for our investors and be a reliable partner to our suppliers. Our employees play a key role in helping us to achieve these objectives.

Customer Service

For us, systematically making the highest possible level of customer satisfaction one of the company's top priorities forms the key pillar of top-quality customer service. We want to achieve this primarily by maintaining proximity to our customers and making it convenient for them to contact us.

Customer Satisfaction as a Priority

In addition to the financial performance indicators, customer satisfaction is of particular importance to Vonovia as a non-financial performance factor. Our company's economic success and, in particular, the success of our Value-add strategy are directly linked to the satisfaction level of our customers. We compare our service orientation and customer focus not only with the level of service provided by our competitors within the industry, but also take industries, such as telecommunications or Internet trading, as a benchmark, making the necessary adjustments to reflect our product promise. Since 2016, we have been available to answer all tenant questions and concerns by extending our opening ours from 7 a.m. until 8 p.m. from Monday to Friday and from 8 a.m. until 4 p.m. on Saturdays. In emergencies, our tenants can reach us 24 hours a day, 365 days a year.

We conduct a **customer satisfaction survey** once a quarter. This survey looks at general customer satisfaction aspects, such as image, loyalty and overall satisfaction, as well as issues relating to customer service, maintenance and conversion work. When discussing internal measures, we focus on the CSI (Customer Satisfaction Index) as a control parameter that provides us with important insights into the perceived satisfaction of our customers and their loyalty to our company. Since we started measuring the index, the CSI has improved continuously.

We also use the CSI as a key parameter for further growth in the area of Value-add Services. After all, the more satisfied our customers are with their main product "living space," the more likely they are to purchase additional products such as "bathroom modernization in response to tenant requests" and the more open they are likely to be using Vonovia's services, such as the technical service or the residential environment organization, in general. Satisfaction values observed in other sectors (telecommunications, Internet trading) and for other products show that this area offers further potential that we can exploit. This is why achieving a further gradual increase in the CSI value remains an important internal control parameter of Vonovia.

In addition to the regular surveys, we also conduct ad hoc interviews with our customers at regular intervals for the purposes of internal quality assurance. During these interviews, we gain an insight into how satisfied they are with the manner in which Vonovia handled their last issue. As part of a pilot project, we are also conducting targeted written surveys at a regional level. We aim to use these surveys to allow us to identify even more specific measures for specific regions and the more efficient use of resources in specific neighborhoods, streets or units.

Our regular customer satisfaction surveys cover all of the key stages in the customer relationship: From their first contact with us expressing interest in an apartment to ongoing contact regarding repair reports and their perception of the company as a whole all the way to the the termination of their lease agreement. We want to find out what our customers think of us as a company and what they think of our services. This feedback forms the basis for the ongoing sustainable optimization of our internal processes and further communication with customers.

The company attaches a great deal of importance to customer satisfaction, which is why the survey results have an impact on the variable remuneration of Vonovia managers. This link underscores the close relationship between customer and staff satisfaction, which, from the company's viewpoint, are mutually dependent.

Customer Support Aimed at On-Site Service

Vonovia considers the management and rental of homes to be a local business that requires in-depth knowledge of the specific local market conditions, the company's own properties and customer needs. Local customer service is provided by the Group's local business units. The close interaction of the departments providing local customer service – new rentals, property maanagement, technical service and caretaking – permits high flexibility and fast response times in the on-site handling of customers' inquiries.

In order to become less reliant on external service providers, Vonovia has incorporated on-site services into its offering by establishing its own technical services organization. This brings Vonovia closer to its customers and improves the quality of its customer service.

We have extended our concept based on the on-site presence of our own caretaker and craftsmen's organizations to include the integration and establishment of additional employees responsible for gardening. The Vonovia gardeners now complete the network of employees who are available for tenants on location.

Thanks to integrated collaboration with caretakers, the Vonovia gardeners are in a better position to judge what is required on-site to maintain the residential environment to the tenant's satisfaction and to efficiently and qualitatively develop it in the long term.

On-site rental points are operated by the business units as a point of contact for customers interested in new rentals. These points play a key role in the reletting of units and can be opened and closed in a flexible manner in response to changes in the demand for local marketing.

Comprehensive Availability of the Central Customer Service Team

Although Vonovia provides its services at local level on principle, it has centralized all tasks that can be provided based on uniform quality standards and in a more cost-efficient manner at a nationwide level. The Group's property management platform is characterized overall by a high degree of automation and full integration.

The central customer service center comprises almost 1,000 employees and serves Vonovia customers across Germany from two customer service departments that are identical in terms of both the infrastructure used and the content of the work they perform. The department operates across two locations in Duisburg and Dresden and can be reached using a regional service hotline as well as by email, fax or post. The customer service center acts as a central unit that is responsible for processing all matters relating to lease agreements, energy consumption and ancillary expense bills, among others. This process is managed according to defined service levels in order to ensure that customers receive a swift and binding response to their inquiries. The customer service structure is tailored as closely as possible to suit the needs of our customers and offers multilingual support. Four employees, for example, are currently responsible for the inquiries made by, and the concerns of, Arabic-speaking customers. Our customer service team resolves around 85% of all incoming telephone inquiries directly. At peak times, when lines are busy, customers have the possibility to use "call back" and a member of the customer service team will return their call. The customer service team has a special emergency hotline that is available seven days a week, 24 hours a day, to deal with emergencies.

Tenants can also use the online customer service platform. Since 2011, this platform has enabled them to access their contractual details and additional functions around the clock.

The relaunch of our **customer portal** and the associated integration of "self-services" makes our customer service available around the clock, offering functions that meet the expectations of today's customers in terms of interaction and communication. Customers can use these functions, for example, to download or consult important forms such as lease agreement certificates or ancillary expense bills themselves. As far as new rentals are concerned, a messenger service also allows potential tenants to arrange their own apartment viewing appointments. The plan is to expand these services further in the future. As well as contributing to a higher level of customer satisfaction, this provides additional opportunities for boosting cost efficiency within customer service.

The **repair center** is responsible for scheduling the tenant visits to be made by the local craftsperson. This is done in close cooperation with the nationwide technical units of the on-site technicians' organization. Here, too, Vonovia will be allowing tenants to arrange their own appointments using the self-service function in the future.

The quality of ancillary expense and service charge bills was again attested by ISO 9001:2008 certification by TÜV Rheinland. The certification verifies the efficiency of our processes as well as the high quality of our ancillary expense and service charge bills.

The systematic incorporation of ancillary expense-related matters into the remit of the customer service department also allowed the number of customer complaints to be reduced further last year. At the same time, we have been able to increase tenants' understanding of the ancillary expense bills by communicating with tenants' associations and other institutions in a transparent manner.

Housing-related Services/Value-add Business

As far as our housing-related services are concerned, we used 2017 to continually expand the initiatives we had launched further and also started to explore other offerings for our customers.

Value-add Business

2017 was characterized by the further expansion of **Vonovia Mess Service GmbH (VMSG)**. This company bundles all activities relating to the Group's own meter reading service and the provision of energy services.

At the end of the year, automated meter reading (smart metering) was being used for 80,000 apartments, including the performance of ancillary cost settlement services. This represents a marked increase compared with the 30,000 apartments in 2016. VMSG is also planning to achieve further growth in the coming year. Tenants benefit from automated remote meter reading, rendering the need for them to be at home on "meter-reading day" obsolete. The remote testing of the meter devices at periodic intervals allows device faults to be picked up on early on, meaning that consumption estimates are becoming increasingly unnecessary.

We are tapping into further potential in this segment by investing in **decentralized power generation**. In 2017, we also continued to invest in expanding the photovoltaic activities and established another 47 facilities in Dresden. This expansion gives Vonovia a photovoltaic portfolio of 206 facilities with an installed total output of 5.5 MWp, enough to generate approximately 5,100,000 kWh in renewable energy every year.

The entry into force of the Act on the Promotion of Landlord-to-Tenant Electricity (Mieterstromgesetz) in 2017 created a legal basis for allowing electricity generated locally to be used by our tenants directly on site. We believe that this area offers considerable growth potential and we will continue to increase our efforts to allow our customers to participate even more directly in the energy transition. The first photovoltaic projects for tenant electricity are already being planned for 2018. In addition, the new Vonovia company headquarters will be equipped with a 100 kWp photovoltaic facility. The electricity generated by the facility will be used almost in full to supply Vonovia itself.

27 cogeneration units also allowed electricity to be generated on a decentralized basis. The heat generated in the process is used to heat the drinking water and support heating systems within residential buildings.

One service that is already well-established is Vonovia's **cable TV business**. This business area was launched at the end of 2011 in the form of a strategic partnership with Deutsche Telekom. Further partnerships with other cable network operators followed and mean that, today, Vonovia's multimedia subsidiary already supplies more than 80% of Vonovia's properties with TV signals. These properties feature high-bandwidth telecommunications connections offering Internet bandwidths of 50 Mbit/s and more. We plan to gradually expand the existing service business to include further service offerings.

Modernization in Response to Tenant Request

We are also expanding the support we provide to our older tenants in the Value-add Business: In particular, **senior-friendly apartment conversions** and bathroom renovation in response to tenant request respond to the needs of our tenants. Installing walk-in showers and using tiles that minimize the risk of slipping make the bathrooms more convenient for older customers. Vonovia can buy the materials that it needs in bulk, keeping the costs for tenants low. We installed more than 1,000 bathrooms in response to tenant requests in 2017. Our aim for the coming years is to keep the number of bathrooms installed in response to tenant requests at a consistently high level.

Following the successful conclusion of the pilot phase in the previous year, the **kitchen modernization in response to tenant request** offering was rolled out across the board in 2017. The offering includes customized kitchen modules that are a perfect fit for each type of building as well as added extras that tenants can select themselves. Individual plans can also be taken into account as part of the product standard. If need be, tenants can also select further kitchen renovation measures such as new tiles, wallpapering and painting work, new flooring and the installation of new power and water points in the kitchen. Our customers also benefit here from size-related price advantages that arise through our standardized, efficient processes or in the procurement of materials. In 2017, more than 100 kitchens were ordered in response to tenant requests for the first time. We expect this segment to grow considerably over the coming years.

The issue of **burglary protection** is also relevant for many tenants. Together with the State Criminal Police Agency of North Rhine-Westphalia, we have developed an offering that will significantly increase customer security. The product line includes window and balcony security devices, door protection in the form of reinforced bolts and the installation of resistance class WK2/RC2 apartment entrance doors with or without a digital spyhole. These products are being presented and offered to customers at nationwide roadshows across various locations. Those employed in our technical services organization have undergone extensive training conducted by our cooperation partner, Abus. The plan is to upgrade at least 300 apartments to feature the program's measures in 2018.

Craftsmen's Organization

Vonovia has established its own efficient **craftsmen's organization (Vonovia technical service)** which assumes responsibility for almost all repair and maintenance work for those companies in the Vonovia Group with real estate holdings. This craftsmen's organization realizes a large part of the Upgrade Buildings and Optimize Apartments investment programs or coordinates the use of subcontractors. This allows Vonovia to carry out a large part of the modernization work itself.

As well as saving costs, the purpose of Vonovia's own craftsmen's organization is to ensure that the customer service the Group offers adheres to uniform quality standards and increases these standards on an ongoing basis as well as to exploit the procurement advantages resulting from bundling and standardization. The fact that the Group is able to influence quality and scheduling directly also helps to improve customer satisfaction.

In the 2017 fiscal year, the craftsmen's organization performed around 586,000 (2016: 679,000) smaller repairs and renovated around 40,000 (2016: 40,000) vacant units. As of December 31, 2017, the craftsmen's organization as a whole employed a workforce of 4,943 (2016: 3,765), with 3,640 craftsmen (2016: 2,989) working in 20 locations (2016: 18) across Germany.

Vonovia also ensures compliance with the environmental, health and safety (EHS) regulations by scheduling regular safety inspections that are performed in all units. The specialized department plans the implementation of corrective measures without delay as and when required and monitors amendments to EHS legislation.

Residential Environment

We systematically continued with our insourcing efforts relating to the residential environment in the form of the gardening service, particularly in metropolitan areas, in 2017. More than 600 employees are now responsible for the management and upkeep the outdoor areas. Since 2017, the gardening service has also featured Vonovia's own employees for maintenance and gardening and landscaping projects. This move also allows the company to expand its training opportunities in the residential environment segment. The offices in Dresden, Berlin and Hanover are currently training 20 apprentices in the residential environment organization. Future growth and expertise will be increasingly generated within the company in the field of residential environment as well. The development of standardized residential environment modules (such as play areas and refuse collection points) serves to boost efficiency and generate additional cost advantages. In addition to the higher quality of the services provided, cost savings can also be achieved in this area by bundling and standardizing procurement processes (consumer materials, playground equipments, etc.). Residential environment measures contribute to positive neighborhood development. Increased visual appeal and moves to rid neighborhoods of areas that feel unsafe help to boost customer satisfaction.

The residential environment plays a key role in Vonovia's neighborhood development measures, in particular. Residential environment measures such as the creation of new green spaces and playgrounds as well as moves to design neighborhood centers outside of buildings to provide residents with a place to meet up and communicate can, in the short term, help to increase the acceptance of renovation measures and, in the long term, create real added value for tenants. Particularly in urban environments, the issue of spaces for relaxation is becoming an increasingly important factor in terms of how people assess their quality of life, and will continue to do so in the future.

Projects such as the establishment of communal gardens for tenants, for example, can also make positive contributions to fostering social development, particularly in neighborhoods facing cultural challenges and a difficult environment. In turn, developments like these have proven long-term advantages in terms of property management costs.

Procurement Practices

Organizing the purchase of materials centrally via Vonovia's Procurement department helps to minimize the risk of hazardous or toxic substances being used. In order to protect our employees and tenants alike, we ensure material safety using the systematic TÜV Rhineland Toxic Materials Management System (TOGs®). All information is recorded, evaluated and documented centrally in an online toxic materials register. This provides us with an ideal basis within our own craftsmen's organization for conducting risk assessments and developing operating and handling instructions. We use our contracts, general terms and conditions of purchasing and our Business Partner Code to make sure that our subcontractors adhere to our standards. The aim is to minimize risks. When it comes to modernization measures, for example, we only use selected and tested materials and explicitly subject the companies performing the measures to the obligation to use them. We are also constantly keeping an eye on product innovations in order to create the best product for our customers. In 2017, for example, we planned a facade insulation project using hemp in Dortmund and are increasingly looking at the use of mineral fiber as an insulation material.

Our Business Partner Code for subcontractors and suppliers sets out our expectations regarding integrity, reliability and economically and legally compliant conduct and ensures that our business partners meet these expectations. The Code stipulates, in particular, that corruption must be combated, that illicit employment must be ruled out, that the legal minimum wage must be paid and that valid German regulations on occupational safety, employee rights and the environment must be observed.

In 2018, we will increase efforts to review our guidelines and codes and develop a concept for annual supplier audits in order to also continue systematically reducing potential risks.

Condominium Administration

Vonovia offers condominium administration via its wholly-owned subsidiary Vonovia Immobilien-Treuhand GmbH (VIT). The subsidiary operates in six regional teams distributed across 22 office locations throughout Germany. VIT is one of Germany's biggest property managers. It now also works for external homeowners' associations in order to manage communal property in line with the German Condominium Act (Wohnungseigentumsgesetz) and offers full property management services for self-contained properties.

As of December 31, 2017, VIT supported 2,170 homeowners' associations (2016: 2,240) accounting for 72,483 residential and commercial units (2016: 72,247), 16,442 units (2016: 17,208) of which belonged to Vonovia, and also managed 56,041 units for third parties (2016: 55,039).

In addition to these services, Vonovia offers its customers access to nationwide framework agreements with craftsmen and other service providers at special conditions. VIT also offers services relating to technical building evaluation for external owners.

Maintenance/Modernization/New Construction/ Neighborhood Development

The quality of our portfolio plays a particularly large role in achieving the economic goal of "increasing our company's value." Accordingly, we deal with it intensively in our daily business. Portfolio quality has two facets for us: First, it is important that our properties are in good structural condition; and second, we want to increase the income and value of our portfolio through new construction and holistic neighborhood development projects, as well as acquisitions and sales.

Maintenance and Modernization

Through maintenance, we preserve and take care of our building stock. We include the corresponding expenses under routine and partially long-term planned economic expenses. Continuity helps to prevent order peaks and to distribute capacities evenly.

Modernization measures are long-term and sustainable value-enhancing investments in housing and building stocks. Energy-efficient modernization generally involves improvements to the building shell and communal areas as well as the heat and electricity supply systems. Optimize Apartments measures involve upgrading facilities within a self-contained living area. Where required, the floor plans are altered to meet changed housing needs.

We use modernization and maintenance measures to make ongoing investments in our portfolio. As a leading residential real estate company, we have specific opportunities open to us when it comes to using standardized procedures and materials to achieve economies of scale in our investment activities. Wherever it is appropriate and technically feasible, we use standard products for our maintenance and modernization measures. The volumes we can generate as a result enable us to agree on special conditions with our suppliers, allowing us to either receive higher-quality goods for the same price, or to purchase the material to be used at a lower price. The fact that the construction work is executed exclusively by our technical service also allows us, thanks to the large number of recurring orders, to shape the service processes in such a way that the necessary measures can be performed with shorter construction times and optimum resource use. This saves additional costs or increases revenue because apartments can be relet more quickly.

Maintenance and modernization services, including new construction, amounted to € 51.00/m² in 2017, up by around 38% on the prior-year value of € 36.84/m². This is largely due to the clear increase in the modernization volume as well as the rise in volume of new construction.

Vonovia will continue to roll out the investment program. Vonovia has decided on an investment program in the amount of around € 1 billion for 2018. The program will focus on energy-efficient modernization and the creation of new living space.

As part of the energy-efficient modernization measures, we will insulate facades, basement ceilings and attics for a living area of over 1,000,000 m² for projects which we began in 2017. The catalog of measures also included the optimization and renewal of heating systems in the previous year – benefiting around 15,000 apartments. All these measures reduce energy consumption which, in turn, cuts CO_2 emissions. The lower energy consumption not only benefits the environment but also our tenants in the form of lower heating costs. In addition, our customers profit from the improved standard of comfort of our properties. The funds provided by KfW-Bank or the European Investment Bank (EIB) provide key support when it comes to refinancing the energy-efficient modernization measures.

Investments in the "Invest" subportfolio relate to measures designed to improve the standard of comfort of our properties, a process that often also involves senior-friendly apartment conversion. As a result, we implemented modernization measures accounting for a volume of more than € 200 million in this subportfolio in 2017. More than 11,000 apartments were completed in 2017. If technically feasible, conversions were carried out according to the standards of the KfW program 159 "Senior-friendly Conversions."

We make decisions about portfolio investments for both operating and strategic reasons. In any event, these investments support Vonovia's objectives – not least as far as customer satisfaction is concerned. The investments cover the entire stock in the corresponding subportfolios and the whole of Germany. As far as its technical measures are concerned, Vonovia endeavors not only to adhere to the latest technical standards and the applicable requirements at all times, but also to anticipate future developments, and to implement them already, where possible.

The table below shows the volume of our modernization measures in recent years:

Program year[1]	Investment volume[2] (in € million)	Units (No.)	Yield[3] (in %)
Ø 2010–2013	49	3,257	6.9
2014	163	12,934	7.5
2015	343	17,690	7.8
2016[4]	483	30,544	7.7
2017[5] (Forecast)	951	43,000	7.3

1 – "Program year" is generally defined as the calendar year in which construction work on the respective measure started.
2 – "Investment volume" includes all costs of the measures performed excluding internal personnel costs incurred, e. g. for program coordination or for the site managers employed in the Group.
3 – "Yield" is the static net initial yield and is calculated for the "Upgrade Buildings" sector from the change in the property management income (i. e., changes in the rent and level of vacancy) in relation to the external planning and construction costs of the measure. The time of measurement is December of the calendar year following the program year; in the "Upgrade Apartments" sector, the difference between the last rent before the refurbishment and the reletting rent achieved after refurbishment is completed is compared with construction costs of the project. The time of measurement is, in this case, the middle of the calendar year following the program year.
4 – Due to the complexity of the measures, it is not possible to measure the final success of all projects in progress. Thus, the 2016 value is an extrapolation based on projects already settled and our current knowledge of costs, rents and vacancies of the projects not yet settled.
5 – The "forecast" nature of the figures for the 2017 program year is due to the fact that success is not measured until the middle or the end of the calendar year following the program year and is therefore not finally determined until mid-2018 (Upgrade Apartments) or the end of 2018 (Upgrade Buildings).

The expansion of the investment programs meant that we had to make adjustments to our management system. As a result, the Management Board and the Supervisory Board made the decision in 2017 to use the key figure "IRR" to reflect the increase in investment volumes and the complexity of the individual investment programs. The internal rate of return is better suited to Vonovia's "new construction" and "neighborhood development" investment components, as it reflects the financial success of investments with cash flows extending over several periods. This method of presentation applies for the 2018 investment program for the first time:

Program year	Investment volume (in € million)	Units (No.)	IRR (in %)
2018 (budget)	~ 1,000	~ 40,000	~ 8

New Construction

The most pressing challenge facing the housing industry in Germany is the creation of affordable living space in central locations. Vonovia is playing an active role in creasing this new affordable living space.

As far as its **new construction activities** are concerned, Vonovia makes a distinction between undeveloped and developed land. On developed land, we create new living space by adding extra stories to existing buildings. On undeveloped land, we create new living space by constructing new buildings. What both of these measures have in common is that we always focus on series production based on modular construction.

The term "modular" means that the building is erected using standardized elements produced in the factory that are then transported directly to the construction site. The modules only need to be assembled on site. Vonovia uses three approaches in this regard: Precast concrete construction, wood hybrid and steel skeleton. The company recently concluded a framework agreement with a major precast concrete construction manufacturer. This standardized construction allows both the costs of new residential construction and the construction period to be reduced considerably. This allows Vonovia to create new living space more quickly. What is more, the costs are not only lower – they are also easier to calculate than with other forms of construction. The main advantage is that this more efficient construction method allows the new apartments to be offered at affordable rents as a result.

In 2017, Vonovia initiated the construction of more than 1,000 new apartments, some of which have already been completed. The initial experience gleaned in 2016 and 2017 will serve as an important foundation for significant expansion of the new construction volume over the next few years. Following Bochum and Dortmund, upcoming projects include new construction in Munich, Bremen, Hamburg, Berlin and Frankfurt.

Neighborhood Development

We understand "neighborhood development" as a holistic approach to developing entire areas of towns or cities. Contiguous groups of buildings – their environment and the district itself – are seen as an inseparable unit. Neighborhood development measures are implemented taking both financial and social criteria into account. A conscious decision has been made to focus on a neighborhood's long-term development. The aim is to achieve an increase in the value of our property portfolio, which is reflected in visible improvements for our customers in the quality of the living space and the neighborhood alike.

Active Tenant Involvement in Neighborhood Development Concepts

The investment measures referred to above in the areas of maintenance, modernization, shaping the residential environment and new construction/adding extra stories are bundled in a neighborhood development plan spanning a period of several years and expanded to include further measures. These measures comprise infrastructure improvements for any demolition measures that have to be taken, the realization of holistic energy concepts and urban development issues. "Soft" factors are also very important when it comes to implementing neighborhood development measures. We often have to take conflicting interests into account. The active involvement of residents, public interest groups and other stakeholders in the neighborhood, as well as in cooperation with federal states and municipalities will help identify solutions to create livable neighborhoods. This is why we always try to inform our tenants of the planned measures early on and encourage them to play an active role in the process. In this way, our tenants are involved in designing the residential environment (for example, in tenant workshops, measures allowing them to actively contribute to facade and playground design, route/pathway design, etc.), among other things.

Cooperation Projects with Social Agencies a Key Component of the Concept

We know that an effective, sustainable improvement in our customers' quality of life cannot be achieved using only the aforementioned maintenance and improvement measures to the buildings' structure and infrastructure. We therefore want to use social projects (for example a cooperation with the "Johanniter" the Order of St. John charitable organization in Berlin) to foster community spirit and dialog within the neighborhood, for example by also giving our older tenants the opportunity to remain in their familiar environment. Needs-based cooperation projects with social agencies or players are a key component of the concept neighborhood development process. Other components can include promoting educational and cultural projects (e. g. the Künstler-

Residenz-Stipendium "artists in residence" scholarship in Essen). We have various instruments for implementation at our disposal in this regard, for example providing financial support via our foundations or making premises available. We are also constantly looking into potential neighborhood development innovations in order to pick up on trends and opportunities early on, for example in the area of electromobility, photovoltaics, rainwater recycling or digitization.

Measures Aimed at Specific Target Groups, Systematic Approach

Holistic neighborhood development also always has an impact on urban development extending beyond improvements to the existing infrastructure. These measures often strengthen the provision of local basic services as well and improve the extent to which residents identify with their neighborhood. We achieve holistic neighborhood development by working with the city and municipal authorities. Taken together, all of these measures have an impact today and in the future, which is why it is absolutely crucial for the measures to focus on the needs of the specific target group. We are pursuing neighborhood development in all of our business areas, adding an additional strategic aspect to our investment programs. The individual projects and neighborhoods are specific and the process and approach are systematic from concept development to implementation. With an approved investment volume of more than € 350 million since 2016, we believe that we are making sustainable improvements to our neighborhoods and expect further neighborhood development measures to be launched in the future, too.

Portfolio Structure

As of December 31, 2017, the Group had a real estate portfolio across Germany comprising 344,586 residential units, 89,588 garages and parking spaces and 3,888 commercial units. Our locations span 576 cities, towns and municipalities. 62,631 residential units are also managed for other owners. Most of the properties in the Group's portfolio are multifamily residences.

The Group's German real estate portfolio covered 21,530,449 m² of living area in total as of December 31, 2017, with the average apartment size coming in at approximately 62 m². The average unit consists of two or three rooms, a kitchen and a bathroom.

The vacancy rate came to 2.5% on December 31, 2017, and Vonovia generated average monthly in-place rent of € 6.27 per m². The annualized in-place rent came to € 1,579.6 million for apartments, € 49.5 million for commercial units and € 26.8 million for garages and parking spaces.

Our Group's portfolio also includes our Austrian real estate portfolio, consisting of 2,058 residential units located largely in Vienna.

Changes in the Portfolio

At the beginning of the 2017 fiscal year, the takeover of conwert Immobilien Invest SE saw our portfolio increase by an additional 23,543 apartments, the majority of which are located in the fast-growing cities of Leipzig, Berlin, Potsdam, Dresden and Vienna.

The conwert acquisition portfolio was as follows at the time of the takeover:

				In-place rent	
conwert	Residential units	Living area (in thou. m²)	Vacancy rate (in %)	(p. a. € million)	(€/m²/month)
Germany	21,298	1,376	2.7	93.4	5.81
Austria	2,245	156	2.4	11.0	6.03
Total	**23,543**	**1,531**	**2.7**	**104.4**	**5.84**

In the course of 2017, properties in the "Non-Core" and "Non-Strategic" portfolios were sold as part of several partial sales during the implementation of the portfolio management strategy.

At the time of the sale, the statistics for the portfolios sold were as follows:

	Residential units	Living area (in thou. m²)	Vacancy rate (in %)	In-place rent (p. a. € million)	In-place rent (€/m²/month)
Package sales	5,865	366	7.0	20.9	5.12

In addition to the acquisition and sale of larger housing stocks, Vonovia's portfolio changed in 2017 as a result of additions arising from tactical acquisitions, the construction of new apartments and attic extensions on the one hand, and disposals of owner-occupied apartments from our Privatize portfolio and the sale of multifamily residences from the "Non-Core" and "Non-Strategic" portfolio on the other. Furthermore, our regular portfolio reviews due to strategic reassessments resulted in certain housing stocks being reallocated within the overall portfolio. As part of the review, we also made two adjustments to the structure of our portfolio in addition to the strategic reassessment:

1. The two former investment subportfolios "Upgrade Buildings" and "Optimize Apartments" have been combined in a new "Invest" subportfolio. This portfolio can capture the much greater variety of Vonovia investment programs more comprehensively, while preventing any overlap and keeping the structure simple at the same time.

2. As a result of the ongoing sales from the two previous "Non-Strategic" und "Non-Core" subportfolios, it makes sense to bundle the remaining properties earmarked for sale, which are not intended for the privatization business, in one "Sell" subsegment.

Following the implementation of the annual structured reassessment of all potential, as of December 31, 2017, Vonovia's residential portfolio is as follows:

as of Dec. 31, 2017	Fair value* (in € million)	Fair value* (in €/m²)	Multiple (in-place rent)	Residential units	Living area (in thou. m²)
Strategic	30,508.0	1,492	19.8	319,014	19,817
Operate	10,252.9	1,494	18.6	101,697	6,311
Invest	20,255.1	1,492	20.4	217,317	13,507
Privatize	1,509.7	1,522	21.1	14,099	976
Sell	535.6	702	12.9	11,473	737
Vonovia Germany	32,553.3	1,466	19.7	344,586	21,530
Vonovia Austria	551.6	2,194	26.2	2,058	142
Total	**33,104.9**	**1,475**	**19.7**	**346,644**	**21,672**

* Fair value of the developed land excluding € 331.4 million for undeveloped land, inheritable building rights granted, construction in progress and other.

		In-place rent				
	Vacancy rate (in %)	Total (p. a. in € million)	Residential (p. a. in € million)	Residential (in €/m²)	Change organic (in %)	Average rent growth forecast CBRE (5 yrs)
	2.3	1,543	1,470	6.33	4.3	3.4
	2.3	550	484	6.55	4.6	3.2
	2.2	993	986	6.22	4.2	3.4
	3.4	72	69	6.13	2.0	3.6
	8.4	41	40	4.93	1.8	2.0
	2.5	1,656	1,580	6.27	4.2	3.3
	2.9	21	11	6.51	–	n/a
	2.5	**1,677**	**1,590**	**6.27**	**4.2**	**n/a**

In order to boost transparency among the portfolios, we showed our extended portfolio in **15 regional markets** for the first time in our reporting in 2016. The regional market classification is orientated toward the residential real estate market regions in Germany. These markets are core towns/cities and their surroundings, mainly metropolitan areas. Our decision to focus on these regional markets that are particularly relevant to Vonovia is our way of looking ahead to the future and provides an overview of our strategic core portfolio.

In relation to the fair value, 90% of our total portfolio is located in 15 regional markets. Only a small part of our strategic stock is located outside of these 15 markets. We have referred to this group as "Other strategic locations" (6% of the total fair value). The regional market breakdown does not include our housing stocks from the "Sell" subportfolio and stocks for privatization in locations that do not include any strategic stocks.

As of December 31, 2017, our strategic core portfolio is as follows, broken down into regional markets:

	Fair value*				
Regional market	(in € million)	(in €/m²)	Multiple (in-place rent)	Residential units	Living area (in thou. m²)
Berlin	5,181.9	2,035	26.6	38,664	2,449
Rhine Main Area	3,525.1	1,946	21.0	27,921	1,781
Rhineland	3,240.3	1,581	19.4	29,753	1,992
Southern Ruhr Area	2,884.2	1,051	15.8	43,900	2,682
Dresden	2,875.2	1,230	18.1	38,563	2,193
Hamburg	1,940.1	1,795	21.6	16,534	1,048
Munich	1,820.2	2,771	29.1	9,708	639
Stuttgart	1,742.0	1,893	20.9	14,152	891
Northern Ruhr Area	1,417.5	854	13.4	26,532	1,640
Hanover	1,297.5	1,374	18.5	14,592	926
Kiel	992.3	1,192	17.2	13,801	802
Bremen	913.9	1,230	19.1	11,905	722
Leipzig	763.3	1,229	18.4	9,174	588
Westphalia	667.0	1,075	16.0	9,471	613
Freiburg	545.0	1,949	23.0	4,048	277
Other strategic locations	2,102.8	1,404	18.4	23,172	1,464
Total strategic locations Germany	**31,908.2**	**1,495**	**19.8**	**331,890**	**20,705**
Austria	551.6	2,194	26.2	2,058	142

* Fair value of the developed land excluding € 331.4 million for undeveloped land, inheritable building rights granted, construction in progress and other.

A look at the largest regional markets, from Berlin to the Rhine-Main region, the Rhineland, the southern Ruhr region, Dresden, Hamburg and Munich already shows our balanced presence in strong markets across Germany.

In addition to these focal points, we also have properties in very prosperous regions, such as Hanover, Leipzig and Freiburg.

The increase in in-place rents show that we are able to generate high growth rates across Germany, without being reliant on the conditions in individual growth markets.

The foundation for this success lies in our business model, which focuses not only on professional property management but also on successfully leveraging all of the investment potential available: For example, we have been modernizing our buildings and apartments for years now – and this approach is paying off.

	In-place rent				
Vacancy rate (in %)	Total (p. a. in € million)	Residential (p. a. in € million)	Residential (in €/m²)	Change organic (in %)	Average rent growth forecast CBRE (5 yrs)
1.5	195	184	6.35	3.9	4.3
1.4	168	162	7.70	3.8	3.4
2.6	167	159	6.82	3.8	3.1
2.9	183	176	5.64	4.2	2.9
2.4	159	148	5.79	5.7	3.7
2.0	90	85	6.86	5.2	3.3
0.8	62	59	7.71	3.1	4.8
1.5	83	79	7.53	2.4	3.1
3.4	105	102	5.37	3.6	2.5
2.7	70	67	6.21	5.2	2.9
1.8	58	55	5.81	5.7	3.2
2.9	48	45	5.42	3.2	3.6
4.0	41	39	5.74	2.6	2.9
1.9	42	41	5.64	4.1	3.0
0.9	24	23	6.98	3.8	4.1
2.3	114	110	6.40	5.2	3.3
2.3	**1,608**	**1,534**	**6.32**	**4.2**	**3.4**
2.9	21	11	6.51	–	n/a

Management System

Management Model

Our corporate governance is based on our corporate strategy, which we successfully continued in the 2017 fiscal year. Details can be found in the Strategy chapter above. → p. 35 et seq. As part of the management of the company, we make a distinction between three segments: **Rental, Value-add Business** (formerly known as "Extension") and **Sales**.

Performance Indicators

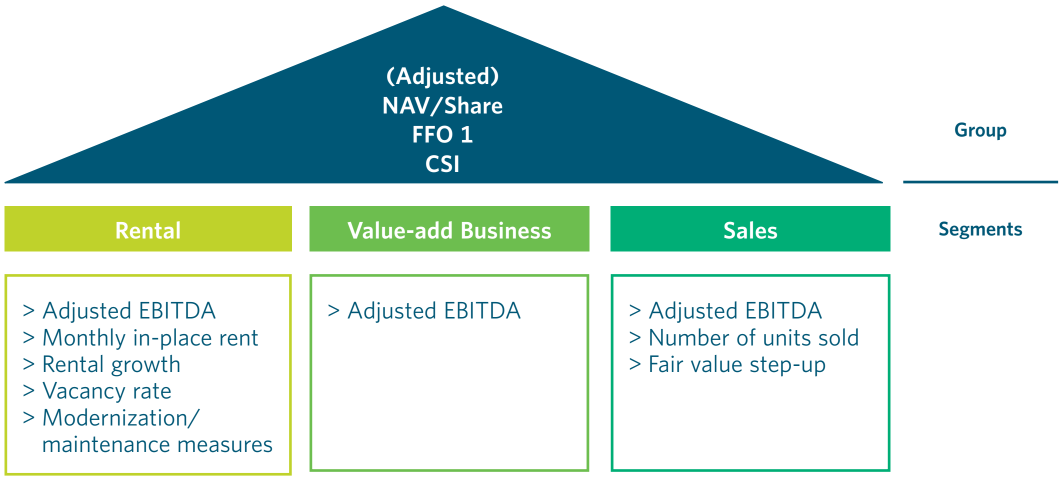
Our management system has a modular structure and makes a distinction between performance indicators at Group level (most meaningful performance indicators within the meaning of DRS 20) and those at segment level.

In order to ensure that our business activities are focused on growing the value of the company in the long term, we have an integrated Group planning and controlling system in place that is based on central performance indicators. Based on the medium-term plans derived from our strategy, which are subject to an annual review and are updated during the year in the event of significant transactions, we prepare a budget for all areas of the Group. In the course of the fiscal year, current business developments are compared with these targets and the current forecasts on a regular basis for all key figures that are relevant to control. The business is then steered accordingly in a targeted manner, with any necessary countermeasures being initiated and tracked.

We make a distinction between **financial** and **non-financial performance indicators**.

Financial Performance Indicators

At the level of the Group as a whole, our activities focus on boosting the value of the company. Growth from operating activities, modernization services and the value of our property assets are two factors that are decisive for the further development of our company and that are reflected in the **net asset value (NAV)** – a standard parameter in our sector. Our NAV calculations are based on the best practice recommendations of the



EPRA (European Public Real Estate Association). The adjusted NAV per share, after corrections for goodwill, is the relevant performance indicator.

Calculation of Adjusted NAV

	Equity attributable to Vonovia's shareholders
(+)	Deferred taxes on investment properties and assets held for sale
(+/-)	Fair value of derivative financial instruments
(-/+)	Deferred taxes on derivative financial instruments
=	EPRA NAV
(-)	Goodwill
=	**Adjusted NAV**

The main standard key figure in the sector is **Funds from Operations 1 (FFO 1)** for managing the sustained operational earnings power of our business. This can be derived from the profit or loss for the period.

Calculation of FFO 1

	Profit for the period
(+)	Financial result
(+)	Income taxes
(+)	Depreciation and amortization
(-)	Net income from fair value adjustments of investment properties
=	EBITDA IFRS
(+)	Non-recurring items
(+/-)	Period adjustments from assets held for sale
(-)	Financial income from investments in other real estate companies
=	Adjusted EBITDA
(-)	Adjusted EBITDA Sales
=	Adjusted EBITDA Operations
(-)	FFO interest expense
(-)	FFO 1 current income taxes
=	**FFO 1 (Funds from Operations 1)**

Based on the profit or loss for the period, we can calculate the **EBITDA IFRS**, i. e., earnings before interest, taxes, depreciation and amortization with the additional elimination of income from fair value adjustments of investment properties.

Adjusted EBITDA is calculated by adjusting for effects that do not relate to the period, recur irregularly or are atypical for business operation, period adjustments from assets held for sale and financial income from investments in other real estate companies. This can be broken down into the segment results: **adjusted EBITDA Rental, adjusted EBITDA Value-add Business** and consolidation effects that are combined in adjusted **EBITDA Other** as well as **adjusted EBITDA Sales**.

The **adjusted EBITDA Rental** reflects the operating profit from residential property management. It can be broken down into three central components: rental income from property management, expenses for maintenance and operating expenses from property management. The latter include all costs that do not comprise maintenance.

Calculation of Adjusted EBITDA Rental

	Rental income from property management
(-)	Expenses for maintenance
(-)	Operating expenses from property management
=	**Adjusted EBITDA Rental**

In addition to the expenses for **maintenance**, we make large-scale investments in our real estate portfolios, with a distinction being made between **capitalized maintenance** and **value-enhancing investment** in modernization and new construction measures. The total amount of all **maintenance and modernization measures** includes the services performed by the Group's own craftsmen's organization, valued at the market price, and any third-party services that have been purchased. This figure shows the value of all value-maintaining and value-enhancing measures for our properties.

The Value-add Business segment encompasses all of the business activities relating to the expansion of our core business to include customer-oriented services, e. g., services that are closely related to and/or influence the rental business. We manage these business activities using the **adjusted EBITDA Value-add Business**.

Calculation of Adjusted EBITDA Value-add Business

	Value-add Business income
(-)	Operating expenses Extension
=	**Adjusted EBITDA Value-add Business**

The total of the adjusted EBITDA Rental, Value-add Business and Other, in which consolidation effects between these segments are combined, reflects the result of our entire operating core business and produces the **adjusted EBITDA Operations**.

As financing is a fundamental component for the success of our business activities, we deduct the current interest expense excluding non-recurring items **(FFO interest expense)** and also the current cash-effective income taxes incurred on the corresponding amounts from the total of these indicators of our operating result to calculate the **FFO 1** as the key figure for the sustained earnings power of our business.

If we deduct capitalized maintenance from FFO 1, we arrive at the **AFFO**. This number reflects our sustained earnings power after deducting all necessary investments in our properties.

We always refer both metrics, adjusted NAV and FFO 1, to the number of shares in order to make the sustainable earnings and the company value per share transparent.

In addition to the management of our residential real estate portfolio and the services that are closely related to our rental business, another business segment relates to sales. We measure the success of our sales activities using **adjusted EBITDA Sales**.

Calculation of Adjusted EBITDA Sales

	Income from disposal of properties
(-)	Carrying amount of assets sold
(+)	Revaluation of assets held for sale
=	Profit on disposal of properties (IFRS)
(-)	Revaluation (realized) of assets held for sale
(+)	Revaluation from disposal of assets held for sale
=	Adjusted profit from disposal of properties
(-)	Selling costs
=	**Adjusted EBITDA Sales**

The adjusted EBITDA Sales compares the proceeds generated with the fair values of assets sold and also deducts the related costs of sale. In order to disclose profit and revenue in the period in which they are incurred and to report a sales margin, the fair value of properties sold, valued in accordance with IFRS, have to be adjusted to reflect realized/unrealized changes in value.

Adding adjusted EBITDA Sales to FFO 1, while also taking current income taxes relating to the Sales segment into account, produces **FFO 2**. This means that FFO 2 shows the operating income generated from all of our business activities in the period in question.

As a non-operational key financial figure, the **loan-to-value ratio (LTV ratio)** is used for monitoring the degree to which debt is covered by the value of the properties. This key figure helps to ensure a sustainable ratio of borrowings to fair values.

All of the key financial figures shown here are so-called **non-GAAP measures**, i.e., key figures which cannot be taken directly from the figures in the consolidated financial statements according to IFRS. The financial performance indicators can, however, all be reconciled to the closest-possible key figure in the consolidated financial statements.

Non-financial Performance Indicators

We also focus on non-financial operating performance indicators as drivers for our key financial figures and supporting control parameters.

We focus on our customers and offer them affordable homes that meet their needs together with housing-related services and reliable customer support. Consequently, the third main key figure alongside FFO 1 and adjusted NAV is the **Customer Satisfaction Index** (CSI). It is determined at regular intervals in systematic customer surveys conducted by an external service provider and shows the effectiveness and sustainability of our services for the customer. Our company's economic success and, in particular, the success of our value-add strategy are directly linked to the satisfaction level of our customers. We are aware of this fact and implement a wide variety of measures to improve our services in the interest of our tenants.

The **vacancy rate** shows the proportion of units in our own housing stocks that are not rented and therefore generate no rental income. It can serve as an early-warning indicator, e.g. to identify non-marketable apartments.

The monthly **in-place rent per square meter** gives information on the average rental income from the rented properties. In particular, over the course of time, the average rent increase achieved in the rented properties can be derived from this figure.

The **vacancy rate** and the **average rent** are key drivers for the development of our key figures related to the management of rental income. Together with the CSI they serve as essential early warning indicators.

The **total amount spent on maintenance and modernization measures** in relation to the total area covered by units we own and manage is a further operational figure for the management of the investments we make in our real estate portfolio. It serves as an indicator of the intensity of maintenance and modernization within our housing stocks. The energy-efficient modernization of our buildings forms a key component of our investment program. The associated targets for saving energy/CO_2 form another performance indicator for us.

The **number of units sold** in the Privatize portfolio and the Sell portfolio indicate the sales performance in the Sales segment.

The **fair value step-up** represents the difference between the income from the sale of a unit and its fair value. It shows the percentage increase in value for the company on the sale of a unit before further costs of sale.

Non-financial Declaration

Explanatory Information on the Content of the Report and the Framework

The entry into force of the CSR Directive Implementation Act (CSR-RUG) has given rise to new reporting requirements for Vonovia. We are compelled, for the first time, to supplement our financial reporting for the 2017 fiscal year to include information on key non-financial aspects of our business activities with regard to our respect for human rights and commitment to fighting corruption, employee and social issues and environmental aspects.

This chapter includes the required disclosures for the Non-financial Declaration pursuant to Sections 289 a–e of the German Commercial Code (HGB) in conjunction with Section 315 b–c HGB (combined Non-financial Declaration). In order to avoid data redundancy, reference is made to other sections of the management report that contain non-financial information. This particularly affects the following content of the Non-financial Declaration:

The **diversity concept for the composition of the management and control bodies** is set out in the "Declaration on Corporate Governance". www.vonovia.de Information on general diversity among the Group's employees is provided in this chapter under the heading "Employees." → p. 63 et seq.

The **business model** is explained in the chapter entitled "Fundamental Information about the Group". → p. 32 et seq.

In addition, a number of **material topics** relating to sustainability at Vonovia are covered in the chapter entitled "Our Service Promise". → p. 39 et seq. The "Material Topics" section of this "Non-financial Declaration" refers to the corresponding sections.

One particular **challenge** facing the real estate industry involves making **environmental key figures** available for the housing stock. These are calculated based on the consumption of resources in rented areas which is, in turn calculated largely based on the statements prepared by the utilities companies. Due to the billing periods, the required key figures are not yet available at the time the Annual Report is published. This means that reliable key figures for the 2017 fiscal year can only be calculated at a later date. The section "EPRA Reporting" (not part of the combined management report), however, lists those key environmental figures that are already available (from the 2016 fiscal year). → p. 236 et seq.

Other non-financial performance indicators are listed in the "Non-financial Performance Indicators" chapter. → p. 55

According to CSR-RUG, **material risks** associated with the corporation's own business activities must be reported. These are risks which are very likely to occur and which could have challenging negative effects on non-financial topics.

Vonovia's management does not expect any such risks to occur.

The Non-financial Declaration is largely based on the format of Vonovia's **Sustainability Report**. reports.vonovia.de/2016/sustainability-report This is, in turn, prepared based on the GRI Standards of the Global Reporting Initiative (as valid in 2016) in accordance with the "core" option. The Sustainability Report is also based on the EPRA Best Practice Recommendations on Sustainability (in its second version from 2014).

The Sustainability Report contains further extensive information on individual non-financial topics, as well as corresponding project examples and key figures. The Sustainability Report for the 2017 reporting year will be published in June 2018.

Sustainability Management at Vonovia

Our Understanding of Sustainability

We have focused our attention on the long-term, stable economic development of our business. As a result, Vonovia's business model aims to maintain the value and foster the long-term development of our real estate portfolio, as well as to keep our service promise to our customers. On this basis, we are achieving the targeted increase in value for our company and long-term growth.

Our business model is inextricably linked to social and ecological developments – be it demographic change, the ongoing trend towards urbanization, developments influenced by migration flows to Germany, or changes of a regulatory and social nature caused by climate change. But not all climatic or social developments are directly relevant to our business or can be directly influenced by us. As a result, our sustainability efforts focus on those areas that have an impact on Vonovia's business model and on those areas that we can use our business model to influence (see Material Topics → p. 58 et seq.).

As a result of our business model, we believe that economic, ecological and social sustainability are closely interlinked and covered by regulatory frameworks, e. g., legislation. This is the framework within which Vonovia operates in order to generate added value for its core business, also in ecological and social areas.

Our Sustainability Approach

Our sustainability approach results directly from our business model, on the one hand, and also addresses developments that influence our business, or which we can influence, on the other.

A home is a basic human need: Good living standards, an environment in which we feel comfortable and intact neighborhoods are of crucial importance when it comes to determining whether we feel at home in an apartment in the long run. The object of our business, namely the renting of affordable and high-quality homes, meets this basic need.

Within this context, Vonovia implements extensive measures to maintain and develop its portfolio, for example (maintenance, modernization, construction activity). These efforts include, in particular, measures to improve the energy efficiency of our stock. This allows us to make a significant contribution to protecting our climate (see "Our Service Promise" chapter → p. 39 et seq.). At the same time, well-insulated apartments increase efficiency and simultaneously reduce ancillary expenses for our customers. Compliance with the regulatory requirements of environmental, energy and rental law is always a material component of our business processes.

For Vonovia, housing does not end at the front door: A nice, stable environment is part of a good residential atmosphere. Therefore, together with other social actors, we become involved beyond our buildings and set trends with cities, companies and city planners as well as with associations, initiatives and, last but not least, with our local customers, for the sustainable development of entire neighborhoods.

In order to keep the service promise we have made to our customers and provide them with good quality over the long term, we perform as many tasks as possible on our own – via well-trained and committed service employees, caretakers, craftsmen and gardeners.

Guiding Framework

Vonovia always adheres to the goal of complying with valid laws and provisions in its sustainability activities. In addition, numerous national and supranational norms and agreements serve as a guide for the structure and design of sustainability concepts.

As far as climate protection is concerned, the 2015 Paris Agreement – and the German federal government's associated climate protection plan for 2050 – is particularly relevant to Vonovia. The long-term objective of this Agreement is to achieve virtual greenhouse gas neutrality by 2050, something which also covers buildings. As well as adhering to valid efficiency standards for new buildings, this also means being prepared to make significant investments in energy-efficient renovation work on existing properties. This is a responsibility that Vonovia has already been living up to for years now by aiming to clearly exceed the required nationwide renovation rate of at least 3% (see “Our Service Promise” chapter → p. 39 et seq.).

Establishment in the Company

At the highest level, the chief executive officer of Vonovia SE is responsible for sustainability. The Audit Committee in particular handles sustainability on behalf of the Supervisory Board. The operational processing of sustainability-related issues is performed via the staff positions and line functions of Vonovia SE. Those who share responsibility ensure that the agreed measures are implemented in the course of day-to-day business.

In addition, Vonovia established a new function, that of sustainability specialist, in 2017 in order to ensure that sustainability issues can be tackled in a more structured, cross-departmental manner and to expand our dialog with stakeholders. General topics such as sustainability reporting, the expansion of the key figures used, adjustments to relevant guidelines or the development of interfaces with relevant company processes can be handled there on a centralized basis.

Vonovia's Stakeholders

For us, sustainability is also about striking a balance between the interests of Vonovia's various stakeholders in the long term. We are engaged in a regular and mutual exchange with our stakeholders in order to achieve this and intend to step up this exchange further over the next few years. In particular, they include customers (tenants), employees, investors and analysts as well as policymakers at the municipal, state and federal levels. Additional interest groups are tenants' associations, suppliers and service providers, the media and non-governmental organizations (NGOs). The interaction results from day-to-day issues that link us to the respective stakeholders. The stakeholder groups have different interests with regard to our company and exert influence on our company. SR 2016, p. 18 et seq.

The interests and wishes that stakeholders call to our attention are manifold. However, our business approach largely ensures that all our stakeholders benefit from it since it combines essential economic, social and environmental expectations.

Material Sustainability Topics at Vonovia

Definition of the Material Topics

Vonovia deals in a continuous and structured manner with foreseeable developments in German real estate markets and within society and analyzes how they will affect Vonovia's business and its value creation. We also address topics that we can use our business model to influence. We involve our stakeholders in identifying the issues that we consider to be material and relevant.

As a result, Vonovia has identified the material topics that it wants to focus on in its sustainability reporting. The focus was on ensuring that the topics selected have a direct link to Vonovia's business success and financial development, as well as an impact our company's value creation. At the beginning of 2017, we conducted a stakeholder survey to validate these topics as part of a materiality analysis. The survey participants included representatives of the capital market, tenants, employees, suppliers and service providers of Vonovia as well as representatives from authorities, the world of politics, associations, NGOs and academia.

The results of this analysis were translated into a materiality matrix and the topics were split into four areas: sustainable corporate governance, society and customers, the environment and employees. These four clusters illustrate the categories which we will use to subsequently report on the material topics. SR 2016, p. 22 et seq.

They comprise the general areas covered by the CSR-RUG law: Combating corruption and bribery and respecting human rights (sustainable corporate governance), social issues (society and customers), environmental issues (the environment), employee issues (employees).

Sustainable Corporate Governance

Long-term growth

Long-term growth forms the basis of Vonovia's business model. The preservation and long-term development of our real estate portfolio contribute to a strategy focusing on stable value and growth (see chapter entitled "Fundamental Information about the Group" → p. 32 et seq.).

Vonovia wants to be seen as a trusted partner – by its customers, shareholders, business partners and employees, and by society and the general public at large. With a Code of Conduct, we provide the ethical and legal framework within which we act. It describes the conduct guidelines that apply with binding effect to Vonovia's employees and managers and forms the basis for an open, appreciative and legally compliant corporate culture. The Code of Conduct features provisions on issues including environmental or health protection, respect for employee rights, dealing with conflicts of interest or interacting with governments and public-sector agencies.

Compliance and Anti-corruption

Adherence to all of the provisions and laws that apply to the company plays a key role within this context. A good compliance organization makes a key contribution to a company's sustainable development and value creation.

Through the corresponding monitoring of our compliance rules, we protect the integrity of employees, customers and business partners and shield our company from negative consequences.

Our corporate compliance – internal rules and Group guidelines, e. g. to protect the capital market, ensure data protection, secure information, manage risks, fight corruption or set out guidelines on how to deal with donations and sponsoring – is based on the relevant statutory requirements, the articles of association and the rules of procedure for the Supervisory Board and the Management Board. Our compliance principles are also detailed in our Code of Conduct which is binding for all Group employees under the Group works council agreement.

Compliance management at Vonovia is part of the legal department. A central compliance officer is assigned the task of identifying compliance risks, taking suitable measures to avoid and detect these risks and taking appropriate action in response to determined compliance risks. This officer is supported by operative compliance managers and compliance specialists in individual departments who, along with the officer, are the key contacts for compliance matters and suspected cases at the company.

An external ombudsperson is available to all employees and business partners as a confidant for compliance matters. If necessary, the ombudsperson accepts information about suspected compliance cases on an anonymous basis.

A Compliance Committee also discusses and coordinates compliance issues. The Compliance Committee meets every quarter to discuss current cases as well as the refinement of Vonovia's compliance management system. Along with the compliance officer, the compliance managers and the ombudsperson, other members of the Compliance Committee include representatives from the areas of internal audit, risk management, HR management and the works council.

The compliance management system is designed to reduce and prevent the detrimental impact of any misconduct for which Vonovia is responsible on the company and its executive bodies. There are three escalation levels: The first level consists of the operational management within Vonovia's business units, which is where the internal control mechanisms are implemented. The second level comprises the compliance management system and the risk management system, in particular. The third and final level is made up of the internal audit, as an auditor that is independent of the system.

Vonovia's employees also undergo regular training on compliance issues. Procurement, for which the issue is particularly relevant, receives special training on corruption and criminal law pertaining to corruption. Managers can book special compliance courses at the Vonovia Academy.

The Supervisory Board is also regularly and comprehensively briefed on the issues of compliance, corruption and existing guidelines and procedures. The Audit Committee regularly receives a compliance report, which reports on suspected cases, measures and training offered on the issue of corruption. In the 2017 fiscal year, there were isolated suspected cases of corruption, which we investigated diligently. None of the cases were confirmed.

Otherwise, there were several non-material compliance violations or suspected cases during the reporting year. This clearly shows, however, that the system we have put in place is proving effective: cases are reported and addressed and corresponding consequences ensue.

Adherence to Labor, Social and Environmental Standards in the Supply Chain

Vonovia is very aware of the sustainability risks in the supply chain. The challenges primarily relate to compliance with labor and social standards in construction companies and their subcontractors. Since Vonovia conducts considerable trade-related construction work on its own through the craftsmen's organization, most of the risks that could arise with external suppliers can be reduced from the outset. As it is less dependent on the offerings of existing construction firms, Vonovia is able to exclude service providers that violate certain sustainability criteria.

The nature of the services purchased by us is extremely important for the sustainable quality of our services and, as a result, for the satisfaction of our customers. This is why we attach a great deal of importance to extensive supplier management that focuses on quality aspects. This also applies, to a particular degree, when it comes to ensuring integrity on the part of our suppliers. Our Business Partner Code for subcontractors and suppliers sets out clear expectations regarding integrity, legal compliance and ethical conduct. It stipulates, among other things, that illicit employment must be ruled out, that the legal minimum wage must be paid and that valid German regulations on occupational safety and human rights must be observed. These obligations also apply to third parties – i. e. subcontractors of our contractual partners.

The company's construction managers maintain direct contact with our subcontractors and have a clear picture of the persons working on construction sites. Compliance with the Business Partner Code can thus be largely verified within the scope of this working relationship. In addition, our procurement department holds annual reviews with key subcontractors.

In case of repeated violations of the Code or other legal provisions, we take appropriate steps, either significantly reducing the sales volume with the affected supplier or terminating the business relationship entirely. Vonovia did not learn of any significant cases of non-compliance in the reporting year.

A uniform supplier assessment system is currently being developed. The goal is for key suppliers to be evaluated by procurement as well as the Group's departments in order to achieve transparency and to obtain a systematic overview of the performance and development of suppliers.

Open Dialog with Society

We have also set ourselves the objective of making our sustainability approach even more transparent. We use open dialog with society to promote communication with various stakeholder groups. We also participate in a whole range of sustainability benchmarks and ratings, for example the EPRA Best Practices Recommendations on Sustainability Reporting, in respect of which we received a Silver Award in 2017 for our sustainability reporting in 2016. Participation in the CDP, the Dow Jones Sustainability Index or the sector-specific GRESB also highlights our efforts to make our sustainability performance transparent. Participating in these ratings is our way of rising to the competition and contributing to increased transparency and improved comparability within the sector. We want to continue participating in selected benchmarks and achieve ongoing improvements in our results.

We intend to use active participation in associations and initiatives to achieve greater transparency and comparability and to make our own contribution to ensuring a strong real estate industry in Germany.

Society and Customer Interests

In the Non-financial Declaration, the term "customer issues" includes tenant satisfaction, health and protection, portfolio maintenance, affordable rents and the creation of living space.

Customers are Vonovia's top priority. It is their satisfaction with, and appreciation of, our products and services that contribute to the company's success in the long term. This is reflected in the CSI, the Customer Satisfaction Index, and is an element used in determining Management Board remuneration as a direct, non-financial control parameter. By making extensive investments in maintenance and modernization, we help to ensure that we can offer our tenants attractive and livable homes. The affordability of living space plays a key role. Series construction offers potential for significant efficiency gains, helping to create new affordable living space. We are expanding our new construction program and plan to create 2,000 new housing units in 2019. The final number of housing units completed depends on the necessary construction permits being granted.

Detailed information on relevance, functioning, concepts, due diligence processes and measures, targets and performance indicators topics are detailed in the chapter entitled "Our Service Promise." → p. 39 et seq.

Neighborhood Development

The stakeholder survey as part of the materiality analysis identified neighborhood development as the area that offers the biggest development potential for Vonovia. As a key concept, this area includes not only maintenance and modernization and shaping the residential environment, but also supporting social or cultural facilities or educational institutions. We are planning ten neighborhood development projects in the 2018 fiscal year. We expect to be able to increase the number of neighborhood development projects even further from 2019 onwards. Detailed information on relevance, functioning, concepts, due diligence processes and measures, targets and performance indicators can be found in the chapter entitled "Our Service Promise." → p. 39 et seq.

Donations and sponsorship at Vonovia is also designed so as to benefit the neighborhoods – and, as a result, the tenants who live there directly. We focus on providing support in three areas "Education", "Culture" and "Community Spirit." The donations and sponsorship guidelines allow this topic to be tackled in a structured manner. In 2018, Vonovia plans to focus on optimizing its internal processes and expanding its external communications on its social commitment.

Social Commitment

Vonovia uses foundations to show its social commitment by providing support to tenants, the rental environment and in cases of social hardship. The company is currently involved in four foundations: Vonovia Stiftung, Vonovia Mieterstiftung e. V., Stiftung Mensch und Wohnen and Stiftung Pro Bochum.

The **Vonovia Stiftung (Vonovia foundation)** is a charitable foundation under German civil law. The foundation is committed to social affairs, community life, helping others to help themselves and vocational training. Its mission is to provide help in cases of social hardship to individuals who need assistance, and to promote intact neighborhoods and vocational training. In this respect, the foundation makes a key contribution to shaping and ensuring social and neighborhood cohesion in Vonovia's properties. It expressly supports active citizenship, personal responsibility and individual initiative within a residential context.

Vonovia Mieterstiftung e. V. comprises an equal number of representatives from tenant associations and Vonovia employees. It aims to foster a sense of community spirit between people from different generations by offering support for young people and senior citizens in the various regions in which Vonovia owns or manages properties.

With its work, the **"Stiftung Mensch und Wohnen"** (people and living foundation) set up by the former Gagfah, focuses on promoting a residential environment that brings young and old people together, and fosters a sense of community spirit between these groups in Vonovia's housing developments. The foundation finances meeting places, playgrounds and other assistance and support services with a focus on social activities. The foundation only supports charitable work.

Stiftung Pro Bochum is a cooperation project involving numerous companies based in Bochum to assume responsibility, within the city boundaries, for the city itself and the place where the company has its registered headquarters. The project provides support to cultural, academic and sports-related projects within Bochum, in particular.

The Environment and Adjustments to Reflect Climate Change

Climate and Environmental Protection in Our Properties

Climate and environmental protection in our properties includes issues such as energy efficiency and reducing greenhouse gas emissions in the portfolio, environmental protection in the portfolio and environmental protection in connection with renovation and new construction measures.

The real estate industry makes a significant contribution to greenhouse gas emissions via the construction and operation of buildings. For a housing company of our size, this gives rise to a special responsibility. Although we can only influence consumption levels in our properties to a certain degree in our capacity as the landlord – ultimately, tenants are free to decide how much electricity, water and heating they want to use – energy-efficient modernization, modern heating boilers or solutions such as smart thermostats can contribute to a marked reduction in energy consumption and, as a result, emissions. In this respect, much higher standards apply to new buildings compared with existing buildings. Owing to the very size of the real estate portfolio, it is clear that this is the biggest lever Vonovia has in order to make an active contribution to climate protection.

Our aim is to perform energy-efficient renovation measures on more than 3% of our buildings every year. As part of our energy efficiency modernization program, we will be investing in upgrading heating systems over the next few years, allowing us to save around 7,000 metric tons of CO_2 a year. At the same time, we will be investing in energy-efficient building upgrades over the coming years. These measures are likely to result in savings of around 28,000 metric tons of CO_2 in 2018. Our aim is to keep these investments at a stable level in the years that follow too.

Vonovia can also, however, use effective measures relating to the expansion of renewable energy sources, the targeted procurement of renewable energy and moves to start producing its own electricity using photovoltaic facilities and cogeneration units to actively combat climate change. Looking ahead to the future, we will be producing an increasing volume of renewable energy ourselves.

Vonovia already has a photovoltaic portfolio of 206 facilities with an installed total output of 5.5 MWp. This allows us to generate approximately 5.1 million kWh of regenerative electricity a year, resulting in CO_2 savings of around 2,900 metric tons. We want to expand this business area considerably by taking intensive measures to add additional facilities. We are currently planning to add more than 500 photovoltaic facilities to our portfolio a year over the next few years. This could increase our energy production by a further 15 million kWh a year, which would correspond to additional CO_2 savings of around 8,500 metric tons.

We also already operate 27 cogeneration units, which generate around 600,000 kWh of electricity using cogeneration. As part of our neighborhood development projects over the coming year, we plan to create a further five large-scale cogeneration units, which will produce around 2 million kWh of electricity a year.

Detailed information on relevance, functioning, concepts, due diligence processes and measures, targets and performance indicators on "Climate and Environmental Protection in Our Properties" can be found in the chapter entitled "Our Service Promise." → p. 39 et seq.

Climate and Environmental Protection in Our Own Business Activities

This section looks at company environmental protection and the impact of transportation/logistics.

Compared with the potential for change to make a positive contribution to climate and environmental protection through our own business activities, the measures relating to our properties provide us with a much bigger lever. Nevertheless, efficiency is, of course, also a key focal point for Vonovia. We continuously seek out opportunities to increase our level of resource efficiency and reduce our impact on the climate and the environment in our business processes as well.

Our craftsmen's and residential environment organization is a key aspect of our business activities and our customer service (for further information, please refer to the chapter entitled "Our Service Promise" → p. 39 et seq.). We intend to further increase our capacities in this area in the future. Moreover, the level of availability and the response time of our craftsmen's and residential environment organization are to at least remain at their current high levels in the future, since these two factors have a key impact on customer satisfaction. The mobility of our craftsmen and optimization of the related support processes are key aspects in order to enable this goal.

Vonovia had a fleet of around 4,250 vehicles last year. These vehicles are used primarily in our housing-related service organization and for our local customer service. According to our internal statistics, around 7,137 million liters of fuel were used in the 2017 fiscal year, which corresponds to average consumption of around 140 liters of fuel per vehicle and month, or 0.37 metric tons of CO_2. Around 95% of the fuel consumption is attributable to diesel vehicles. While our fleet will continue to grow in tandem with our business over the next few years, we aim to use scheduling and route planning, as well as lower-consumption vehicles, to ensure that the increase in fuel consumption and, as a result, in our CO_2 emissions is less pronounced than the increase in the fleet itself. The area of transportation and logistics is thus particularly significant for conserving resources and optimizing processes. To improve our use of resources and reduce our environmental impact, Vonovia is therefore closely addressing its vehicle fleet and the number of kilometers driven.

All of these measures aim not only to reduce costs, but also to reduce the energy that needs to be used. This applies both to average fuel consumption and to the total energy used in our business operations. These are to remain at least constant, but ideally drop, in 2018.

Employees

Within the Non-financial Declaration, the section on employees includes the topics of initial and further training, health management and occupational health and safety, co-determination, diversity and equal opportunities, work-life balance and the balancing of family and career needs. In line with the results of the materiality analysis, the following section focuses primarily on the topic of initial and further training.

An HR Strategy Focusing on Performance and Responsibility

Our HR management activities aim to ensure performance, appreciation and responsibility together with team spirit. In order to execute our mission and pursue our growth strategy, we need well-trained, qualified employees, because our success rests to a decisive degree on their expertise, commitment and motivation. We recruit suitable individuals to fill our vacant positions using an optimum mix of internal and external recruitment, and by offering relevant further training and vocational training schemes. In order to make sure that qualified staff remain loyal to us and to remain an attractive employer in the future, we offer various health programs to promote our employees' well-being, help them to strike a balance between their work and family lives and offer them the opportunity to participate in the company's success.

Equal opportunities and diversity are top priorities in all areas of the company. We employ people from all age groups, genders, various nationalities and cultures and with a whole range of educational backgrounds. We also employ people with varying levels of disability. The nationalities within our workforce, which represents around 60 different nations, alone highlights our commitment to diversity. This sort of diversity is a matter of course for us and is consistent with the diversity of our tenants.

Further Increase in Number of Employees

As an employer, the Vonovia Group had a total workforce of 8,448 employees as of December 31, 2017 (Dec. 31, 2016: 7,437 employees). The increase in the number of employees is largely due to the increase in the number of employees working for the technical service and the establishment of the residential environment organization. These areas were established within the company in order to further boost customer satisfaction. More than 92% of our employees have permanent contracts. At present, around 36% of managers are female.

Company Training: Filling Positions From Within the Company Itself

Training is a top priority within our company. We are proud of the fact that we are continuing to expand our commitment to vocational training on an ongoing basis and in a whole variety of areas. Our professional training concept provides an optimum basis for finding creative solutions to respond to individual challenges. By way of example, we allow mothers to complete their training on a part-time basis, thereby helping young people to obtain professional qualifications.

Our company employed a total of 462 trainees as of December 31, 2017, (Dec. 31, 2016: 430) training for 14 different occupations in 22 locations, as well as offering dual-degree programs (144 commercial and 318 technical trainees). This means that trainees account for 5.5% of the total workforce.

During the reporting year, 43 commercial and 23 technical trainees had reached the first milestone in their careers by successfully completing their traineeship at Vonovia in the summer of 2017.

In recognition of the excellent quality of training provided by Vonovia, the company was singled out in 2016 as an exemplary training company by the German Association of German Housing and Real Estate Companies (GdW) and received an award from the magazine Focus Money for being one of "Germany's best training companies."

The German Olympic Sports Association, representatives of the conference of sports ministers and of the Association of German Chambers of Industry and Commerce awarded Vonovia as one of the top sports-friendly companies of 2017. The company was recognized for its exceptional commitment, which provides top athletes with the ideal conditions to allow them to combine competitive sports with a professional career. Vonovia was also awarded the title of "Germany's best training company" by the business magazine Capital.

Our HR Development Tools

Our HR development tools ensure that our mission statement is put into practice in day-to-day work and form the basis for ongoing further development. HR development at Vonovia helps employees to unleash their potential. The aim is to recruit internally wherever possible. This is why talent management is an important aspect. Talents are identified and developed, measures are taken to ensure that high-performers stay with the company and steps are taken to ensure systematic succession planning. Our HR development tools help us to achieve this.

Targeted Further Training

Targeted further training forms a key component of our HR management system. Training courses and programs are tailored to suit our needs. Our employees are given the training they need for their current or future positions and requirements.

Vonovia's in-house Vonovia Academy offers training sessions and specialist seminars, as well as certified qualification schemes. It offers our employees a whole range of opportunities for specialist, methodological and personal further development.

The customer is at the heart of everything we do. This is also reflected in our further training programs, which consistently focus on customer and service orientation. By way of example, they simulate realistic working situations and offer communication training so that employees can respond even better to our customers' needs in their day-to-day work.

This year, a certified course leading to a qualification as a "Specialist real estate manager for residential property (Chamber of Industry and Commerce)" was designed specifically for Vonovia. It focuses on a range of topics including management duties, recent court decisions and communications.

Systematic Recruitment and Establishment of an Employer Brand

In 2016, the Recruitment & HR Marketing department was established within HR Management, the aim being to make the recruitment of specialists and managers even more efficient and to exploit Group-wide synergy potential. In particular, the department is responsible for managing the strategically important increase in personnel in the nationwide locations of our Technical Service and residential environment organization.

As part of a program launched by the German Federal Employment Agency (Bundesagentur für Arbeit), we are recruiting refugees to fill some of our vacant technical assistant positions. The project is to be continued nationwide following a pilot phase. This is once again testimony to the importance we attach to diversity among our employees and shows just how seriously we take our social responsibility to contribute to sustainable integration.

Active Health Management and Work-Life Balance

Preserving the well-being and boosting satisfaction among our employees is something that is important to us. Our Health & Social Affairs department within HR Management bundles all measures relating to health management and work-life balance under one roof.

Our company health management system aims to keep our employees in good health in order to maintain their ability to perform. The measures focus, in particular, on preventative measures and on encouraging employees to take greater responsibility for actively shaping their own health. We offer a varied range of programs covering topics such as stress management, exercise and preventative health.

We have been committed to promoting family life for years now, the aim being to allow our employees to strike a balance between family and work commitments by offering a range of tools designed to meet their specific needs. Within this context, we offer extensive advisory sessions on "childcare" and "eldercare" via a family services provider, for example.

You will find further information on all of the topics covered in this chapter in our Sustainability Report, which is scheduled for publication in June 2018.

Report on Economic Position

Development of the Economic Environment

Development of the Economy as a Whole and of the Sector – Economic Momentum Accelerates Again

According to data released by the Federal Statistical Office (Destatis), the German economy continued to make substantial gains in 2017, with gross domestic product (GDP) demonstrating a strong annual result of 2.2% growth. Official upward corrections have been made to the results already published for the first and third quarters of 2017. This means that last year was not only the eighth consecutive year of growth, but also the year with the most substantial rate of increase since 2011. According to the Kiel Institute for the World Economy (IfW), this puts the rate of expansion well ahead of the rate of growth in production capacities, meaning that capacity utilization, which is already strained to begin with, is expected to increase further.

Positive impetus came primarily from the domestic economy: After both private households and the state ramped up their consumer spending considerably, the second half-year of 2017 was characterized primarily by investment growth. The utilized production capacities and favorable financing conditions fueled an increase in investments in equipment, buildings and other installations, in particular. The threat of protectionism and global economic disintegration gave rise to fears of a downward trend in German exports at the beginning of the year. Provisional calculations show, however, that exports increased significantly over the course of the year, a development that made up for the ground lost in connection with the contractive effect of foreign trade developments in the summer on the back of much more pronounced growth in price-adjusted imports. The upswing also remained intact in other sectors of the economy, in particular in most service sectors, trade and transport. Industrial companies and the construction sector, in particular, have been working at their capacity limit for some time now.

In a surprising development, the ifo business climate index nevertheless clouded over slightly in December 2017 at 117.2 points, although it remains close to the record value of 117.6 points reported only a month earlier. It would appear that potential risks were more of a focal point at the turn of the year – possibly in anticipation of the effects of Brexit or in reaction to the failed “Jamaica coalition talks.” Experts do not, however, believe that there are any more serious risks on the horizon at present. Although full economic utilization comes hand-in-hand with the risk of the start of a cyclical downturn, Germany is still expected to report further growth. Exogenous factors are expected to continue to include, first and foremost, the unclear terms of the United Kingdom’s exit from the EU, the negative impact of which will only emerge in the medium term, and the unforeseeable financial market risks associated with the North Korea conflict. Although some signs are emerging that the European Central Bank (ECB) is intending to make a gradual break with its ultra-expansive monetary policy, it is still keeping key rates at record low levels since March 2016 of 0.0%. This means that, despite all of the criticism leveled against it, the ECB plans to stimulate the economy and inflation in order to achieve an annual inflation rate of just under 2.0% in the medium term.

The labor market continued to show positive development: The Federal Statistical Office reported an average of 638,000 more people in work in 2017 as a whole than in the same period of the previous year – the biggest increase in ten years. This means that employment is at the highest level seen since German reunification. The German Federal Employment Agency (Bundesagentur für Arbeit) published an unemployment rate of 5.7% for 2017, down by 0.4 percentage points against the previous year.

Consumer price performance has already been on a slight upward trajectory since the end of last year. In 2017, the average rate of inflation is likely to have come in at 1.8% based on the consumer price index. Inflation has been primarily driven by developments in the price of heating oil and fuel, although food prices have also increased significantly.

Renewed Rise in Quoted Rents and Quoted Prices in Germany

According to experts at DG Hyp, the German real estate market is still experiencing considerable momentum. This is attributable not only to the continued growth trajectory of the German economy and the positive labor market developments, but also to population growth due to immigration and a return to higher birth rates. According to DG Hyp, low capital market yields mean that several billions in investor funds are still looking for real estate investments that hold the promise of higher returns. Rising prices and rents, and the continued drop in initial rental yields, come as little surprise in this sort of environment.

As in the previous year, quoted rents continued to increase in 2017: IMX, the quoted price index of the real estate portal ImmobilienScout24, rose nationwide by 5.0 percentage points (3.8%) in December as against the previous year. The quoted prices for condominiums also increased further across Germany in 2017. Compared with the increase in rents, these prices have been increasing at a much faster pace again. According to IMX, the prices for existing condominiums increased by 20.2 percentage points (12.5%) against the previous year in December. The price index for newly built condominiums rose by 13.4 percentage points (8.1%) during the same period. Although the prices of newly built condominiums recently showed less of an increase than the prices for existing condominiums, they are not expected to stagnate.

Sustained Keen Interest in the German Residential Investment Market

In 2017, residential building bundles and residential developments of 50 units or more accounted for a total transaction volume of around € 15.2 billion on the German residential investment market, according to the real estate consultancy firm CBRE. This puts the transaction volume up by just under 11% compared to last year's result. Investor interest in German residential properties as an investment target remains high. Activity among international players is reported to be increasing. In line with this trend, foreign investors' share of the total transaction volume rose by 21% year-on-year. Due to increasing trading in higher-priced portfolios and the high demand for new construction project developments, CBRE identified a further increase in purchase prices. In addition to the established top locations and high-influx cities, North Rhine-Westphalia is also proving to be an increasingly popular investment alternative. Given the short supply of existing properties that are suitable for investment purposes, the volume allocated to project developments rose by 4 percentage points year-on-year to € 4.4 billion. Asset classes such as student apartments and microapartments are also proving increasingly popular. CBRE reported a transaction volume for small-scale residential solutions in excess of € 1 billion for the first time.

Continued Short Supply on the German Real Estate Market

According to Deutsche Bank Research, the German population has increased by around 1.5 million in recent years, further exacerbating the short supply on the real estate market. The housing deficit is currently tipped to come to more than one million apartments nationwide, with the country's metropolitan areas being hit particularly hard. Experts from Helaba Landesbank Hessen-Thüringen predict that, all in all, Germany will need around 400,000 apartments a year in the medium term. The current estimated apartment construction activity of at least 300,000 units/320,000 in 2018 is not sufficient to cover the annual need for construction. Deutsche Bank Research attributes the low supply elasticity to factors such as the shortage of land available for construction, more stringent regulatory requirements and rising construction costs, etc.

Group’s Business Development

The 2017 fiscal year developed **very successfully** for **Vonovia on the whole**. We were able to pick up exactly where we left off in 2016, continuing with our positive business development. We continued to pursue our corporate strategy unchanged. All key figures showed positive development.

In the **Rental segment**, we implemented our modernization and new construction measures as planned. Our innovative new building solutions using a standardized series construction system are our way of underpinning the role in which we see ourselves, namely as a company that provides impetus for the industry as a whole. We believe that these solutions provide us with an opportunity to build new, affordable and needs-oriented rental apartments and we are convinced that cost awareness and quality are not mutually exclusive. Our housing stock continued to increase in value in the 2017 fiscal year.

In the **Value-add Business segment** (previously known as “Extension”), we forged ahead with the continued expansion of our housing-related services. We successfully expanded the services provided by the craftsmen’s organization and our residential environment services, in particular. Business activities were also intensified in the field of condominium administration services, the supply of cable TV to tenants, and metering and insurance services. The services offered as part of the Value-add Business are being well received by our customers.

In the **Sales segment**, we continued to pursue our strategy of selective sales. We reduced our housing stocks considerably in less attractive regions.

Key Events

The first-time consolidation of the conwert Group, comprising 208 companies, in the **first quarter of 2017** allowed us to lay the foundation for the targeted management of the acquired portfolio. The creation of the necessary exchange shares increased our total equity by € 88.9 million in net terms. The first-time consolidation resulted in goodwill of € 231.9 million.

In the second quarter of 2017, we stepped up our efforts to achieve the organizational integration of conwert into Vonovia’s organization. Furthermore, a squeeze-out process regarding the remaining conwert shares was initiated by Vonovia SE and concluded by way of the corresponding resolution passed at conwert’s Annual General Meeting held on August 29, 2017.

On May 16, 2017, the Annual General Meeting of Vonovia SE passed a resolution to distribute an amount of € 525,052,568.32, or € 1.12 per share, using the profit for the 2016 fiscal year. Shareholders could opt for either a cash dividend or a non-cash dividend in the form of new shares created using authorized capital, with an exchange ratio of 30.5:1.

A resolution on the merger of Gagfah S. A. with Vonovia SE was passed on June 27, 2017. This means that we performed a key task that will create a more efficient legal structure within the Vonovia Group.

Finally, in the second quarter of 2017, we completed a contract regarding the acquisition of the PROIMMO AG portfolio. The acquisition took place in the third quarter of 2017.

In the third quarter of 2017, we added the real estate portfolio of PROIMMO AG, including 1,032 apartments and 24 commercial units, located mainly in Hanover to our portfolio as of July 1, 2017.

In August 2017, we commissioned our new tenant online customer portal, taking a further step towards improving our service quality in the digital environment. Our customers can easily access the portal using any end device. It enables damage to be reported online, provides an insight into ancillary expenses and tenant accounts, and allows apartment viewing appointments to be booked, for example.

We also activated our Vonovia Immobilien Treuhand app in August 2017. It gives property owners, whose properties are managed by Vonovia Immobilien Treuhand, convenient online access, allowing them to view and manage their own data and contracts, report damage or issue orders online at any time. The app is our way of promoting customer loyalty and making our processes and interfaces more transparent.

In the fourth quarter of 2017, we concluded a partnership agreement with the French Group SNI in October. The SNI Group is the public-sector real estate subsidiary of the state financial institution Caisse des Dépôts and is the biggest social housing building contractor in France. The portfolio comprises around 348,000 apartments, 262,000 of which are classed as social housing and around 86,000 of which are temporary homes. The agreement aims to consolidate the expertise and market knowledge of the two companies and identify joint growth and investment opportunities. Among other things, an agreement was reached on the following collaboration areas: Benchmarks for the processes of both companies, an investigation into the interaction between digital and conventional approaches in a real estate context, consolidating information so as to identify the most efficient use of resources in a mutually beneficial manner, identification of the potential for energy-saving solutions, identification of services for private customers as a key growth driver, customer satisfaction, dialog on the experience of both companies with portfolio management, discussion of the opportunities available for cross-border investments on the real estate market and sounding out potential investment partnerships.

On December 18, 2017, BUWOG AG, which has its registered headquarters in Vienna, and Vonovia signed a business combination agreement. Based on this agreement, Vonovia has announced its intention to make the shareholders in BUWOG a voluntary public takeover offer for the purchase of all BUWOG shares. The BUWOG shareholders are to be offered a price of € 29.05 in cash for each share in BUWOG. BUWOG has valued this cash offer, which was published on February 5, 2018, at around € 5.2 billion, taking into account the potential shares from the conversion of the convertible bonds issued by BUWOG.

On December 31, 2017, we performed another valuation of our real estate portfolio due to the current market situation. All in all, the value of the residential real estate portfolio amounted to € 3,434.1 million.

Business Development in 2017 – An Overview

In the 2017 fiscal year, we were able to further expand our leading market position and successfully continue with our business strategy, as is evident from our key performance indicators.

The figures for 2017 include conwert with its business figures for the period from January to December for the first time. In detail, our performance indicators at Group level (most meaningful performance indicators within the meaning of DRS 20) are as follows:

	Actual 2016	Last forecast in the Interim Financial Report for Q3 2017	Actual 2017
Adjusted NAV/share	€30.75	suspended	€38.49
EPRA NAV/share	€ 36.58	suspended	€ 43.88
FFO 1	€760.8 million	€910–920 million (upper end)	€920.8 million
FFO 1/share	€ 1.63	€ 1.88–1.90	€ 1.90
CSI	Increase of 8.0%	Similar CSI as 2016	Increase of 1.6%

The **adjusted NAV** per share came in at € 38.49 in 2017, up by 25.2% on the prior-year value of € 30.75. This corresponds to an EPRA NAV per share of € 43.88 (2016: € 36.58). This increase was due primarily to the net income from fair value adjustments of investment properties of € 3,434.1 million (2016: € 3,236.1 million).

FFO 1 rose by € 160.0 million to € 920.8 million in 2017 (2016: € 760.8 million), putting it slightly ahead of the most recent forecast for the upper forecast range value of between € 910 million and € 920 million. This corresponds to FFO1 per share of € 1.90 (2016: € 1.63, most recent forecast € 1.88–1.90). The improvement in adjusted EBITDA Operations was the main factor behind the increase in FFO. It rose by € 130.2 million, from € 1,094.0 million in 2016 to € 1,224.2 million in 2017. The interest expense excluding non-recurring items (FFO interest expense) came to € -287.5 million in 2017, down by 10.9% on the prior-year value of € -322.7 million.

We were also able to further improve our customer satisfaction. The CSI, which we had expected to be on a par with the 2016 fiscal year in 2017, was exceeded by 1.6%.

Statement of the Management Board on the Economic Situation

The net assets, financial position and results of operations of the Group are extremely positive, particularly given the solid financing, the resulting balanced maturity profile and the financing flexibility gained through the rating-backed bond financings with a view to both organic and external growth. Steady improvements to the property management processes promote ongoing improvements in profitability.

Results of Operations

The following key figures provide an overview of Vonovia's results of operations and their drivers in the 2017 fiscal year. When comparing the key figures shown with the prior year, it is important to remember that the conwert acquisition is included for the first time in 2017, namely with its earnings contribution for the year as a whole.

Key Figures on Earnings Development

in € million	2016	2017	Change in %
Income from property management	2,209.3	2,391.6	8.3
thereof rental income	1,538.1	1,667.9	8.4
Adjusted EBITDA Operations	1,094.0	1,224.2	11.9
Adjusted EBITDA Rental	1,046.2	1,150.0	9.9
Adjusted EBITDA Value-add Business	57.0	102.1	79.1
Adjusted EBITDA Other	-9.2	-27.9	203.3
FFO 1	760.8	920.8	21.0
Income from disposal of properties	1,227.9	1,206.4	-1.8
Adjusted EBITDA Sales	92.5	110.8	19.8
EBITDA IFRS	1,083.7	1,271.8	17.4
Adjusted EBITDA	1,186.5	1,335.0	12.5
Monthly in-place rent (€/m²)	6.02	6.27	4.2
Average area of own apartments in the reporting period (in thou. m²)	21,509	22,056	2.5
Number of residential units in portfolio	344,884	352,848	2.3
Vacancy rate (in %)	2.4	2.5	0.1 pp
Maintenance and modernization incl. new construction (€/m²)	36.84	51.00	38.4
thereof expenses for maintenance and capitalized maintenance (€/m²)	14.88	15.70	5.5
thereof for modernization incl. new construction (€/m²)	21.96	35.30	60.8
Number of units bought	2,815	24,847	782.7
Number of units sold	26,631	11,780	-55.8
thereof Privatize	2,701	2,608	-3.4
thereof Sell portfolio	23,930	9,172	-61.7
Number of employees (as of December 31)	7,437	8,448	13.6

Income from property management rose by 8.3%, from € 2,209.3 million in 2016 to € 2,391.6 million in 2017. The increase was mainly due to the development in rental income in the Rental segment, which rose by 8.4% from € 1,538.1 million to € 1,667.9 million in 2017. The conwert portfolio contributed € 126.4 million to this increase in rental income.

In the 2017 fiscal year, we were able to increase our primary key figure for the sustained earnings power of our core business, **FFO 1**, by € 160.0 million or 21.0% from € 760.8 million to € 920.8 million compared with 2016. This trend was fueled primarily by the positive development in adjusted EBITDA Operations, which rose by 11.9% from € 1,094.0 million in 2016 to € 1,224.2 million in 2017. This positive development was driven by the Rental and Value-add Business segments.

FFO 1

in € million	2016	2017	Change in %
Rental income	1,538.1	1,667.9	8.4
Maintenance expenses	-247.4	-258.0	4.3
Operating expenses	-244.5	-259.9	6.3
Adjusted EBITDA Rental	1,046.2	1,150.0	9.9
Income Value-add Business	851.2	1,170.5	37.5
thereof external income	108.1	161.6	49.5
thereof internal income	743.1	1,008.9	35.8
Operating expenses	-794.2	-1,068.4	34.5
Adjusted EBITDA Value-add Business	57.0	102.1	79.1
Adjusted EBITDA Others	-9.2	-27.9	203.3
Adjusted EBITDA Operations	1,094.0	1,224.2	11.9
Interest expense FFO	-322.7	-287.5	-10.9
Current income taxes FFO 1	-10.5	-15.9	51.4
FFO 1	**760.8**	**920.8**	**21.0**

At the end of the 2017 fiscal year, our housing stock in the **Rental segment** had virtually full occupancy. The apartment vacancy rate came to 2.5% at the end of the year, virtually level with the prior-year value of 2.4%, with around 1 percentage point attributable to construction-related vacancies due to our extensive investment program. Rental income rose by 8.4% from € 1,538.1 million in the 2016 fiscal year to € 1,667.9 million in the 2017 fiscal year. This corresponds to an average monthly in-place rent of € 6.27/m² at the end of 2017, compared with € 6.02 €/m² at the end of 2016, and to an overall increase in rent per square meter of 4.2% (2016: 4.7%).

The increase in rent due to market-related factors came to 1.6% (2016: 1.5%). In addition, we were able to achieve an increase in rent of 2.5% thanks to property value improvements achieved as part of our modernization program (2016: 1.8%). If we also include the increase in rent due to new construction measures and measures to add extra stories, then we arrive at an organic increase in rent of 4.2% (2016: 3.3%). The corresponding like-for-like increase in rent came to 4.1% in the 2017 fiscal year (2016: 3.3%). The average monthly in-place rent in the conwert portfolio came to € 6.06 m² at the end of the reporting period.

As planned, we increased our modernization and maintenance measures significantly to a volume of € 1,124.8 million in the 2017 fiscal year (2016: € 792.4 million). This was driven primarily by the increase in the modernization volume from € 472.3 million to € 778.6 million. In the 2017 fiscal year, a volume of € 52.5 million was attributable to modernization and maintenance measures in the conwert portfolio.

Maintenance and Modernization

in € million	2016	2017	Change in %
Expenses for maintenance	247.4	258.0	4.3
Capitalized maintenance	72.7	88.2	21.3
Modernization work*	472.3	778.6	64.9
Total cost of modernization and maintenance**	**792.4**	**1.124.8**	**41.9**

* Incl. new construction: 2016: € 13.9 million, 2017: € 65.7 million
** Incl. intra-Group profits for 2016: € 45.5 million (thereof € 1.1 million capitalized maintenance and € 8.7 million modernization); 2017: € 72.3 million (thereof € 2.5 million capitalized maintenance and € 25.1 million modernization)

In relation to the average number of apartments managed during the reporting period, this corresponds to spending on modernization and maintenance of € 51.00 per m² in the 2017 fiscal year (2016: € 36.84 per m²).

A total of € 65.7 million was invested and settled in relation to the construction of new apartments in the 2017 fiscal year (2016: € 13.9 million). A total of 182 apartments were completed during the reporting period. In addition, 443 apartments accounting for an investment volume of around € 80 million were under construction at the end of 2017. In its new construction activities, Vonovia is placing particular emphasis on targeted densification and vertical expansion using prefabricated modules and the following three modular construction concepts: wood hybrid, steel skeleton and precast concrete construction.

In the 2017 fiscal year, operating expenses in the Rental segment were up by 6.3% on the figures for 2016, from € 244.5 million to € 259.9 million, mainly due to acquisitions. All in all, adjusted EBITDA Rental rose by 9.9%, from € 1,046.2 million in 2016 to € 1,150.0 million in 2017.

We boosted our earnings power further in the Value-add Business segment. In particular, we significantly improved the output of our craftsmen's organization, allowing us to make our investments in improving our portfolio as planned. In addition, we continued to expand our business activities in the areas of condominium administration, the provision of cable television to our tenants, metering services and insurance and residential environment services in the 2017 fiscal year. Vonovia Immobilien Treuhand now provides services to a total of approximately 100,000 units, of which 63,000 are apartments managed by third parties.

Total income from our Value-add Business activities rose by 37.5% from € 851.2 million to € 1,170.5 million. The adjusted EBITDA Value-add Business improved considerably from € 57.0 million in 2016 to € 102.1 million in 2017.

Adjusted EBITDA Other came to € -27.9 million in 2017 (2016: € -9.2 million). This includes the consolidation of intra-Group profits from capitalized modernization and maintenance services performed internally, which are included in the EBITDA of the Value-add Business segment. As a result, this amount includes the cash advantage generated by the Group in connection with these intra-Group services.

Costs per Unit and EBITDA Margin

The actual costs incurred by Vonovia for the management of its properties are shown in the costs of the Rental segment, excluding maintenance costs and including the earnings contribution made by the service business, which is directly linked to the properties. As a result, we have grouped the operating expenses of the Rental segment, the adjusted EBITDA of the Value-add Business segment and the adjusted EBITDA Other to show the Group-wide property management costs. In terms of the average number of residential units, these costs came to € 526 per unit in 2017, 7.7% below the previous year's value of € 570.

The EBITDA margin of the core business, calculated based on the adjusted EBITDA Operations in relation to rental income within the Group, once again showed positive development in the reporting period. It rose from 70.9% to 73.2%.

We successfully continued our selective sales strategy in the **Sales segment** in the 2017 fiscal year. The segment covers all business activities relating to the sale of single residential units (Privatize) and the sale of entire buildings or land and commercial units (Sell portfolio previously known as Non-Core/Non-Strategic).

In the 2017 fiscal year, income from the disposal of properties came to € 1,206.4 million, down by 1.8% on the value for 2016 (€ 1,227.9 million). This was driven by the sales from the conwert portfolio in 2017, which accounted for a volume of € 600.1 million, whereas sales in the previous year were characterized primarily by a block sale of 13,570 units to LEG. We sold a total of 11,780 apartments in the 2017 fiscal year (2016: 26,631). 2,608 of these apartments were attributable to the Privatize portfolio (2016: 2,701) and 9,172 to the Sell portfolio (2016: 23,930). We sold 2,779 apartments and 865 commercial units from the conwert portfolio in the 2017 fiscal year. The sale of commercial units from the conwert portfolio were achieved mainly in the context of a block sale in the first quarter of 2017.

In the reporting period, adjusted EBITDA Sales came to € 110.8 million, 19.8% above the comparative value of € 92.5 million. At 32.6%, the fair value step-up in the Privatize portfolio was lower than for the previous year (36.2%). This was due to the higher property values at the end of 2016 and as of 30 June, 2017. In addition, 392 privatizations were achieved as part of block sales. If these sales are left out of the equation, then the fair value step-up in the Privatize portfolio comes to 35.0%.

The fair value step-up in the Sell portfolio, on the other hand, came in at 7.9%, up on the comparative value of 5.4% for 2016.

Adjusted EBITDA Sales

in € million	2016	2017	Change in %
Income from disposal of properties	1,227.9	1,206.4	-1.8
Fair value of properties sold adjusted to reflect effects not relating to the period from assets held for sale	-1,107.7	-1,065.5	-3.8
Adjusted profit from disposal of properties	120.2	140.9	17.2
thereof Privatize	71.1	75.3	5.9
thereof Sell portfolio	49.1	65.6	33.6
Selling costs	-27.7	-30.1	8.7
Adjusted EBITDA Sales	**92.5**	**110.8**	**19.8**

In the 2017 reporting period, the **non-recurring** items eliminated in the adjusted EBITDA as a whole came to € 86.9 million, down by 8.0% on the prior-year value of € 94.5 million, mainly due to lower expenses for severance payments/pre-retirement part-time work arrangements.

Non-recurring Items

in € million	2016	2017	Change in %
Business model optimization/development of new fields of business	19.5	23.3	19.5
Acquisition costs incl. integration costs*	48.3	48.1	-0.4
Refinancing and equity measures	3.2	1.6	-50.0
Severance payments/pre-retirement part-time work arrangements	23.5	13.9	-40.9
Total non-recurring items	**94.5**	**86.9**	**-8.0**

* Including takeover costs and one-time expenses in connection with acquisitions, such as HR measures relating to the integration process. Figures for the previous year shown in line with the current reporting structure for 2017

The financial result made a marked improvement in a year-on-year comparison, rising by € 106.7 million to € -326.3 million. This is due primarily to the repayment of financing in the course of 2016. In addition, the prior-year figures were hit by transaction costs and prepayment penalties in connection with the repayment of portfolio loans. FFO 1 interest expense is derived from the financial result as follows.

Reconciliation of Financial Result/FFO Interest Expense

in € million	2016	2017	Change in %
Income from loans	1.9	1.6	-15.8
Interest income	14.1	25.1	78.0
Interest expense	-449.0	-353.0	-21.4
Financial result*	-433.0	-326.3	-24.6
Adjustments:			
Transaction costs	21.5	7.9	-63.3
Prepayment penalties and commitment interest	64.4	16.4	-74.5
Effects from the valuation of non-derivative financial instruments	-31.0	-8.8	-71.6
Derivatives	12.9	-3.9	-
Interest accretion to provisions	11.2	9.0	-19.6
Accrued interest	-7.9	3.1	-
Other effects	0.6	2.6	-
Net cash interest	-361.3	-300.0	-17.0
Accrued interest adjustment	7.9	-3.1	-139.2
Adjustments EMTN interest**	21.1	–	–
Adjustments Income from investments in other real estate companies	9.6	13.0	35.4
Interest payment adjustment due to taxes	–	2.6	–
FFO interest expense	**-322.7**	**-287.5**	**-10.9**

* Excluding income from other investments
** Interest on the difference between the taking up and making use of the € 3 billion bonds from December 2015, which were intended to be used for the financing of the Deutsche Wohnen acquisition.

Due to refinancing and resulting lower interest rates, FFO interest expense came to € 287.5 million in the 2017 fiscal year, down by 10.9% on the value for the prior year of € 322.7 million.

Income taxes in the 2017 fiscal year came in at € -1,440.5 million, up on the prior-year value of € -1,346.9 million as a result of valuation results. The effective income tax rate came to 35.9% in 2017, up on the previous year's figure of 34.9%. Current income taxes (including aperiodic income tax) in 2017 came in at € -38.2 million, below the prior-year value of € -50.2 million.

The **profit for the period** came to € 2,566.9 million in the 2017 fiscal year. This is largely influenced by the increase in the value of investment properties in the amount of € 3,434.1 million. This means that it was down slightly on the 2016 value of € 2,512.9 million. Impairment testing resulted in a goodwill write-down of € 337.3 million in the 2017 fiscal year.

Reconciliation of Profit for the Period/FFO

in € million	2016	2017	Change in %
Profit for the period	2,512.9	2,566.9	2.1
Financial result*	433.0	326.3	-24.6
Income taxes	1,346.9	1,440.5	6.9
Depreciation and amortization	27.0	372.2	> 100
Net income from fair value adjustments of investment properties	-3,236.1	-3,434.1	6.1
= EBITDA IFRS	1,083.7	1,271.8	17.4
Non-recurring items	94.5	86.9	-8.0
Total period adjustments from assets held for sale	17.9	-10.7	-159.8
Financial income from investments in other real estate companies	-9.6	-13.0	35.4
= Adjusted EBITDA	1,186.5	1,335.0	12.5
Adjusted EBITDA Sales	-92.5	-110.8	19.8
= Adjusted EBITDA operations	1,094.0	1,224.2	11.9
Interest expense FFO**	-322.7	-287.5	-10.9
Current income taxes FFO 1	-10.5	-15.9	51.4
= FFO 1	760.8	920.8	21.0
Capitalized maintenance	-71.6	-85.7	19.7
= AFFO	689.2	835.1	21.2
Current income taxes Sales	-29.5	-19.2	-34.9
FFO 2 (FFO 1 incl. adjusted EBITDA Sales/current income taxes Sales)	823.8	1,012.4	22.9
FFO 1 per share in €***	1.63	1.90	16.3
AFFO per share in €***	1.48	1.72	16.4

* Excluding income from investments
** Incl. financial income from investments in other real estate companies
*** Based on the shares carrying dividend rights on the reporting date Dec. 31, 2016: 466,000,624, Dec. 31, 2017: 485,100,826

Assets

Asset and Capital Structure

Consolidated Balance Sheet Structure

	Dec. 31, 2016		Dec. 31, 2017	
	in € million	in %	in € million	in %
Non-current assets	30,459.8	93.7	36,719.6	97.9
Current assets	2,062.3	6.3	796.7	2.1
Total assets	**32,522.1**	**100.0**	**37,516.3**	**100.0**
Equity	13,888.4	42.7	16,691.2	44.5
Non-current liabilities	16,229.1	49.9	18,585.2	49.5
Current liabilities	2,404.6	7.4	2,239.9	6.0
Total equity and liabilities	**32,522.1**	**100.0**	**37,516.3**	**100.0**

The Group's **total assets** increased by € 4,994.2 million as against December 31, 2016, rising from € 32,522.1 million to € 37,516.3 million. This was largely due to a € 6,202.5 million increase in **investment properties** to € 33,182.8 million, with € 2,480.9 million attributable to the integration of the conwert Group. The further increase in investment properties is due to investments in the portfolio and the calculation of the fair value at the end of the year, which is responsible for an increase of € 3,434.1 million. On the one hand, **intangible assets** increased by € 231.9 million due to **goodwill** in connection with the first-time integration of the conwert Group while, on the other, they dropped by € 337.3 million due to a goodwill impairment in the "East business area" CGU.

Current assets fell largely due to the drop in cash and cash equivalents and the derecognition of the positive market values of settled derivatives. Cash and cash equivalents dropped by € 1,274.6 million to € 266.2 million largely due to the payment of the conwert cash component, the payment of the cash dividend, the repayment of the CMBS Taurus loan and a EUR and USD bond. The inflow from the EMTN drawdowns had the opposite effect.

The gross asset value (**GAV**) of Vonovia's property assets came to € 33,424.9 million as of December 31, 2017, which corresponds to 89.1% of total assets compared with € 27,106.4 million or 83.3% at the end of 2016.

The € 2,802.8 million increase in **total equity** to € 16,691.2 million is attributable to the current profit for the period as well as the non-cash capital increase in connection with the takeover of conwert and the resulting increase in non-controlling interests.

On May 16, 2017, the Annual General Meeting of Vonovia SE passed a resolution to distribute an amount of € 525,052,568.32, or € 1.12 per share, using the profit for the 2016 fiscal year. Shareholders could opt for either a cash dividend or a non-cash dividend in the form of new shares created using authorized capital, with an exchange ratio of 30.5: 1 new share. 49.86% of the dividend was settled in the form of new shares and € 263.8 million was paid as a cash dividend.

This brings the **equity ratio** to 44.5% compared with 42.7% at the end of 2016.

Within **non-current liabilities, deferred tax liabilities** were up significantly as against the end of 2016 due to the first-time consolidation of the conwert Group and due to the valuation of the property portfolio. In addition, non-current liabilities increased due to a rise in non-derivative financial liabilities, which were, in turn, due to the EMTN drawdowns.

Current liabilities dropped by € 164.7 million as of December 31, 2017 due to the repayment of the due non-derivative financial liabilities and the closing out of derivatives.

The value of our real estate portfolio is a crucial factor influencing the assessment of our asset position and therefore the development of our net asset value, which is an important performance indicator.

Net Asset Value

At the end of 2017, the net asset value (NAV), in accordance with EPRA standards, amounted to € 21,284.6 million, 24.9% higher than the level at the end of 2016 (€ 17,047.1 million). This is largely due to net income from fair value adjustments of investment properties in the 2017 fiscal year. Net income from fair value adjustments amounted to € 3,434.1 million in 2017 (2016: € 3,236.1 million). By contrast, the goodwill impairment of € 337.3 million reduced the EPRA NAV. The need for impairment arose for the East region due to a further increase in property values due to further yield compression, particularly in Berlin, in connection with a rise in the cost of capital (WACC) as a result of an increased base interest rate and a lower level of indebtedness of the peer group. The adjusted NAV rose from € 14,328.2 million to € 18,671.1 million. This represents an increase in the adjusted NAV per share from € 30.75 to € 38.49.

Net Asset Value (NAV) Based on Application of IAS 40

in € million	2016	2017	Change in %
Equity attributable to Vonovia shareholders	12,467.8	15,080.8	21.0
Deferred taxes on investment properties/asset held for sales	4,550.3	6,185.7	35.9
Fair value of derivative financial instruments*	44.4	26.9	-39.4
Deferred taxes on derivative financial instruments	-15.4	-8.8	-42.9
EPRA NAV	17,047.1	21,284.6	24.9
Goodwill	-2,718.9	-2,613.5	-3.9
Adjusted NAV	**14,328.2**	**18,671.1**	**30.3**
EPRA NAV per share in €**	**36.58**	**43.88**	**19.9**
Adjusted NAV per share in €**	**30.75**	**38.49**	**25.2**

* Adjusted for effects from cross currency swaps
** Based on the shares carrying dividend rights on the reporting date Dec. 31, 2016: 466,000,624, Dec. 31, 2017: 485,100,826

Over a period of five years, Vonovia has continually created value and increased EPRA NAV and GAV (gross asset value).

in € million	EPRA NAV	GAV
2017	21,284.6	33,424.9
2016	17,047.1	27,106.4
2015	13,988.2	24,153.9
2014	6,578.0	12,757.1
2013	5,123.4	10,324.5

Fair Values

Major market developments and valuation parameters that have an impact on the fair values of Vonovia are assessed every quarter. In addition to the revaluation as of June 30, 2017, the portfolio was also revalued at the end of the year. Due to the extensive investments made in the energy-efficient modernization of our buildings and to improve the fittings in our apartments, Vonovia's portfolio showed very positive development in 2017. This is evident from the development of rents, among other things. At the same time, the residential property market in Germany was particularly dynamic in 2017 as it was in 2016. Price increases are now being witnessed not only in expensive locations such as Munich, Berlin and Frankfurt, but also in locations that have shown weaker momentum in previous years. These include cities such as Lübeck, Potsdam and Wiesbaden as well as locations in the Ruhr region, such as Essen or Dortmund. Since the return expectations of property buyers have dropped, the increase in market values is ahead of rent developments in these locations (yield compression). This means that in 2017, the value of our property portfolio rose considerably by 14.8% compared with 2016, after adjustments for acquisitions and sales.

In addition to the internal valuation, the property assets are also assessed externally by the independent property appraiser CBRE GmbH. The market value resulting from the CBRE expert opinion deviates from the internal valuation result by less than 0.1%.

The fair values for each strategic real estate portfolio are as follows:

	Residential units		Fair value (in € million)*	
	Dec. 31, 2016	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**
Strategic	302,710	319,014	24,871.8	30,508.0
Operate	88,359	101,697	7,601.9	10,252.9
Modernization	214,351	217,317	17,269.9	20,255.1
Privatize	17,195	14,099	1,585.9	1,509.7
Sell	13,476	11,473	555.0	535.6
Vonovia Germany	333,381	344,586	27,012.6	32,553.3
Vonovia Austria		2,058		551.6
Total	**333,381**	**346,644**	**27,012.6**	**33,104.9**

* Fair value of the developed land excluding € 331.4 million (2016: € 103.0 million) for undeveloped land, inheritable building rights granted, construction in progress and other.

Regular Determination of the Fair Values Creates a Transparent Valuation of the Company's Properties

Calculating and showing the fair values provides a control parameter inside the company and also helps to make the development of the value of our assets transparent to people outside the company.

The fair value of the portfolio of residential properties was determined on the basis of IAS 40 and IFRS 13 as well as the International Valuation Standard Committee's definition of market value.

The valuation methodology used by Vonovia is based on the discounted cash flow (DCF) methodology. Under the DCF methodology, the fair values are derived from the income and costs associated with a property. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of ten years and discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. These are derived for each location from the latest rent indices and rent tables (e. g., empirica and IVD), as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmann Stiftung, etc.).

On the cost side, maintenance expenses and management costs, as well as other cost items such as ground rent, non-allocable ancillary costs and rent losses, have been taken into account and inflated in the reporting period. Modernization measures carried out in the housing stocks are factored in by decreasing the current maintenance expenses and adjusting market rents. The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. Different cost approaches were used to those for residential properties, and the capitalized interest rates were adjusted to reflect the market specifics.

The recognition and valuation of investment properties are explained in detail in the notes to the consolidated financial statements (note [21]). → p. 151 et seq.

The fair value of the real estate portfolio of Vonovia comprising residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable building rights granted was € 33,436.3 million as of December 31, 2017 (2016: € 27,115.6 million). The determination of fair values led overall to net income from fair value adjustments of investment properties of € 3,434.1 million.

Financial Position

Cash Flow

The following table shows the Group cash flow:

Key Data from the Statement of Cash Flows

in € million	2016	2017
Cash flow from operating activities	828.9	946.0
Cash flow from investing activities	416.4	-1,350.1
Cash flow from financing activities	-2,812.4	-870.5
Net changes in cash and cash equivalents	-1,567.1	-1,274.6
Cash and cash equivalents at the beginning of the period	3,107.9	1,540.8
Cash and cash equivalents at the end of the period	**1,540.8**	**266.2**

The cash flow from **operating activities** rose from € 828.9 million in 2016 to € 946.0 million in 2017. The increase is mainly due to the improvement in the EBITDA IFRS operating result, as well as the integration of the acquired conwert portfolio.

The cash flow from **investing activities** shows a payout balance of € 1,350.1 million for 2017, mainly due to the payment of the cash component for the conwert takeover. The payouts for acquisitions and modernization of the real estate portfolio came to € 1,043.0 million, whereas on the other hand, income from portfolio sales in the amount of € 1,165.2 million was collected.

The cash flow from **financing activities** is characterized by the refinancing measures taken in 2017. The proceeds arising from the EMTN drawdown, the issuance of commercial papers and the new mortgages taken out (funds relating to the German government-owned development bank, KfW and the European Investment Bank) total € 2,920.5 million. On the other hand, payouts were made in connection with scheduled and unscheduled repayments from financing, including the scheduled repayment of a USD bond amounting to € 554.9 million, an EMTN drawdown in the amount of € 750 million and unscheduled repayments, mainly the CMBS Taurus financing in the amount of € 3,248.7 million in total, as well as transaction and financing costs. Total dividend payments of € 277.9 million and interest payments of € 303.4 million were made compared with € 365.6 million in 2016.

The **net drop in cash and cash equivalents** came to € 1,274.6 million.

Financing

The rating agency Standard & Poor's has assigned Vonovia a long-term corporate credit rating of 'BBB+' with a stable outlook and a short-term credit rating of 'A-2'. This rating was confirmed in the letter dated December 19, 2017 and takes the potential takeover of BUWOG into account. At the same time, the credit rating for the issued unsecured bonds is 'BBB+'. The credit rating for the subordinated hybrid bonds is 'BBB-'.

A European medium-term notes program (EMTN program) has been launched for the Group via Vonovia Finance B. V., allowing funds to be raised quickly at any time using bond issues, without any major administrative outlay. The prospectus for the EMTN program has to be updated annually and approved by the financial supervisory authority of the Grand Duchy of Luxembourg (CSSF). The current prospectus is still valid until the end of April 2018.

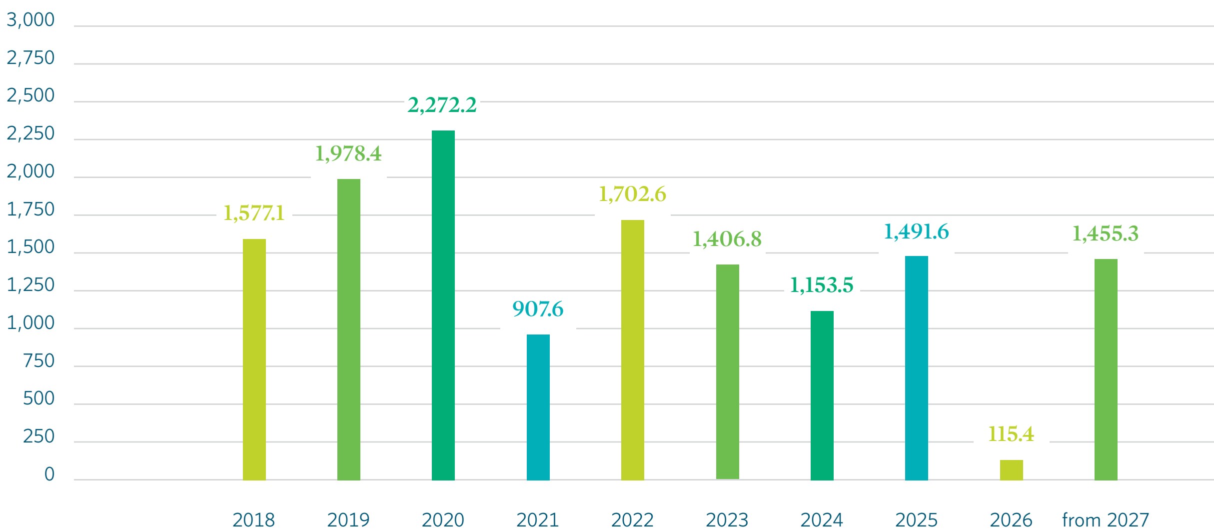
Vonovia Finance B. V. has currently placed a total bond volume of € 11.2 billion, € 8.8 billion of which relates to the EMTN program on the reporting date of December 31, 2017. This also includes a bond of € 1.0 billion issued as part of the EMTN program in January 2018. The total volume also includes € 1.7 billion in hybrid bonds, € 1.0 billion of which is reported as equity.

In November 2017, Vonovia Finance B. V. concluded a master commercial paper agreement with a total volume of € 500 million, for which funds with a maximum term of 364 days could be raised at short notice. A volume of € 410 million had been issued under this master program as of December 31, 2017.

The **debt maturity profile** of Vonovia's financing was as follows as of December 31, 2017:

Maturity Profile

as of December 31, 2017, in € million



The 2017 fiscal year was characterized by the financing of the cash component of the conwert takeover and by the refinancing of the first few financing arrangements entered into after the IPO and following the CMBS GRAND financing that was repaid at that time.

In the 2017 fiscal year, financing with a volume of € 1,744.0 million was repaid prematurely, also including the CMBS financing with the working title Taurus from the takeover of Gagfah in the amount of € 1,017.7 million, as well as conwert financing of € 362.5 million.

Scheduled repayments were made in the amount of € 1,504.7 million, with € 124.5 million of this amount attributable to conwert, € 1,347.1 million to structured financing and bonds and € 33.1 million to mortgages. In September, the USD 750 million bond was repaid in the amount of € 554.9 million, followed by the planned repayment of the EMTN drawdown from December 2015 in the amount of € 750 million in December. Together with the repayment of the USD bond, the corresponding cross-currency swaps were also settled.

In return, Vonovia Finance B. V. issued bonds with a total volume of € 2,000 million as part of the EMTN program in 2017, including two tranches of € 500 million in January 2017 (coupon: 0.75%/1.75%) and one in September and in November in an amount of € 500 million in each case, with the September issue having a coupon of 1.125% while the November issue is a floating rate bond.

Vonovia Finance B. V. also issued short-term commercial papers in the amount of € 410 million as part of the commercial paper program with a volume of € 500 million.

Subsidized development loans were taken out with the European Investment Bank (EIB) in the amount of € 300 million and with the German government-owned development bank KfW-Bank in the amount of € 494.6 million in total to further support the modernization program.

The working capital facility was drawn down in the amount of € 178.9 million during the year.

On January 8, 2018, on bond issue had also already been made in two tranches with a total volume of € 1 billion in connection with the statutory requirement to provide financing for the public takeover offer made to BUWOG AG. In addition, a bridge facility worth € 2.65 billion was also agreed with J.P. Morgan in the context of the BUWOG takeover offer. This facility would be drawn down in connection with the completion of the takeover of BUWOG.

In addition, the financing provided by Berlin-Hannoversche Hypothekenbank which falls due in 2018 and, at the time, constituted the first partial refinancing component of the GRAND CMBS, was extended early in January 2018 until 2028 in the amount of € 500 million. Furthermore, financing in the amount of around € 1.1 billion will fall due in 2018, including the EMTN drawdown from September 2016 in the amount of € 500 million and the commercial papers in the amount of € 410 million.

For more detailed information on financing, please refer to the relevant explanations in the notes under "Non-Derivative Financial Liabilities."

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

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

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

The LTV (loan-to-value) is as follows as of the end of the year:

in € million	Dec. 31, 2016	Dec. 31, 2017	Change in %
Non derivative financial liabilities	13,371.0	14,060.5	5.2
Foreign exchange rate effects	-209.9	-23.5	-88.8
Cash and cash equivalents	-1,540.8	-266.2	-82.7
Net debt	11,620.3	13,770.8	18.5
Sales receivables	-135.4	-201.2	48.6
Adjusted net debt	11,484.9	**13,569.6**	18.2
Fair value of the real estate portfolio	27,115.6	33,436.3	23.3
Shares in other real estate companies	503.1	642.2	27.6
Adjusted fair value of the real estate portfolio	**27,618.7**	**34,078.5**	**23.4**
LTV	**41.6%**	**39.8%**	**-1.8 pp**

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

in € million	Dec. 31, 2016	Dec. 31, 2017	Change in %
Non-derivative financial liabilities	13,371.0	14,060.5	5.2
Total assets	**32,522.1**	**37,516.3**	15.4
LTV bond covenants	**41.1%**	**37.5%**	**-3.6 pp**

Economic Development of Vonovia SE

(Reporting on the basis of the German Commercial Code HGB)

Fundamental Information

In 2017, Vonovia SE moved its registered headquarters from Düsseldorf to Bochum. It is now entered in the commercial register of Bochum Local Court under HRB 16879. Vonovia was established as Deutsche Annington Immobilien GmbH on June 17, 1998, with its registered headquarters in Frankfurt am Main, to serve as an acquisition vehicle for the purchase of residential properties by financial investors. Following further successful acquisitions over the course of time, it now forms the Vonovia Group together with its subsidiaries and is Germany's leading residential real estate management company. Vonovia SE performs the function of the management holding company within the Vonovia Group.

The description of the company's net assets, financial position and results of operations is based largely on the reporting of the Vonovia Group. The net assets, financial position and results of operations of Vonovia SE as the management holding company are largely determined by the assets of the Group companies and their ability to make positive contributions to earnings and generate positive cash flows in the long run. The company's risk profile is therefore largely the same as the Group's.

The preceding reporting for the Group of Vonovia SE therefore also expresses the company's position.

The Vonovia SE annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB) taking into account the supplementary regulations of the German Stock Corporation Act (AktG). As a listed company, it is classed as a large corporation.

The annual and consolidated financial statements as well as the combined management report are published in the Federal Gazette (Bundesanzeiger).

Development of Business in 2017

Takeover of the former conwert Immobilien Invest SE

On March 23, 2017, Vonovia successfully completed a voluntary public takeover offer for the shares in the former conwert Immobilien Invest SE (subsequently shortened to conwert), which has its registered headquarters in Vienna, Austria, with the acquisition of a majority stake. On August 29, 2017, Vonovia implemented what is known as a squeeze-out process under the Austrian Squeeze Out Act (Gesellschafter-Ausschlussgesetz) at an extraordinary Annual General Meeting held in Vienna, based on which all of the outstanding shares held by the remaining minority shareholders were transferred to Vonovia as the sole shareholder based on a cash settlement that was calculated in an expert opinion. This resulted in the shares no longer being listed on the Vienna Stock Exchange. The squeeze-out was entered in the Vienna commercial register with effect from October 25, 2017. The change in legal form, turning the company into a limited liability company (GmbH), was entered in the Vienna commercial register on December 23, 2017.

Merger With Gagfah S. A.

Pursuant to the resolution passed by the annual general meeting of Gagfah S. A. on June 27, 2017 and its entry in what was still, at that time, the commercial register of Düsseldorf on July 12, 2017, Gagfah S. A. was merged with Vonovia SE based on an expert fair value measurement. This merger with Vonovia resulted in the transfer of all shares held by the former minority shareholders. In return, these shareholders received a settlement in the form of shares in Vonovia, as calculated by an expert. The merger was associated with merger gains totaling € 479.1 million.

Takeover offer for BUWOG AG

On December 18, 2017, Vonovia published notice of its intention to make a voluntary public takeover offer, in accordance with the Austrian Takeover Act **(ÜbG)**, to the shareholders of BUWOG AG (subsequently: BUWOG), Vienna, Austria, for the acquisition of all shares in BUWOG. Vonovia and BUWOG, whose shares are listed under ISIN AT00BUWOG001 in the official trading segment (Prime Market) of Wiener Börse AG, on the regulated market (Prime Standard) of the Frankfurt Stock Exchange and on the Main Market of the Warsaw Stock Exchange, have signed what is known as a business combination agreement. Based on the takeover offer, all BUWOG shareholders will be offered € 29.05 in cash for each share in BUWOG.

The corresponding offer document was submitted to the Austrian Financial Market Authority on January 18, 2018. The public takeover offer was published on February 5, 2018. This means that the offer period for the first tender phase ends on March 12, 2018.

The stated goal of the BUWOG takeover is to consolidate the complementary real estate portfolios of both companies and merge Vonovia's housing stock (around 350,000 apartments) with that of BUWOG (around 49,000 apartments). The integration of BUWOG is expected to allow synergy potential to be exploited, in particular by way of the joint administration and management of the German and Austrian housing units, the further modernization of the portfolio, the expansion of the value chain and the optimization of cost structures. The Vonovia and BUWOG portfolios are a good geographical fit for each other and also complement each other strategically. The successful takeover of conwert, in March 2017 allowed Vonovia not only to expand its real estate portfolio in Germany, but also to add properties in Austria to what had, to date, been a purely German portfolio for the first time. The takeover of BUWOG would therefore allow Vonovia to acquire not only a complementary real estate portfolio in Germany, but also an attractive real estate portfolio in Austria in order to merge these portfolios. The joint German and Austrian real estate portfolio of Vonovia and BUWOG would be strengthened considerably as a result of this merger.

Results of Operations, Net Assets and Financial Position

Results of Operations of Vonovia SE

The company regularly generates **income** from the charging of the services it provides, from income from investments in the form of dividend distributions from Group companies and from the transfer of profits. Profit-and-loss transfer agreements exist with, among other entities, the service companies, which themselves generate income by charging the real estate companies for the services they have provided. The income from investments collected is based on the net profit of the subsidiaries that is eligible for distribution, which is, in turn, calculated based on the accounting standards set out in the German Commercial Code. The main difference between these standards and the IFRS accounting principles lies in the fact that, under IFRS accounting, the fair value principle has more of an impact than the cost principle does under HGB accounting. In the consolidated financial statements under the IFRS, the properties are remeasured at periodic intervals. Under the HGB, the fixed assets are stated at amortized cost, taking scheduled depreciation into account. The capitalization regulations also vary.

Expenses relate largely to personnel expenses and administrative expenses associated with the management holding function, as well as to losses to be compensated for in connection with profit-and-loss transfer agreements.

The **financial result** is governed by the Group financing.

The **2017 fiscal year** was characterized, among other things, by the takeover made to the shareholders of conwert and the subsequent integration work. By contrast, the 2016 fiscal year was influenced to a considerable degree by the public takeover offer made to the shareholders of Deutsche Wohnen SE.

The main factor impacting earnings in 2017, however, was the profit from the merger with Gagfah S. A. in the amount of € 479.1 million. In addition, the winding up of the co-investor structure associated with Gagfah had a positive impact on the result in the amount of € 21.4 million. Additional company law measures encumbered the result with € 56.0 million. The settlement of management services is lower than in 2016 because certain special effects had to be charged on to Group companies in the previous year.

The contribution of Deutsche Wohnen SE resulted in the flow of € 12.4 million in dividends to the company in the fiscal year. The company also received dividends in connection with the distribution made by conwert in the amount of € 45.5 million.

The net result from profit and loss transfer agreements fell by € 93.0 million from € 98.0 million to € 5.0 million due to negative non-recurring effects in the fiscal year as well as positive non-recurring effects from subsidiaries in the previous year.

Personnel expenses came to € 36.6 million in 2017, up on the prior-year figure of € 33.7 million due primarily to pension expenses. Purchased services are lower in 2017 in a year-on-year comparison due to the reorganization of the provision of personnel within the Vonovia Group.

Depreciation and amortization increased due to volume-related aspects.

Net financial expenses improved considerably due to the more advantageous base interest rate and the lower indebtedness at Vonovia Finance B. V., Amsterdam/The Netherlands.

Tax expenses rose by € 7.3 million to € 8.9 million largely due to trade tax effects.

Vonovia SE closed the 2017 fiscal year with net income of € 398,830,574.65

Income Statement

in € million	2016	2017
Revenues	139.0	127.1
Other Operating Income	44.4	540.3
Expenses for external services	-57.2	-46.2
Personel expenses	-33.7	-36.6
Other administrative expenses	-211.6	-206.4
Loss (profit) before financial result and tax	**-119.1**	**378.2**
Income from profit transfer	114.1	69.0
Income from investments	11.0	66.0
Interest and similar income	9.9	9.3
Expense from the assumption of losses	-16.1	-64.0
Interest and similar expense	-62.3	-50.8
Tax	-1.6	-8.9
Net loss for the year/net income for the year	**-64.1**	**398.8**

Net Assets and Financial Position of Vonovia SE

The company's non-current assets of € 11,421.6 million are naturally characterized by financial assets. The increase in 2017 is largely due to the acquisition of the shares in conwert in the amount of € 1,662.1 million and the merger with Gagfah S. A. at a fair value of € 1,252.9 million.

Vonovia SE only has appreciable cash flows from investing activities when acquisitions are made.

The intangible assets and property, plant and equipment increased due to IT investments.

Net current assets including net liquidity, however, are governed by the Group financing. The Group's net lending/borrowing position led to charges of a total of € 1,143.3 million to Vonovia SE in 2017. The company was also hit by a change in the amount of € 1,212.7 million in the "net liquidity from cash and cash equivalents and bank liabilities," which corresponds to an overall change in Vonovia SE's net financial position of € 2,356.0 million. The increase in liabilities to financial institutions relates to the subsidized development loans taken out with the European Investment Bank (EIB) and the German government-owned development bank Kreditanstalt für Wiederaufbau (KfW), which Vonovia SE passed on to its subsidiaries. All in all, the change in the net financial position result primarily from the acquisition of the conwert Group and the assumption of its group financing, as well as the distribution of the cash component of the dividend.

Provisions fell by € 4.9 million, mainly due to the drop in other provisions, which more than compensated for the increase in pension and tax provisions.

Equity increased in 2017 due to the profit for the period as well as the non-cash capital increase as part of the conwert takeover and the merger with Gagfah S. A. On the contrary, equity dropped as a result of the cash dividend contribution.

For the 2017 fiscal year, a dividend distribution of € 640,333,090.32 is to be resolved at the Annual General Meeting to be held on May 9, 2018. This corresponds to € 1.32 per share.

Assets

in € million	Dec. 31, 2016	Dec. 31, 2017
Assets		
Financial assets	8,486.9	11,402.0
Other assets	16.9	19.5
Receivables from affiliated companies	1,083.4	2,514.2
Other receivables and assets	10.4	12.8
Cash and cash equivalents	914.0	184.8
Total assets	**10,511.6**	**14,133.3**

in € million	Dec. 31, 2016	Dec. 31, 2017
Equity and liabilities		
Equity	6,662.2	7,231.8
Provisions	124.7	119.8
Liabilities to banks	32.0	515.5
Liabilities to affiliated companies	3,678.0	6,252.1
Other liabilities	14.7	14.1
Total equity and liabilities	**10,511.6**	**14,133.3**

Employees of Vonovia SE

At the end of the 2017 fiscal year, an average of 198 people were employed by Vonovia SE (2016: 206 employees).

Opportunities and Risks for Vonovia SE

The likely development of Vonovia SE in the 2018 fiscal year depends to a considerable extent on the development of the Group as a whole and its opportunity and risk situation. This situation is set out in the Group's opportunity and risk report, meaning that the statements set out there in regard to the opportunity and risk situation of the Group also apply to the annual financial statements of Vonovia SE, prepared in accordance with HGB, where the risks can have an impact on the valuation of long-term financial assets and on the amount of the results of subsidiaries collected/compensated for.

Forecast for Vonovia SE

Since the company's net assets, financial position and results of operations are determined solely by the ability of the Group companies to make positive earnings contributions and generate positive cash flows in the long term, we refer at this point to the forecast report for the Group. The most important financial performance indicator for the annual financial statements of Vonovia SE is the annual result.

The company's earnings for 2017 are well in the black and were influenced primarily by the profit from the merger of Gagfah S. A. and Vonovia SE. They were also, however, impacted by the other negative special effects referred to above. Leaving the merger gains out of the equation, the company's earnings for the 2017 fiscal year are on a par with the 2016 level, as predicted.

The results for the 2018 fiscal year will in turn be characterized by the results of subsidiaries collected/compensated for on the basis of income from investments and profit-and-loss transfer agreements, income from services, personnel and administrative expenses and the financial result. As far as the 2018 fiscal year is concerned, we expect expenses to increase again due to the public takeover offer made to the shareholders of BUWOG and the resulting integration expenses. Earnings will also be encumbered by structuring measures under company law. By contrast, special effects seen in 2017 will cease to apply.

All in all, we expect the result for the 2018 fiscal year to again be on a par with the figure seen in 2017 without special effects.

It is still generally planned for Vonovia SE to distribute approx. 70% of the Group's performance indicator, FFO 1 to the shareholders as a dividend, which would correspond to a dividend of € 1.32 per share for the 2017 fiscal year.

Further Statutory Disclosures

Corporate Governance

In the corporate governance declaration, we report, in accordance with No. 3.10 of the German Corporate Governance Code (GCGC) and Section 289a of the German Commercial Code (HGB) on the principles of management and corporate governance. The declaration contains the Declaration of Conformity, information on corporate governance practices, a description of how the Management Board and Supervisory Board work and key corporate governance structures. The corporate governance declaration has been published on the website **www.vonovia.de** under Investor Relations and does not form part of the management report.

Corporate governance is the responsible management and supervision of a company.

With balanced corporate governance, the Management Board and the Supervisory Board wish to safeguard Vonovia SE's competitiveness, strengthen the trust of the capital market and the general public in the company and sustainably increase the company's value.

As a major real estate company, we are aware of the particular significance of our entrepreneurial actions for society at large. As a result, we are also committed to the main aims and principles of the corporate governance initiative of the German real estate industry, which we have been a member of since November 14, 2003. The initiative supplements the corporate governance principles to include real estate specific aspects and is committed to even greater transparency, an improved image and a more competitive real estate sector.

Remuneration Report

The remuneration report describes the principles of the remuneration system for members of the Management Board of Vonovia SE and explains the structure, as well as the amount, of the income received by each Management Board member. Furthermore, the remuneration report contains information on the principles and the amount of remuneration for the members of the Supervisory Board. The total remuneration received by each Management Board member, including the names of the members, is shown in the notes.

The remuneration report takes account of the applicable regulations of the German Commercial Code (HGB), the German Accounting Standards (DRS 17), the laws on disclosure and appropriateness of Management Board remuneration (VorstAG, VorstOG) as well as the principles of the German Corporate Governance Code (GCGC).

Remuneration of the Management Board

Remuneration System

The remuneration system and the amount of remuneration of the Management Board are determined by the Supervisory Board on the proposal of the Executive and Nomination Committee.

The criteria used to assess whether the remuneration is appropriate include the duties of the individual Management Board member, his or her personal performance, the economic situation, the company's success and future outlook and the extent to which such remuneration is standard practice. When determining whether the level of remuneration is standard practice, the company looks at its peer group and the remuneration structure that applies in the rest of the company. Furthermore, we compare ourselves with other listed companies of a similar size. The remuneration structure is oriented towards the sustainable growth of the company.

In addition to fixed remuneration, the members of the Management Board receive variable short-term as well as variable long-term remuneration which takes account of both positive and negative developments. The Supervisory Board can, at their own due discretion, award Management Board members a discretionary bonus for particular achievements, even without a prior agreement. There is no entitlement to these bonuses. In the event that a discretionary bonus is paid, the underlying decision-making criteria are published. Furthermore, the members of the Management Board receive fringe benefits in the form of insurance premiums, as well as the private use of means of communication and company vehicles.

Fixed Remuneration and Fringe Benefits

The fixed remuneration, which contains not only the basic remuneration but also, in varying amounts, the remuneration for assuming mandates at Vonovia Group companies, subsidiaries and participating interests, is paid to the Management Board members in twelve equal monthly installments. In addition to their fixed remuneration, the Management Board members are given the opportunity to pay an annual pension contribution into a deferred compensation scheme. The contribution for Mr. Buch comes to € 355,000, while the contribution for Mr. Freiberg, Dr. Kirsten and Mr. Klinck amounts to € 160,000 in each case. Alternatively, the amount is paid out as cash remuneration.

The fringe benefits include premiums for a term life insurance policy and 50% of health and nursing care insurance contributions, albeit up to the amount of the maximum statutory employer's share at the most. In the event of illness, salaries continue to be paid for a period of twelve months, but until the end of the employment contract at the latest. In the event of death, the company continues to pay the salary to the employee's surviving dependents for up to six months.

The members of the Management Board are provided with a company car as well as communication means, which they have the right to use for private purposes. Travel expenses are reimbursed in line with the Vonovia Travel Expense Policy.

Should the Management Board members be held liable for financial losses while executing their duties, this liability risk is, in principle, covered by the D&O insurance for Management Board members of the company. Vonovia follows the statutory requirements, which provide for a deductible of 10% of any claim up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one fiscal year.

Bonus

The variable short-term remuneration is based on success criteria set in advance by the Supervisory Board as well as personal targets. The variable short-term remuneration is capped at € 700,000 for Rolf Buch as the Chairman of the Management Board, and at € 440,000 for Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck. The success criteria state that 40% of the variable short-term remuneration depends on the achievement of the Group FFO target, 15% on the achievement of the Group adjusted NAV/share target and a further 15% on the achievement of the Group EBITDA sales target. A further 30% of the variable short-term remuneration is related to the achievement of the personal targets agreed with the Supervisory Board.

The Management Board members receive the variable short-term remuneration one month after the adoption of the annual financial statements of Vonovia.

Long-term Incentive Plan

The variable long-term remuneration (long-term incentive plan, LTIP plan) is a plan which meets the requirements set out in the German Stock Corporation Act (AktG) and the German Corporate Governance Code and aims to ensure that the remuneration structure focuses on sustainable corporate development. The LTIP plan was introduced in 2015 and replaced the previous plan, which was launched at the time of the successful IPO.

The members of the Management Board are offered an annual remuneration component with a long-term incentive effect and a balanced risk-return profile in the form of notional shares ("performance shares") in line with the provisions of the LTIP plan.

The Supervisory Board offers the Management Board members a prospective target amount ("grant value") in EUR for each performance period, which corresponds to four years as a general rule. Rolf Buch is awarded performance shares with a grant value of € 1,900,000 a year respectively. Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck are each awarded performance shares with a grant value of € 800,000 a year.

The actual payout amount is calculated based on this grant value, the target achievement level during the performance period and the performance of Vonovia's shares, including dividends paid during the performance period. If the share price remains the same and the target achievement level comes to 100%, then the actual payout amount corresponds to the grant value (plus any dividends paid to the shareholders during the performance period).

The initial number of performance shares for the performance period in question corresponds to the grant value divided by the initial share price, rounded up to the next full share.

The overall target achievement level for a performance period is determined based on the following success targets:

a) Relative Total Shareholder Return (RTSR)
b) Development of NAV per share
c) Development of FFO 1 per share
d) Customer Satisfaction Index (CSI)

Each of the four success targets is assigned a weighting of 25%.

At the start of each performance period, the Supervisory Board sets an objective for each of the four success targets. If all of these objectives are reached, the target achievement level comes to 100%. It also sets a minimum value for each of the four success targets as the lower target corridor threshold. If this value is reached, the target achievement level comes to 50% ("minimum value"). The Supervisory Board also sets a maximum value. If this value is reached or exceeded, the target achievement level comes to 200% ("maximum value").

The Supervisory Board has the right and the obligation to appropriately adjust the calculation modalities if there are significant changes in the comparator group.

The reporting on the new LTIP plan is based on actuarial reports of an independent actuary.

At the end of each performance period, the initial number of performance shares is multiplied by the overall target achievement level and rounded up to the next full share. This multiplication produces the final number of performance shares.

The final number of performance shares is multiplied by the final share price, which, by definition, includes the total dividends paid per share during the performance period in relation to the final number of performance shares. This multiplication produces the cash payout amount.

The payout amount is limited to 250% of the grant value ("cap").

In 2013, the Management Board members Rolf Buch, Klaus Freiberg and Dr. A. Stefan Kirsten were granted a total of 931,030 notional shares (SAR = stock appreciation rights) as part of the LTIP in force at that time. These shares were earned over five annual tranches of equal size. Over the five-year period, 400,000 notional shares are attributable to Rolf Buch, with Klaus Freiberg and Dr. A. Stefan Kirsten each being allocated 265,515. The notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement.

In connection with the conclusion of new employment contracts with the Management Board members Klaus Freiberg and Dr. A. Stefan Kirsten, an agreement was reached that no further shares could be vested after the 2017 fiscal year (vesting).

The 2015 remuneration report contains further details on the content of the above-mentioned LTIP agreement. Since the shareholding of the sole shareholder was reduced to below 30% in 2014, the fourth tranche was paid out in 2017 as agreed.

Upper Remuneration Thresholds

In addition to the provisions governing variable remuneration, upper thresholds have been contractually agreed for the remuneration paid to the Management Board as a whole in line with the recommendations set out in the German Corporate Governance Code (GCGC). As a result, the total remuneration for Rolf Buch is capped at a total of € 6,970,000 a year, excluding the claims under the LTIP dated June 14, 2013. The total remuneration for Klaus Freiberg and Dr. A. Stefan Kirsten, excluding the claims under the LTIP dated June 14, 2013, is capped at € 3,500,000.00 respectively. The total remuneration for Gerald Klinck is also capped at € 3,500,000.00 year.

Share Holding Provision

The Management Board members are obliged, for the duration of their appointment as members of Vonovia's Management Board, to hold shares in the company (restricted shares) in the amount of the annual fixed remuneration and to furnish evidence showing that this obligation has been met at the end of each fiscal year by presenting suitable documents to the Chairman of the Supervisory Board. The value of the shares to be held is to be redefined in the event of changes to the annual fixed remuneration/a share split. In the first four fiscal years after an individual's initial appointment as a Management Board member, the restricted shares can be accumulated on a pro rata basis.

Retirement Provision/Deferred Compensation Scheme

The pension entitlements of the Management Board members are based on the opportunity to pay an annual pension contribution into a deferred compensation scheme. Rolf Buch, Dr. A. Stefan Kirsten and Gerald Klinck make use of this opportunity, whereas Klaus Freiberg opts for a payout as cash remuneration.

For each calendar year, the contractually agreed pension contribution is converted in accordance with the in-house "Pension Instead of Cash Remuneration" model and is converted into an annuity based on actuarial principles depending on the age of the individual in question.

In 2017, the pension contribution was € 949,253 for Rolf Buch, € 367,388 for Dr. A. Stefan Kirsten and € 491,198 for Gerald Klinck.

Payments in the Event of Premature Termination of Management Board Duties

Payments to a Management Board member on premature termination of his or her contract, including fringe benefits, are contractually regulated to not exceed the value of two years' remuneration and are paid for no more than the remaining term of the employment contract (severance pay cap).

Payments in the event of premature termination of a Management Board member's contract due to a change of control are limited to 150% of the severance pay cap.

Following the termination of his employment contract, Rolf Buch is subject to a twelve-month non-competition regulation. The ex gratia payment corresponds to 75% of the contractual payments most recently received (incl. STI and LTIP for a period of 12 months). The other Management Board members are not subject to any non-competition regulation.

Loans/Advances

The Management Board members were not granted any loans or advances.

Remuneration of the Management Board Within the Meaning of the German Corporate Governance Code

	Rolf Buch CEO			
Grants allocated in €	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
Fixed remuneration	1,000,000	1,150,000	1,150,000	1,150,000
Deferred compensation	–	–	–	–
Fringe benefits	39,446	24,006	24,006	24,006
Total	1,039,446	1,174,006	1,174,006	1,174,006
Annual variable remuneration (bonus)	700,000	700,000	0	700,000
Multi-year variable remuneration (new LTIP)				
2016–2018	–	–	–	–
2016–2019	1,429,217	–	–	–
2017–2020	–	2,040,633	0	4,750,000
Total	2,129,217	2,740,633	0	5,450,000
Pension expenses	600,398	949,253	949,253	949,253
Total remuneration	**3,769,061**	**4,863,892**	**2,123,259**	**6,970,000***

* This is the total contractually agreed upper threshold.

	Dr. A. Stefan Kirsten CFO			
Grants allocated in €	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
Fixed remuneration	600,000	600,000	600,000	600,000
Deferred compensation	–	–	–	–
Fringe benefits	31,571	32,723	32,723	32,723
Total	631,571	632,723	632,723	632,723
Annual variable remuneration (bonus)	440,000	440,000	0	440,000
Multi-year variable remuneration (new LTIP)				
2016–2018	212,035	–	0	–
2016–2019	635,201	–	–	–
2017–2020	–	859,224	–	2,000,000
Total	1,287,236	1,299,224	0	2,440,000
Pension expenses	367,388	367,388	367,388	367,388
Total remuneration	**2,286,195**	**2,299,335**	**1,000,111**	**3,500,000***

* This is the total contractually agreed upper threshold.

	Thomas Zinnöcker CRO until January 31, 2016				Klaus Freiberg COO			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
	66,667	–	–	–	600,000	600,000	600,000	600,000
	12,500	–	–	–	160,000	160,000	160,000	160,000
	2,369	–	–	–	27,627	27,603	27,603	27,603
	81,536	–	–	–	787,627	787,603	787,603	787,603
	50,000	–	–	–	440,000	440,000	0	440,000
	–	–	–	–	212,035	–	–	–
	101,481	–	–	–	635,201	–	–	–
	–	–	–	–	–	859,224	0	2,000,000
	151,481	–	–	–	1,287,236	1,299,224	0	2,440,000
	–	–	–	–	–	–	–	–
	233,017	**–**	**–**	**–**	**2,074,863**	**2,086,827**	**787,603**	**3,500,000***

	Gerald Klinck CCO			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**
	600,000	600,000	600,000	600,000
	–	–	–	–
	25,865	24,503	24,503	24,503
	625,865	624,503	624,503	624,503
	440,000	440,000	0	440,000
	212,035	–	–	–
	635,201	–	–	–
	–	859,224	0	2,000,000
	1,287,236	1,299,224	0	2,440,000
	491,198	491,198	491,198	491,198
	2,404,299	**2,414,925**	**1,115,701**	**3,500,000***

	Rolf Buch CEO		Thomas Zinnöcker CRO until January 31, 2016		Klaus Freiberg COO		Dr. A. Stefan Kirsten CFO		Gerald Klinck CCO	
Inflow in €	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Fixed remuneration	1,000,000	1,150,000	66,667	-	600,000	600,000	600,000	600,000	600,000	600,000
Cash remuneration	-	-	12,500	-	160,000	160,000	-	-	-	-
Fringe benefits	39,446	24,006	2,369	-	27,627	27,603	31,571	32,723	25,865	24,503
Total	1,039,446	1,174,006	81,536	-	787,627	787,603	631,571	632,723	625,865	624,503
Annual variable remuneration (bonus)	694,750	694,750	50,000	-	437,360	433,400	434,720	423,500	310,200	403,700
Multi-year variable remuneration (LTIP)										
Third tranche 2016	2,527,211	-	-	-	1,975,934	-	1,975,934	-	-	-
Fourth tranche 2017	-	2,855,444	-	-	-	2,150,265	-	2,150,265	-	-
Total	3,221,961	3,550,194	50,000	-	2,413,294	2,583,665	2,410,654	2,573,765	310,200	403,700
Pension expenses	600,398	949,253	-	-	-	-	367,388	367,388	491,198	491,198
Total remuneration	**4,861,805**	**5,673,453**	**131,536**	**-**	**3,200,921**	**3,371,268**	**3,409,613**	**3,573,876**	**1,427,263**	**1,519,401**

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the shareholders at the Annual General Meeting and is regulated in Article 13 of the Articles of Association of Vonovia.

The current Supervisory Board remuneration system is based on the resolution passed by the Annual General Meeting on June 9, 2013.

Each member of the Supervisory Board receives annual fixed basic remuneration of € 100,000. The Chairman of the Supervisory Board receives double this amount and a Deputy Chairman receives one-and-a-half times this amount.

The members of the Audit Committee receive additional annual fixed remuneration of € 40,000; the Audit Committee Chairman receives double this amount. Supervisory Board members who are members of one or more other Supervisory Board committees that have acted at least once a year receive additional annual remuneration of € 20,000 per committee; in the case of the Committee Chairman € 40,000.

The sum total of all aforementioned remuneration plus remuneration for membership of Supervisory Boards and comparable supervisory bodies of Group companies must not exceed an amount of € 300,000 per calendar year and Supervisory Board member.

The company reimburses the Supervisory Board members for appropriate expenses incurred due to the exercising of their office. VAT is reimbursed by the company to the extent that the Supervisory Board members are eligible to separately invoice VAT and have exercised such right.

The remuneration of the Supervisory Board of Vonovia breaks down as follows for each member – on a pro rata basis according to the length of service on the Supervisory Board:

in €	Fixed remuneration 2016	Fixed remuneration 2017	Remuneration for committee work 2016	Remuneration for committee work 2017	Total remuneration 2016	Total remuneration 2017
Supervisory Board members in office as of December 31, 2017						
Prof. Dr Edgar Ernst [1, 3, 6] (since June 18, 2013) Chairman since September 7, 2017	150,000	166,667	80,000	100,000	230,000	266,667
Burkhard Ulrich Drescher [2] (since December 12, 2014)	100,000	100,000	40,000	40,000	140,000	140,000
Dr Florian Funck [2] (since August 21, 2014)	100,000	100,000	40,000	40,000	140,000	140,000
Dr Ute Geipel-Faber [6] (since November 1, 2015)	100,000	100,000	20,000	20,000	120,000	120,000
Hendrik Jellema [2] (since June 2, 2015)	100,000	100,000	40,000	40,000	140,000	140,000
Daniel Just [6] (since June 2, 2015)	100,000	100,000	20,000	20,000	120,000	120,000
Hildegard Müller [4] (since June 18, 2013)	100,000	100,000	20,000	20,000	120,000	120,000
Prof. Dr Klaus Rauscher [4] (since August 1, 2008) Deputy Chairman since September 7, 2017	100,000	116,667	20,000	20,000	120,000	136,667
Dr Ariane Reinhart [4] (since May 13, 2016)	66,667	100,000	13,333	20,000	80,000	120,000
Clara-Christina Streit [4, 5] (since June 18, 2013)	100,000	100,000	60,000	60,000	160,000	160,000
Christian Ulbrich [6] (since August 21, 2014)	100,000	100,000	20,000	20,000	120,000	120,000
Former Supervisory Board members						
Dr. Wulf H. Bernotat [2,3,6] (until Aug. 26, 2017) Chairman	200,000	166,667	100,000	33,333	300,000	200,000
Gerhard Zeiler [4] (until May 12, 2016)	41,667	-	8,333	-	50,000	-
Total					**1,840,000**	**1,783,334**

(1) Chairman of the Audit Committee
(2) Member of the Audit Committee
(3) Chairman of the Executive and Nomination Committee
(4) Member of the Executive and Nomination Committee
(5) Chairman of the Finance Committee
(6) Member of the Finance Committee

All remuneration is payable after the expiry of each fiscal year. Supervisory Board members who are Supervisory Board members or members of a committee of the Supervisory Board for only part of a fiscal year receive corresponding pro rata remuneration rounded up to the full month.

Furthermore, Vonovia has taken out a liability insurance (D&O insurance) for the members of the Supervisory Board. Vonovia follows the statutory requirements, which provide for a deductible of 10% of any claim up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one fiscal year.

Opportunities and Risks

Structure and Instruments

Vonovia has implemented a comprehensive risk management system that is designed to identify, measure and manage all of the opportunities and risks that are relevant to the company. This reduces risk potential, secures the company's survival, promotes its strategic further development and supports sustainable action. Whereas risks are defined as possible developments or events in the future that could result in a negative forecast/deviation from targets for the company, opportunities are seen as positive deviations from an expected outcome. In the 2017 fiscal year, the risk management system that applied in 2016 was continued unchanged.

Organizationally, risk management is assigned directly to the Management Board, which regularly monitors its effectiveness. The Management Board has overall responsibility for the risk management system. It decides on the organizational structures and workflows of risk management and provision of resources. It approves the documented risk management findings and takes account of them in steering the company. The Audit Committee of the Supervisory Board monitors the effectiveness of the risk management system. Executives belonging to the first level below Management Board level are appointed as risk owners and, in this role, assume responsibility for the identification, assessment, documentation and communication of all material risks in their area of responsibility.

Risk management is responsible for:

> Raising/increasing risk awareness,
> Identifying and assessing risks early on,
> Communicating risks to the relevant decision-makers within the Group,
> Supporting the budget process by supplying information that is relevant to risk,
> Taking suitable measures to manage risks and
> Meeting the statutory requirements by putting the risk management principles into practice and ensuring appropriate documentation.

In the interests of the key stakeholders, customers, employees, suppliers, investors and society, the Management Board pursues a conservative, security-focused risk strategy that also takes the sustainability of our actions into account.

Each and every Vonovia employee is encouraged to act in a risk-conscious manner, i. e., to fully clarify the risk situation in their area of responsibility on the one hand and to handle any risks identified in a responsible manner on the other. Unreasonably high risks are to be avoided. The threshold value for the reporting of individual risks amounted to a low value of € 10,000 per individual risk in the 2017 fiscal year. As we transition to the 2018 fiscal year, we have decided to increase this threshold to € 500,000 per individual risk. This is not expected to result in any major changes in the risk assessment.

The risk manager coordinates the recording, assessment, documentation and communication of the risks as part of the risk management process. They trigger the risk management process, consolidate the risk reports of the risk owners and prepare the report for the Management Board and the Supervisory Board. This system helps to ensure the continued existence of the company and to achieve the company's goals. This allows the Management Board to identify and assess material risks within the company and in the company's environment systematically and in good time at all times, as well as to take appropriate counteraction.

In order to take the opportunities and risks into account, the company uses an integrated management approach based on five key pillars.

5 Pillars of Risk Management at Vonovia

Management Board

(Strategy, Requirements/Goals, Control Environment, Monitoring)

1 Performance	2 Compliance	3 Risik Management	4 Internal Control System	5 Internal Audit
Controlling > Budget > Forecast > Results	**Compliance Officer** > Guidelines, regulations > Contracts > Capital market compliance > Data protection	**Controlling** > Risk management process > Risk reporting	**IT/Internal Audit** > Process documentation **Accounting** > Accounting-based internal control system	**Internal Audit** > Process-oriented audits > Risk-oriented audits
Operational Areas > Performance management > Technical integrity	**Operational Areas** > Ensuring compliance	**Operational Areas** > Risk identification and evaluation > Risk control	**Operational Areas** > Documentation of core processes > Control activities > Control Self Assessment	**Operational Areas** > Process improvements

(1) Performance Management

Differentiated and high-quality corporate planning and appropriate reporting on deviations between the actual and target operational and financial key figures from Controlling constitute the backbone of the early warning system used at the company. Analyses are made of the business performance compared with the plans approved by the Supervisory Board and the previous year. Furthermore, a forecast is prepared regularly which takes appropriate account of the effect of any potential risks and opportunities on the development of business. Reporting includes detailed monthly controlling reports to the Management Board and the Supervisory Board. The operational business is described in regular reports on key figures, some of which are drawn up on a weekly basis. On the basis of these reports and the deviations that they highlight between the actual and target figures, countermeasures are implemented and then checked in subsequent reporting periods to ensure they are effective.

(2) Compliance Management

Compliance describes the lawful action of the company, its bodies and employees. For the Management Board, compliance with statutory law and the observance of internal guidelines are the basis of corporate management and culture. Compliance is to ensure the integrity of employees, customers and business partners and avoid possible negative consequences for the company.

The management and monitoring of Vonovia is based on the relevant statutory requirements, the Articles of Association and the rules of procedure for the Supervisory Board and the Management Board. They form the basis for the company's internal rules and guidelines, adherence to which is monitored by a central compliance management system and administered by a guideline management team that forms part of the Legal department.

The guidelines describe clear organizational and monitoring structures with specified responsibilities and appropriately installed checks. The legally compliant behavior of all employees in the business processes is ensured by suitable control procedures and supervision by managers. The company has also put in place a compliance management system based on IDW (Institute of Public Auditors in Germany) standard PS 980 and has appointed a central compliance officer, whose remit focuses on identifying compliance risks, taking suitable measures to avoid and detect these risks and taking appropriate action in response to compliance risks (compliance program).

In terms of specific content, the main features of the compliance management system are Vonovia's Code of Conduct, which focuses on ethical values and statutory requirements and reinforces the personal responsibility of employees, Vonovia's Compliance Guidelines and a Business Partner Code setting out requirements that the company's contractual partners have to meet. An external ombudsman is available to all employees and business partners as a confidant in respect of compliance issues.

At present, there have been no known major violations of laws or rules by bodies or employees.

(3) Risk Management

Vonovia's risk management system ensures the early identification, assessment, control and monitoring of all material risks within the Group that exceed the short-term financial risks dealt with by the performance management pillar and could pose a risk not only to the company's results of operations and net assets, but also to intangible assets such as the company's reputation. This means that potential risks which might impair the value and/or development of the company can be identified at an early stage. Early warning indicators that are specific to the environment and the company are taken into account, as are the observations and regional knowledge of our employees across Germany. The range of early warning indicators is extensive and includes, by way of example, the technical monitoring of the condition of our buildings and the residential environment, the monitoring of the socio-economic composition of our tenant structure, the analysis of demographic trends and recording of regional migration patterns, the monitoring of adherence to overall regulatory requirements, the monitoring of supply, rental price and new construction forecasts in our regional residential real estate submarkets, the analysis of developments relating to the regulations governing rental prices, the monitoring of our peers and their business activities, the observation of construction technology trends and developments in the field of building optimization, modernization and new construction, demand analyses on the development of property-related services, monitoring environmental influences and analyses and forecasts relating to the development of the financial markets and interest rates.

Responsibility for concrete risk control in daily business is decentralized and lies with the first management level below the Management Board, whereas the risk manager (same level as the Head of Controlling) is assigned to the Chief Controlling Officer's division. The risk owners use a systematic process to identify and update all risks in their respective areas of responsibility on a regular basis. Once validated by the risk manager, these risks are split into five risk categories: "economic environment and market-related risks," "regulatory and legal risks," "risks related to business," "financial risks" and "other risks." The potential amount of loss and the probability of occurrence are classified within set ranges before action (gross) and after action (net) for each risk and documented in a Group-wide risk register. As with the period used for medium-term corporate planning, the observation period used is five years. Based on the probability of occurrence and the amount of loss arising from the gross and net risk assessments, a score is established for each risk and the risks are prioritized accordingly. The ten risks with the highest score make up the "Top 10 risks."

Risk Classification

Category	Probability	in %	Amount of loss	in € million
I	Unlikely	< 20	Low	< 5
II	Possible	21 to 50	Moderate	5 to 25
III	Likely	51 to 80	Considerable	25 to 250
IV	Very likely	> 80	High	> 250

The risk management system and the risk register are updated and refined on a regular basis and are also adjusted to reflect changes at the company. The effectiveness of the risk management system is examined in regular audits.

Risk management is documented regularly in a half-yearly risk report, which is made available to the Management Board. The Audit Committee of the Supervisory Board is informed twice a year at its regular meetings about the risk situation. The risk management system is described in a risk reporting policy that is updated on an annual basis.

This reporting system ensures that both managers and supervisory bodies are comprehensively informed and provides relevant operational early warning indicators. In this way, misguided developments can be recognized in good time and counteraction taken at an early stage. Should material risks occur unexpectedly, they are reported directly to the Management Board on an ad hoc basis.

(4) Internal Control System

The internal control system (ICS) comprises the basic principles, procedures and regulations aimed at supporting the effectiveness and cost-effectiveness of our business activities, ensuring due and proper and reliable internal and external accounting and ensuring compliance with the legal provisions that apply to the company.

All key processes at Vonovia are recorded and documented centrally with the help of a process management software solution. In addition to the relevant process steps, this documentation highlights key risks and controls in the interests of a process-oriented internal control system. It provides the binding basis for subsequent evaluations, audits and reporting to the executive bodies of Vonovia SE on the effectiveness of the ICS within the meaning of Section 107 (3) sentence 2 of the German Stock Corporation Act (AktG).

Overall responsibility for structuring and implementing the ICS lies with Vonovia's Management Board. The Management Board delegates this responsibility to process and control owners. The Internal Audit department provides support in the establishment and further technical development of the ICS in addition to performing its primary audit duties in full. IT is responsible for providing technical and administrative support for the documentation software.

The aim of the accounting-related internal control and risk management system is to ensure due and proper and legally compliant financial reporting pursuant to the relevant regulations. The accounting-related internal control and risk management system is embedded in the overarching Group-wide risk management system.

Organizationally, responsibility for preparing the financial statements lies with the Chief Financial Officer's department and, in particular, with the Accounting department. Therefore, the Accounting department exercises the authority to lay down guidelines for the application of relevant accounting standards as well as for the content and timing of the steps in the financial statements preparation process.

From the organizational and systems side, the preparation of the financial statements for all companies included in the consolidated financial statements as well as the preparation of the consolidated financial statements themselves are performed in the central shared service center of the Accounting department, which ensures consistent and continual application of accounting policies in a uniform financial statement preparation process. Furthermore, through the shared service center it is ensured that both content and organizational changes in the requirements are incorporated in the financial statement preparation process.

The financial statements of the companies included in the consolidated financial statements are located in an IT SAP environment. They are subject largely to uniform charts of account, accounting guidelines, processes and process controls. The requirement of separation of functions and the four-eye principle are taken appropriate account of with preventive and also subsequent checks.

The relevant financial statement data of the individual companies are made available to the SAP consolidation module via an integrated, automated interface with comprehensive validation rules for further processing and preparation of the consolidated financial statements. An authorization concept is in place granting access to the financial statements in line with the respective job profile of the employee.

Newly acquired companies are incorporated into the internal control environment as part of a structured integration process, which includes integration in terms of both IT systems and processes relating to financial statements.

Once the financial statements have been drawn up, the annual and consolidated financial statements, including the consolidated management report, are submitted to the Audit Committee of the Supervisory Board. The Committee then makes a recommendation for the Supervisory Board to adopt or approve them. This examination may include the auditor's presence at the committee meeting and is subject to the auditor's report. The Audit Committee is continually involved in the establishment and refinement of the accounting-related internal control and risk management system.

(5) Internal Audit

The system and control environment, business processes and the internal control system are reviewed on a regular basis by Vonovia's Group Audit department. The annual audit plan is based on a risk-oriented evaluation of all relevant audit areas (audit landscape) of the Group and is approved by the Management Board/the Supervisory Board's Audit Committee.

The reviews conducted throughout the year focus on assessing the effectiveness of the control and risk management systems, identifying process improvements in order to minimize risks and ensuring the sustainability of Vonovia's business activities. Corresponding ad hoc reviews are also performed in consultation with the compliance officer and the Management Board. The internal reports are presented to the Management Board, the individuals responsible for the area reviewed, the risk manager and the compliance management team on a regular basis. The Audit Committee receives a quarterly summary of the review results. The implementation status of all jointly approved improvement measures is monitored and checked on an ongoing basis after the relevant due dates and reported to the Management Board and to the Audit Committee of the Supervisory Board at their regular meetings.

The Internal Audit department also reviews the Sustainability Report and the Non-financial Declaration.

Current Risk Assessment

Overall Assessment of the Risk Situation by the Management

As part of the risk control system that has been implemented, a scheduled risk inventory was taken in both the first and second half of the 2017 fiscal year based on a risk scoring system in line with the internal risk guidelines. The risk scoring model used in the previous year was applied unchanged in 2017. The resulting risk report was presented to the Management Board and the Audit Committee. There were no unscheduled ad hoc risk reports in 2017.

A total of 127 individual risks were identified for Vonovia in the second half of 2017, 14 more than in 2016. As far as the **overall assessment** of the risk situation is concerned, however, there was no year-on-year change in the risk situation for Vonovia in the 2017 fiscal year. From today's point of view, Vonovia's Management Board has not identified any risks which the company cannot suitably combat or which may jeopardize the Group's results of operations, net assets and/or financial position. Both our business model and our diversified capital market instruments ensure that we have the greatest possible degree of independence from economic fluctuations.

At its ordinary meeting for the fourth quarter of 2017, the Audit Committee approved the risk report submitted by the Management Board.

The following overview shows the top 10 risks in 2017:

No.	Risk	Risk category	Net potential impact
1	Amendments to tenancy laws/regulatory framework	Regulatory and legal risks	High
2	Public image/reputation and customer satisfaction	Economic environment and market-related risks	Considerable
3	Recoverability of Goodwill	Economic environment and market-related risks	High
4	Incorrect determination of the fair value of our properties	Risks related to business	High
5	Incorrect aquisition decisions	Risks related to business	Considerable
6	Unfavorable interest rate development	Financial risks	Considerable
7	Unfavorable refinancing	Financial risks	Considerable
8	Deferred fire protection measures	Risks related to business	Moderate
9	Risk affine management behavior	Risks related to business	Moderate
10	Financial and legal liability for use of subcontractors	Risks related to business	Considerable

The number of risks within the top 10 risks with a high potential net impact rose came to three risks at the end of 2017, as in 2016. The number of risks with a material potential net impact rose from four risks at the end of 2016 to five risks at the end of 2017. The number of risks with a moderate potential net impact fell from three risks at the end of 2016 to two risks at the end of 2017. Overall, Vonovia's Management Board continues to see no risks to the Group's survival. The main risk factors have been identified as changes in the legal framework, reputation/customer satisfaction and changes in interest rate developments.

Regulatory and Legal Risks

Risk 1: Vonovia closely follows planned amendments to laws, as our business activities are above all subject to tenancy and construction law, as well as tax and environmental law. Any adverse changes in the legal environment, such as regulations regarding rental amounts and developments, provisions regarding modernization measures as well as restrictions on modernization opportunities or provisions (including taxes), that result in the incurrence of costs in the event of a property sale that may be detrimental to Vonovia's business activities.

In order to be able to pick up on potential changes in the overall statutory framework early on, Vonovia is involved in active dialog with policymakers and other stakeholders. Vonovia is also represented in associations and monitors the legislative procedure and recent court decisions on a regular basis.

Economic Environment and Market-Related Risks

Risk 2: Vonovia's reputation is of crucial importance for establishing business connections. A bad reputation may make it more difficult to let our residential units or lead to the termination of rental contracts. This is why we are committed, for example, to open communication and direct dialog with all groups who have legitimate interests with regard to conflicts, such as the affordability of living space or new construction projects, in the neighborhoods in which our properties are located. Furthermore, on the financing side, there is the risk that the raising of capital could be impaired. Vonovia takes reputation and customer satisfaction very seriously and counteracts this risk with a large number of measures. For example, customer satisfaction is measured on a quarterly basis and is monitored using the performance indicator CSI in order to identify potential problems at an early stage. Improvements to the process workflows and quality initiatives increase customer satisfaction. Active public relations work helps to communicate the efforts made to improve customer satisfaction and enhance Vonovia's reputation.

Risk 3: The acquisitions made have resulted in considerable stated goodwill, which may be associated with certain risks. The value of this stated goodwill depends largely on the development of market interest rates, average market and sector developments as well as the cash flow from the Group that can be generated in the future by the cash-generating units. Any impairment in this goodwill would be recognized in the income statement, meaning that it would have a direct impact on the company's net assets and results of operations. With regard to possible triggering events, we monitor interest rate developments, in particular, and perform an annual impairment test.

Risks Related to Business

A whole range of risks arise for Vonovia in connection with the performance of its business activities.

Risk 4: The determination of the fair values of our housing stocks, for example, is subject to assumptions that may deviate from our current expectations. Should, for example, the estimate of the microlocation of the buildings and the quality of the macrolocation deteriorate or the current low interest rate level start to increase, the fair value of our entire real estate portfolio would decrease. As far as our investment properties are concerned, changes in value are recognized in the income statement as increases or decreases in value. This means that they have a direct impact on the company's net assets, financial position and results of operations. We counter the associated risk of error with a separate department for internal determination of fair value. This department works in line with the standards that apply to professional property appraisers. Furthermore, our fair values are checked or calculated on neutral terms by professional, external and independent valuation companies that, in turn, work in line with professional rules and regulations. In the 2017 fiscal year, the assessment was once again performed by CBRE GmbH.

Risk 5: Risks can arise for Vonovia in connection with acquisition decisions. These risks can include, for example, excessive purchase prices, unexpected cases of liability, greater indebtedness, higher interest expenses, and challenges with respect to integrating acquisitions into the procedural landscape and achieving anticipated synergies. Furthermore, portfolios or real estate companies that can be acquired in the future may not develop as favorably as expected.

By applying complex, quality-assured investment models during the investment decision process, we counter the risk of uneconomic real estate acquisitions. These models not only take the purchase price and the financing cost into consideration but also regional scenarios for regular maintenance and the development of rents. We also use the in-depth market knowledge of our local regional managers to assess potential acquisition portfolios.

Vonovia's response to the risk associated with procedural integration is a systematic, structured and tried and test integration process.

Risk 8: The insufficient information available regarding the implementation of fire protection measures that currently need to be taken could give rise to business risks, especially in connection with the acquisition of real estate portfolios. This is because a full appraisal and integration of larger real estate portfolios, in particular, requires time. Vonovia counters this risk by developing fire protection concepts for gradual implementation in large-scale projects, involving experts to optimize the structural measures and performing regular assessments on special buildings. Implementation is based on clearly defined instructions and responsibilities, as well as a standardized integration process.

Risk 9: In principle, there is the risk that the management may make incorrect, particularly risky decisions as a result of insufficient information or lack of knowledge of the facts. Vonovia counters this risk with clearly formulated instructions for action and rules governing powers and responsibilities. Responsibility for the business is decentralized to permit better local decision-making.

Risk 10: The extensive use of subcontractors for maintenance/modernization and construction work means that subcontractor defaults are a possibility, giving rise to financial risks and the risk of legal liability. To counterbalance this, corresponding master agreements with subcontractors are signed and the market and subcontractors are monitored continuously.

Financial Risks

Risk 6/7: The expansive monetary policy pursued by the European Central Bank (ECB) and the decision made by the United Kingdom (UK) to leave the European Union (EU) have resulted in increased demand for bonds issued by continental European issuers. As a result, the refinancing conditions and property valuations have continued to show positive development. The outcome and implications of the UK's exit from the EU are impossible to forecast at the moment. In particular, however, the less favorable economic outlook could have a negative impact on both general credit demand and the quality of existing credit exposures. Both could encumber the banking sector and, as a result, the financial system as a whole.

To limit the financial risks, we continuously monitor the financial markets and are also in constant contact with many different market players. Furthermore, we continually evaluate all financing options available on the capital and banking markets. We expect to be able to refinance the necessary volumes by making use of all financing instruments in the future as well. This is based on our investment grade rating, the balanced maturity profile of the financial liabilities and our standing as a regular and reliable issuer on the capital market.

Our external loans are normally subject to loan conditions that are customary on the market (covenants) which, on the one hand, require adherence to defined key financial ratios but can also, for example, restrict the sale of properties or prescribe minimum selling prices. Vonovia also has to adhere to the conditions required to maintain the credit rating awarded by rating agencies, which also relate mainly to compliance with certain key financial ratios. As a result, adherence to the relevant conditions is monitored and reported on an ongoing basis.

Some of our borrowings are loans granted by promotional banks, which limit rent increases and thus our business options. Here, we pay strict attention to compliance with all covenants but use any scope available to us.

As part of the financial risks, we are also exposed to a liquidity risk. Our liquidity management is based on daily cash management of our bank accounts, a weekly financial flexibility status and rolling liquidity planning on a monthly basis, allowing for the relevant restrictions. The regular positive cash flows from our core business do not indicate any particular liquidity risk in the forecast period.

Overall, as of the reporting date, Vonovia SE has sufficient liquid funds and potential financing options to guarantee the Vonovia Group's ability to pay at all times.

The liabilities with variable interest rates expose the Group to a cash-effective interest rate risk. The company uses derivative financial instruments in order to limit or eliminate these risks. The purpose of these financial instruments is to hedge interest rate risks in connection with existing loans and they may never be used for speculation. For a description of the derivative financial instruments, we refer to the notes to the consolidated financial statements, specifically note [40] (Cash Flow Hedges and Stand-alone Interest Rate Swaps).
→ p. 192 et seq.

Other Risks

Vonovia could also be exposed to risks from residual pollution, including mining subsidence damage, soil conditions, wartime ordnance and contaminants in building materials as well as possible building code violations or risks resulting from climate change. Vonovia is the owner and/or property manager of a large number of buildings in the Ruhr area which are situated in the area of near-surface mine workings where the overburden layers are only thin, predominantly in the Essen/Bochum/Dortmund region. These mine workings may represent risks of damage to the surface and/or structures (e. g., traffic routes, buildings, etc.). Vonovia counters this economic and liability risk by having inspections of all buildings in the area of near-surface mining works systematically conducted by external experts. On the basis of the inspection findings and the opinions of external experts, the properties classified as subject to risks are examined for mining damage, which is immediately rectified where necessary. Proof of stability and public safety is then confirmed in an expert opinion.

Vonovia generally performs regular checks on the building safety of the real estate portfolio, taking all of the building regulations into account and checking for any hazardous substances. We do not believe that climate change gives rise to any significant direct risks at the moment, e. g., caused by extreme weather conditions with heavy rain and the potential for floods.

At the time this report was drawn up, there were no risks in connection with future development that were identified as potentially posing a risk to the survival of Vonovia SE, a major company included in the scope of consolidation or the Group as a whole. Compared with the previous year, the estimated probability of occurrence and/or possible financial impact of some risk areas/some opportunity areas has increased slightly. Nevertheless, there are no fundamental changes to the risk or opportunity situation on the whole.

Current Assessment of The Main Opportunities

Economic Environment and Market-related Opportunities

The demand for affordable accommodation remains largely determined by demographic factors and the economic climate. In general, households in Germany are becoming increasingly smaller. Single- and two-person households have made up the largest group for more than three decades now, and their share has increased almost continuously. According to the 2017 household forecast performed by the Federal Statistical Office (Destatis), the number of private households will continue to increase between 2015 and 2035. In the future, this development will also be driven by an increase in single- and two-person households, while the number of households in Germany with three or more members will drop on the whole between 2015 and 2035. This development will, however, vary considerably from region to region: while the number of households in the western German federal states is likely to increase by 7%, and by as much as 13% in the city states, between 2015 and 2035, the number of households in the eastern German federal states is set to drop by around 3%.

With the high influx of refugees from the crisis-ridden areas of the Middle East, immigration to Germany has further exacerbated the situation on the housing market. Although not all asylum seekers will remain in Germany in the long term, we have already identified a rise in demand as a result of these developments in the 2017 fiscal year. If we also consider that many families are likely to move to join their relatives in Germany at a later date, the country could benefit increasingly from higher immigration in the years to come.

In view of these trends, demand and market opportunities may increase for existing small- and medium-sized apartments, which represent Vonovia's core product.

Vonovia could also benefit from the current migration flows within the German population. According to a study conducted by the German Association of German Housing and Real Estate Companies (GdW) in 2015 on migration patterns within Germany (high-influx cities in Germany), migration movements within the population are resulting in above-average population growth in various large and medium-sized cities in western Germany, and in selected cities in eastern Germany. Significant portions of Vonovia's portfolio of residential properties are located in these high-influx cities, meaning that Vonovia could also benefit from this trend.

In addition, the continued strained situation on the housing market in certain conurbations may lead to government decisions to extend housing or rent subsidies. This may have positive effects on Vonovia's business activities in some regions.

Opportunities Arising from the Business

Targeted monitoring, the early involvement of tenants and cooperation projects with social, cultural and city institutions allow Vonovia to make ideal use of the economies of scale available to it in order to achieve sustainable neighborhood development and maintain and increase the value of its properties in these neighborhoods.

We provide a significant proportion of the repair and maintenance services for our residential properties with our own craftsmen's organization. We are also continually increasing the proportion of building and apartment upgrading services we provide ourselves via our craftsmen's organization. We intend to extend the scope of these services to all kinds of technical work and to our entire residential portfolio and thus bring added value from these services to Vonovia. We are also coordinating our new construction activities via our craftsmen's organization and working on new construction concepts such as modular construction solutions.

In addition, we have expanded the range of services provided by our own employees to cover maintanance and modernization of a building's surroundings.

By offering our tenants the option of targeted modernization measures in their own homes, we can boost customer satisfaction and help promote longer-term loyalty to the company. This also allows us to further improve the quality of the homes we offer.

At the end of 2017 we had supplied around 290,000 households with a direct cable TV signal. We expect to further extend this business in the coming years and also provide broadband data access.

The expansion of smart metering, the radio-based recording of heating costs, is progressing as planned. By the end of 2017, the retrofitting of more than 80,000 apartments had been commissioned. We plan to expand these business activities to cover all apartments with central heating in our portfolio over the next few years.

Vonovia manages its housing stocks throughout Germany using standardized systems and processes. The acquisition of further residential real estate portfolios offers the opportunity to generate additional value through economies of scale on the property management side by reducing the costs per residential unit. Therefore, we watch the market very closely for acquisition portfolios and assess them on the basis of our strict success criteria.

We also see targeted small-scale “tactical” acquisitions of single or multiple buildings in specific locations as well as targeted measures in the residential environment as an opportunity to improve the nature and quality of whole residential districts and thus increase the appeal of our apartments for our customers and the value of our residential properties. There is also the option of constructing new buildings on land that we own and adding additional floors to existing buildings in order to expand Vonovia’s housing supply in metropolitan areas, which also allows us to help reduce the short supply of housing in urban locations.

Financial Opportunities

Vonovia’s financing depends on the conditions on the capital market, which are very favorable at the moment due to the low interest rates. Furthermore, we strive to improve the financing costs while maintaining our credit rating performance indicators and the desired financing structure. The internal determination of the fair values of our residential properties not only takes account of building-specific parameters but also location features in the valuation. Given the possibility, described above, of a further increase in demand with the supply of affordable accommodation remaining virtually the same, our fair values could increase further beyond the increase in the value of our properties seen in this fiscal year. This would have a direct positive impact on the results of operations and our company’s stated level of debt.

Forecast Report

Economy as a Whole: The Economic Upswing Will Accelerate Again in 2018

The German economy is progressing towards a boom. This is evident, in particular, from the overutilization of macroeconomic capacities, which is expected to increase considerably during the forecast period, while wage and price increases are set to intensify. After already making several upward adjustments to its forecast for GDP in 2017, the Kiel Institute for the World Economy (IfW) has lifted the GDP growth rate for 2018 to an expected 2.5% (previously 2.2%) due to the positive leading indicators. The ifo institute currently expects GDP growth to come in at 2.6%.

Rising investment, dynamic exports and strong government and private consumption will remain the key pillars propping up growth in 2018. Corporate investment in equipment, in particular, is expected to increase on the back of very favorable sales and earnings prospects, especially now that the negative factors resulting from the uncertain international environment would appear to be gradually petering out. The German economy is said to be benefiting from the considerably improved economic outlook for the euro area and countries oversees and, as a result, from brisk foreign demand for German industrial goods. This is also providing additional stimulus for the positive situation on the labor market, meaning that private consumption and the construction sector are also expected to continue to report a considerable rate of expansion, even if their contribution is expected to taper off slightly. The continuation of extremely positive financing conditions will support the continued upswing.

The more economic activity expands at a level in excess of the norm, the bigger the cyclical risks of a possible economic setback become. This is because there is a risk of resources being systematically mismanaged in boom phases. This increasingly creates production structures that are not marketable in the long run. Exaggerated financial trends in time of very expansive monetary policy – in particular distorted asset prices – exacerbate this process. The more pronounced the preceding boom, the more severe the recession involved in adjusting these undesirable developments can be. In addition to the global economic risks (such as the failure of the Brexit negotiations, an increasing financial stability risk associated with China or faster moves to hike key rates in the U.S.), cyclical developments can also give rise to risks – not least because many companies are reaching their capacity limits and are finding it increasingly difficult to recruit qualified staff. The delay associated with forming a government, however, means that there is still no information available on possible economic and fiscal policy impetus that could influence the outlook.

Looking ahead to 2019, the IfW and ifo still predict GDP growth of 2.2% and 2.1% respectively.

Housing Market: Prices for German Residential Properties Likely to Rise Further in 2018

The upward trend on the real estate market is entering its ninth year, meaning that it has reached a "mature" phase, according to experts at Helaba Landesbank Hessen-Thüringen. The overall framework will remain positive in 2018. Prices for German residential properties will continue to increase in 2018 as the drivers behind the upswing will remain largely unchanged: The German real estate market will be characterized by ongoing high demand. The population is growing, albeit at a lower rate than in the exceptional year of 2015. The marked trend towards domestic migration to the country's major metropolitan areas is expected to continue. The supply of property available will grow at a moderate rate at best and, despite a slight increase in mortgage rates, the financing conditions will remain very favorable according to the Helaba experts. According to Scope Investor Services (Scope), the rental markets in the country's major and fast-growing cities, in particular, are tense, with local signs of price overheating on the markets for condominiums. Scope expects both of these factors to remain unchanged for the time being. Although Scope expects the increase in rents and prices on the German residential real estate market to flatten out over the next five years, it does not predict any drastic drop in prices. Deutsche Bank Research expects to see the prices of apartments (resale) increase by 7.5% in 2018, with increases of 8.5% predicted for A cities. Rents are also expected to rise by 4.5% in 2018. Experts at empirica also expect the prices for residential properties in Germany to continue to rise in 2018, albeit at a slower rate than in previous years. They report that increased new construction activity will put a damper on any additional increases, with no prospects of any additional impetus on the horizon. The German Property Federation, Zentraler Immobilien Ausschuss (ZIA), is cautious in its outlook given the very high property prices already witnessed in many locations. In light of the robust conditions, the ZIA does not expect to see a turnaround, but predicts that prices will initially remain stable on average. According to Deutsche Bank Research, residential property ownership remains affordable, although nationwide affordability fell slightly in 2017 and is expected to drop slightly in 2018 as well. There are also pronounced regional differences as far as affordability is concerned.

The empirica bubble index surpassed the "zero threshold" for the first time in 13 years in the third quarter of 2017, as against the "bubble-free" reference year of 2004. As of the fourth quarter of 2017, the overall index is stagnating in growth regions and increasing slightly in shrinking regions. Rents and purchase prices in 247 out of 402 administrative districts and self-governing cities are no longer developing in tandem. According to empirica, too many apartments are being built in 17 districts. The bubble index indicates a medium to high risk for 199 districts. According to the experts at Aengevelt Research, the only risk of a price bubble relates to a very small number of individual submarkets that have already been characterized by above-average momentum for years now. Aengevelt Research believes that urbanization and the low interest rates are driving construction activity, that there are no indications of any speculative apartment construction activity and that no other signs of a bubble have materialized either. It believes that a lot will depend on how long the markets will benefit from interest rate levels. The question as to whether or not, and to what extent, a bubble will emerge will be answered at the latest when interest rate policy turns around. The majority of the 13 institutions and real estate researchers surveyed by the industry journal Immobilien Zeitung (IZ) expect the German real estate boom to continue until 2019, reported the IZ in September 2017. A few do not expect the current cycle to reach its peak until 2020. The survey participants do not expect to see any dramatic slump over the next few years unless the ECB takes drastic steps to increase interest rates.

According to the experts at Heleba, any housing policy measures taken by a new German federal government would presumably be delayed until well into the new year (2018), meaning that they would not bear fruit until the following year. The recently introduced new regulatory measure, the rent ceiling, is in place in more than 300 municipalities in twelve federal states. Its introduction in Mecklenburg-West Pomerania has been delayed and the rent ceiling is at risk of being axed in some federal states following the state parliamentary elections.

Expected Development of Business

Comparison of the Forecast with the Results from the 2017 Fiscal Year

The 2017 fiscal year was once again a very successful year for Vonovia overall. We were systematic in the implementation of our corporate strategy: the expansion of our investment program, the further improvements to efficiency when managing our properties and the expansion of our Value-add Business. Bolstered by the acquisition of conwert, we once again further expanded our leading market position in 2017.

At the level of the Group as a whole, we were able to achieve a significant further improvement in our most meaningful performance indicators within the meaning of DRS 20 in the 2017 fiscal year, namely adjusted NAV per share, FFO1 and CSI, far exceeding the forecast we published in the 2016 Annual Report and achieving the forecast values most recently published in the Interim Report for the third quarter of 2017.

The table below provides an overview of the development of our forecast performance indicators and the target achievement level for these indicators in 2017.

	Actual 2016	Forecast for 2017*	Last Forecast for 2017 in the 2017 Q3 Report	Actual 2017	Forecast 2018
Adjusted NAV/share	€30.75	€31–32	suspended	€38.49	suspended
EPRA NAV/share	€ 36.58	€ 37–38	suspended	€ 43.88	suspended
FFO 1	€760.8 million	€830–850 million	€910–920 million (upper end)	€920.8 million	€960–980 million
FFO 1/share	€ 1.63	€ 1.78–1.82	€ 1.88–1.90	€ 1.90	€ 1.98–2.02
CSI	Increase of 8%	Similar CSI as 2016	Similar CSI as 2016	Increase of 1.6%	Similar CSI as 2017
Rental income from property management	€ 1,538 million	€ 1,530–1,550 million	€ 1,660–1,680 million	€ 1,667.9 million	€ 1,660–1,680 million
Organic rent increase	3.3%	Increase of 3.5–3.7%	Increase of approx. 4.0%	4.2%	Increase of 4.6–4.8%
Vacancy rate	2.4%	< 2.5%	approx. 2.5%	2.5%	< 2.5%
Maintenance incl. capitalized maintenance	€ 320.1 million	approx. € 340 million	approx. € 350 million	€ 346.2 million	approx. € 360 million
Modernization and new construction	€ 472.3 million	€ 700–730 million	approx. € 750 million	€ 778.6 million	approx. € 1,000 million
Number of units sold Privatize	2,701	approx. 2,300	approx. 2,600	2,608	approx. 2,300
Step-up Privatize	36.2%	approx. 35%	approx. 30%	32.6%	approx. 30%
Number of units sold Sell portfolio	23,930	Continue opportunistic sales	up to 10,000	9,172	Continue opportunistic sales
Step-up Sell portfolio	5.4%	> 0%	approx. 7%	7.9%	> 0%

* According to the Group management report 2016, excl. conwert

Our **adjusted NAV** per share came in at € 38.49 in 2017, up by 25.2% on the prior-year value of € 30.75. This includes effects from fair value adjustments of investment properties in the amount of € 3.4 billion in total. The distribution of the dividend – taking into account the scrip dividend (acceptance rate 49.9%) – of € 263.3 million to our shareholders in 2017 had the opposite effect. Our EPRA NAV increased by 24.9%, from € 17,047.1 million at the end of 2016 to € 21,284.6 million as of December 31, 2017.

FFO 1 rose by 21.0% to € 920.8 million in 2017 (2016: € 760.8 million), putting it slightly ahead of the most recent forecast for the upper forecast range value of between € 910 million and € 920 million, and well ahead of the forecast range of between € 830 million and € 850 million announced at the beginning of the year in the 2016 Annual Report. This is largely due to the acquisition of conwert, the acquisition of an additional real estate portfolio including 1,032 units as of July 1, 2017, and business developments that were, in general, better than expected at the time in the 2016 Annual Report was published.

We were also able to further improve our customer satisfaction. The **CSI**, which we had expected to be on a par with the 2016 fiscal year in 2017, was exceeded by 1.6%.

Forecast for the 2018 Fiscal Year

Our forecast for the 2018 fiscal year is based on the corporate planning for the Vonovia Group as a whole described in the chapter on our management system. → p. 52 et seq. Our plans for 2018 have taken appropriate account of possible opportunities and risks associated with the company's future development, meaning that these plans reflect realistic expectations regarding portfolio development and Vonovia's development. The forecast data below is based on Vonovia's portfolio as it stood when the plans for 2018 were drawn up in the fall of 2017.

Furthermore, the Group's further development remains exposed to general opportunities and risks. These have been described in the chapter on opportunities and risks.

The forecast for the main performance indicators was based on the accounting principles used in the annual financial statements, with the adjustments described elsewhere in the management report being made.

The planning for 2018 is based on the above-mentioned assumptions on the development of the overall economy and on the development of the real estate market in Germany.

In the 2018 fiscal year, we once again plan to further expand our leading position on the German residential real estate market and continue with our successful business strategy. In particular, we will be further expanding our investment program in the areas of modernization and new construction as well as our activities in the Value-add Business segment. We will continue to pursue our established sales strategy in 2018 and dispose of properties that do not fit with our real estate portfolio in the long term and do not meet our location, quality and/or return requirements.

We plan to further improve our sustained operational earnings power in the 2018 fiscal year. The modernization measures taken in the 2017 fiscal year will also help us to achieve this. We predict that **FFO 1** will increase to somewhere in the range of € 960 million and € 980 million in 2018. This corresponds to an FFO 1 per share – based on an unchanged number of shares – of € 1.98 and € 2.02. The forecast does not take account of any further larger acquisitions of real estate portfolios. In the 2018 fiscal year, we will continue to forge ahead with our efforts to improve our customer service. Given the renewed increase in customer satisfaction in the 2017 fiscal year, we expect to see a similar CSI in 2018. We expect the value of our company to increase further in 2018 and predict a moderate increase in NAV/share.

We will continue to invest a considerable amount in our real estate portfolio in 2018. In the 2018 fiscal year, we plan to spend around € 1 billion on modernization measures, including new construction. The focus will remain on energy-efficient modernizations, the refurbishment of units to improve the standard of comfort, and on senior-friendly conversions. We will also, however, be investing in programs such as modernization in response to tenant request, the development of residential districts, the construction of new apartments and the addition of stories to existing properties. In addition, we expect to perform ongoing maintenance work, including capitalized maintenance, with a volume of around € 360 million. All in all, this equates to a maintenance and modernization volume of up to € 1.4 billion in the 2018 fiscal year.

As far as rental development is concerned, we expect the monthly in-place rent per square meter to increase organically by between 4.6% and 4.8% in 2018. We expect the vacancy rate to come in at under 2.5% at the end of 2018. All in all, we expect rental income to remain stable at a level of between € 1,660 million and € 1,680 million despite the planned sales.

In the Sales segment, we will continue to pursue our strategy of selective sales. In the privatization business, we expect around 2,300 apartments to be sold in 2018 with a step-up on the fair value of these apartments of around 30%. We will also continue with our strategy of selling properties from the Sell portfolio with slightly positive step-ups insofar as corresponding opportunities present themselves.

We again plan to allow our shareholders to participate adequately in our company's success in 2017 and intend to propose a dividend of € 1.32 per share.

Bochum, Germany, February 26, 2018

Rolf Buch
(CEO)

Klaus Freiberg
(COO)

Dr. A. Stefan Kirsten
(CFO)

Gerald Klinck
(CCO)

Consolidated Financial Statements

Consolidated Income Statement

January 1 until December 31

in € million	Notes	2016	2017
Income from property letting		2,170.0	2,344.0
Other income from property management		39.3	47.6
Income from property management	6	2,209.3	2,391.6
Income from disposal of properties		1,227.9	1,206.4
Carrying amount of properties sold		-1,177.7	-1,136.0
Revaluation of assets held for sale		52.0	81.1
Profit on disposal of properties	7	102.2	151.5
Net income from fair value adjustments of investment properties	8	3,236.1	3,434.1
Capitalized internal expenses	9	341.0	458.1
Cost of materials	10	-1,081.9	-1,176.4
Personnel expenses	11	-353.8	-416.0
Depreciation and amortization	12	-27.0	-372.2
Other operating income	13	105.3	116.2
Other operating expenses	14	-249.5	-273.3
Financial income	15	27.1	46.8
Financial expenses	16	-449.0	-353.0
Earnings before tax		3,859.8	4,007.4
Income taxes	17	-1,346.9	-1,440.5
Profit for the period		**2,512.9**	**2,566.9**
Attributable to:			
Vonovia's shareholders		2,300.7	2,410.7
Vonovia's hybrid capital investors		40.0	40.0
Non-controlling interests		172.2	116.2
Earnings per share (basic and diluted) in €	18	**4.94**	**5.06**

Consolidated Statement of Comprehensive Income

January 1 until December 31

in € million	2016	2017
Profit for the period	2,512.9	2,566.9
Cash flow hedges		
Change in unrealized gains/losses	-66.1	-168.0
Taxes on the change in unrealized gains/losses	1.7	57.3
Net realized gains/losses	26.9	199.8
Taxes on the change in net realized gains/losses	-7.4	-64.7
Total	-44.9	24.4
Available-for-sale financial assets		
Changes in the period	95.8	133.4
Taxes on changes in the period	-1.5	-2.4
Total	94.3	131.0
Currency translation differences		
Changes in the period	–	0.9
Items which will be recognized in profit or loss in the future	49.4	156.3
Actuarial gains and losses from pensions and similar obligations		
Change in actuarial gains/losses, net	-32.2	5.1
Tax effect	10.7	-1.8
Items which will not be recognized in profit or loss in the future	-21.5	3.3
Other comprehensive income	27.9	159.6
Total comprehensive income	**2,540.8**	**2,726.5**
Attributable to:		
Vonovia's shareholders	2,328.9	2,570.2
Vonovia's hybrid capital investors	40.0	40.0
Non-controlling interests	171.9	116.3

Also see the corresponding explanations in the Notes.

Consolidated Balance Sheet

Assets

in € million	Notes	Dec. 31, 2016	Dec. 31, 2017
Intangible assets	19	2,743.1	2,637.1
Property, plant and equipment	20	115.7	177.6
Investment properties	21	26,980.3	33,182.8
Financial assets	22	585.9	698.0
Other assets	23	15.2	13.8
Deferred tax assets	17	19.6	10.3
Total non-current assets		30,459.8	36,719.6
Inventories	25	5.0	6.2
Trade receivables	26	164.4	234.9
Financial assets	22	153.2	0.5
Other assets	23	102.7	98.4
Income tax receivables	24	34.6	47.9
Cash and cash equivalents	27	1,540.8	266.2
Assets held for sale	28	61.6	142.6
Total current assets		2,062.3	796.7
Total assets		32,522.1	37,516.3

Equity and Liabilities

in € million	Notes	Dec. 31, 2016	Dec. 31, 2017
Subscribed capital		466.0	485.1
Capital reserves		5,334.9	5,966.3
Retained earnings		6,665.4	8,471.6
Other reserves		1.5	157.8
Total equity attributable to Vonovia's shareholders		**12,467.8**	**15,080.8**
Equity attributable to hybrid capital investors		1,001.6	1,001.6
Total equity attributable to Vonovia's shareholders and hybrid capital investors		**13,469.4**	**16,082.4**
Non-controlling interests		419.0	608.8
Total equity	29	**13,888.4**	**16,691.2**
Provisions	30	607.9	607.2
Trade payables	31	1.3	2.4
Non-derivative financial liabilities	32	11,643.4	12,459.4
Derivatives	33	19.1	8.7
Liabilities from finance leases	34	94.7	94.7
Liabilities to non-controlling interests	35	9.9	24.9
Other liabilities	36	83.3	65.3
Deferred tax liabilities	17	3,769.5	5,322.6
Total non-current liabilities		**16,229.1**	**18,585.2**
Provisions	30	370.8	376.5
Trade payables	31	138.8	130.7
Non-derivative financial liabilities	32	1,727.6	1,601.1
Derivatives	33	57.5	4.4
Liabilities from finance leases	34	4.5	4.6
Liabilities to non-controlling interests	35	2.7	9.0
Income tax liabilities		0.0	0.4
Other liabilities	36	102.7	113.2
Total current liabilities		**2,404.6**	**2,239.9**
Total liabilities		**18,633.7**	**20,825.1**
Total equity and liabilities		**32,522.1**	**37,516.3**

Also see the corresponding explanations in the Notes.

Consolidated Statement of Cash Flows

January 1 until December 31

in € million	Notes	2016	2017
Profit for the period		2,512.9	2,566.9
Net income from fair value adjustments of investment properties	8	-3,236.1	-3,434.1
Revaluation of assets held for sale	7	-52.0	-81.1
Depreciation and amortization	12	27.0	372.2
Interest expenses/income		433.0	326.3
Income taxes	17	1,346.9	1,440.5
Results from disposals of investment properties		-50.2	-70.4
Results from disposals of other non-current assets		-0.4	0.2
Other expenses/income not affecting net income		-2.6	0.6
Change in working capital		-85.9	-123.7
Income tax paid		-63.7	-51.4
Cash flow from operating activities		828.9	946.0
Proceeds from disposals of investment properties and assets held for sale		1,418.5	1,165.2
Proceeds from disposals of other assets		1.8	16.4
Payments for acquisition of investment properties	21	-548.8	-1,043.0
Payments for acquisition of other assets	19/20	-459.7	-80.2
Payments (last year: proceeds) for acquisition of shares in consolidated companies, in due consideration of liquid funds	3	0.3	-1,412.0
Interest received		4.3	3.5
Cash flow from investing activities		416.4	-1,350.1

in € million	Notes	2016	2017
Cash paid to shareholders of Vonovia SE and to shareholders of non-controlling interests	29	-445.4	-277.9
Payments to hybrid capital investors	29	-40.0	-40.0
Proceeds from issuing financial liabilities	29	2,576.9	2,920.5
Cash repayments of financial liabilities	32	-4,219.0	-3,248.7
Payments for transaction costs in relating to capital measures	32	-27.7	-12.5
Payments for other financing costs		-272.3	-47.9
Payments for the acquisition of shares in non-controlling interests		-19.3	-137.1
Proceeds for the sale of shares of consolidated companies		–	276.6
Interest paid		-365.6	-303.5
Cash flow from financing activities		**-2,812.4**	**-870.5**
Net changes in cash and cash equivalents		**-1,567.1**	**-1,274.6**
Cash and cash equivalents at the beginning of the period		3,107.9	1,540.8
Cash and cash equivalents at the end of the period[1)]	27	**1,540.8**	**266.2**

Also see the corresponding explanations in the Notes
1) Thereof restricted cash € 36.3 million (Dec. 31, 2016: € 51.7 million)

Consolidated Statement of Changes in Equity

				Other reserves	
				Can be reclassified	
in € million	Sub-scribed capital	Capital reserves	Retained earnings	Cash flow hedges	Available-for-sale financial assets
As of Jan. 1, 2017	466.0	5,334.9	6,665.4	-93.2	94.7
Profit for the period			2,410.7		
Other comprehensive income					
Changes in the period			3.2	-110.7	131.0
Reclassification affecting net income				135.1	
Total comprehensive income			2,413.9	24.4	131.0
Capital increase	19.1				
Premium on the issue of new shares		634.3			
Transaction costs in connection with the issue of shares		-2.9			
Dividend distributed by Vonovia SE			-525.1		
Acquisition of conwert					
Changes recognized directly in equity			-82.6		
As of Dec. 31, 2017	**485.1**	**5,966.3**	**8,471.6**	**-68.8**	**225.7**
As of Jan. 1, 2016	466.0	5,892.5	4,309.9	-48.3	0.4
Profit for the period			2,300.7		
Other comprehensive income					
Changes in the period			-21.2	-64.4	94.3
Reclassification affecting net income				19.5	
Total comprehensive income			2,279.5	-44.9	94.3
Dividend distributed by Vonovia SE			-438.0		
Withdrawal from capital reserve		-558.5	558.5		
Changes recognized directly in equity		0.9	-44.5		
As of Dec. 31, 2016	**466.0**	**5,334.9**	**6,665.4**	**-93.2**	**94.7**

Currency translation differences	Total	Equity attributable to Vonovia's shareholders	Equity attributable to Vonovia's hybrid capital investors	Equity attributable to Vonovia's shareholders and hybrid capital investors	Non-controlling interests	Total equity
	1.5	12,467.8	1,001.6	13,469.4	419.0	13,888.4
		2,410.7	40.0	2,450.7	116.2	2,566.9
0.9	21.2	24.4		24.4	0.1	24.5
	135.1	135.1		135.1		135.1
0.9	156.3	2,570.2	40.0	2,610.2	116.3	2,726.5
		19.1		19.1		19.1
		634.3		634.3		634.3
		-2.9		-2.9		-2.9
		-525.1		-525.1		-525.1
					127.3	127.3
		-82.6	-40.0	-122.6	-53.8	-176.4
0.9	**157.8**	**15,080.8**	**1,001.6**	**16,082.4**	**608.8**	**16,691.2**
	-47.9	10,620.5	1,001.6	11,622.1	244.8	11,866.9
		2,300.7	40.0	2,340.7	172.2	2,512.9
	29.9	8.7		8.7	-0.3	8.4
	19.5	19.5		19.5		19.5
	49.4	2,328.9	40.0	2,368.9	171.9	2,540.8
		-438.0		-438.0		-438.0
						–
		-43.6	-40.0	-83.6	2.3	-81.3
	1.5	**12,467.8**	**1,001.6**	**13,469.4**	**419.0**	**13,888.4**

Notes

Accounting Policies

1 Principles of the Consolidated Financial Statements

Vonovia SE is incorporated and domiciled in Germany. Its registered office has been located in Bochum since October 10, 2017, after a transfer of its registered office had been entered into the commercial register.

The consolidated financial statements as of and for the year ended December 31, 2017, have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU. In addition, the supplementary commercial law provisions under Section 315e (1) of the German Commercial Code (HGB) have been observed.

The consolidated financial statements have been prepared on the basis of amortized cost except for investment properties, assets held for sale, derivative financial instruments, available-for-sale financial instruments, plan assets and financial liabilities arising from binding share purchase offers to minority shareholders. These are measured at their fair value or, in the case of financial liabilities arising from binding share price offers, at the minimum purchase price if it is higher than the fair value. The income statement has been prepared using the nature of expense method.

These consolidated financial statements are presented in euros, which is the Group's functional currency. Unless stated otherwise, all figures are shown in million euros (€ million).

The Management Board of Vonovia SE drew up the consolidated financial statements on February 26, 2018.

2 Consolidation Principles

Business Combinations

An entity shall account for each business combination by applying the acquisition method if it obtains control. All hidden reserves and charges of the company acquired are disclosed as part of the necessary remeasurement. Any excess of the cost of a business combination over Vonovia's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, following the disclosure of hidden reserves and charges, is recognized as goodwill in the balance sheet. The consideration transferred at the time of the acquisition and the identifiable net assets that are acquired are measured at fair value as a general rule. Transaction costs are recognized as an expense immediately insofar as they do not relate to capital procurement costs or costs relating to the issue of debt capital.

Subsidiaries

Subsidiaries are companies that are controlled by the Group. The parent company controls an investee if it is exposed to risks or has rights to variable returns from its involvement with the investee and has the ability to use its power of control over the investee to influence the level of these returns. In the process of full consolidation, the assets and liabilities of a subsidiary are included in the consolidated financial statements in their entirety. Subsidiaries are included in the consolidated financial statements from the date on which Vonovia SE obtains control until the day control ceases.

Non-controlling Interests

The equity of a subsidiary that is not attributable to Vonovia is shown as a separate component of equity under non-controlling interests. Non-controlling interests are measured based on their share of the identified net assets of the acquired company at the time of acquisition.

Changes in a parent ownership's interest in a subsidiary that do not result in the parent's losing control of the subsidiary are equity transactions.

Loss of Control

If Vonovia loses control over a subsidiary, the assets and liabilities of the subsidiary in question, as well as any corresponding non-controlling interests, are derecognized. The result is recognized in the income statement. Any investment retained is recognized at fair value when control is lost.

Joint Arrangements

Joint arrangements classified as joint ventures are accounted for using the equity method. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, instead of having rights to its assets and obligations for its liabilities.

Business Transactions Eliminated on Consolidation

The effects of the business transactions between the entities included in the Vonovia consolidated financial statements are eliminated.

Results from business transactions with companies accounted for using the equity method are only eliminated in line with the Group's share in the investee.

The financial statements of Vonovia SE and all subsidiaries are consistently prepared according to uniform accounting policies.

3 Scope of Consolidation and Business Combinations

All in all, and including Vonovia SE, 350 companies (Dec. 31, 2016: 189) – thereof 259 (Dec. 31, 2016: 168) domestic companies and 91 (Dec. 31, 2016: 21) foreign companies – have been included in the consolidated financial statements as of December 31, 2017. In addition, four (Dec. 31, 2016: three) domestic companies and one foreign company were included as joint ventures.

For all subsidiaries included in the consolidated financial statements, the reporting date is December 31.

The list of Vonovia shareholdings is appended to the Notes to the consolidated financial statements as an integral part thereof.

Companies that have made use of the exemption provision set out in Section 264 (3) of the German Commercial Code (HGB) are marked accordingly in the list of shareholdings.

The changes as of December 31, 2017, compared with the previous year result from the acquisition of the conwert Group (211 companies, of which three are joint ventures), the PROIMMO Group (six companies) and five further acquisitions, two newly established companies, 35 mergers, 17 accruals, seven sales and two liquidations.

Acquisition of conwert Immobilien Invest SE

In connection with the voluntary public takeover offer that Vonovia SE made on November 17, 2016 to the shareholders of conwert Immobilien Invest SE, Vienna (conwert), a total of 72,902,498 or 71.54% of the shares had been tendered after the end of the acceptance deadline on December 19, 2016, 682,852 of which were tendered as part of an alternative exchange offer. This corresponds to 339,135 new Vonovia shares to be created.

The acquisition date, the time at which Vonovia SE obtained control of the conwert Group, was January 10, 2017. Vonovia SE's non-cash capital increase, using authorized capital, was entered in the commercial register of Düsseldorf Local Court on this day, and was formulated as a suspensive condition of the takeover offer. This transaction shall be treated as a business combination in accordance with IFRS 3.

Pursuant to Section 19 (3) UebG (Austrian Takoeover Act), the acceptance deadline was extended by three months, starting at the time the result was announced, namely until March 23, 2017, (grace period), for those shareholders who had not yet accepted the offer. The conwert shareholders, who wanted to accept this offer, were given the option, as with the first tender period, to choose between a cash offer (payment of the cash purchase price of € 16.16 per share in conwert) and an alternative exchange offer (74 shares in Vonovia for every 149 shares in conwert) The extended acceptance period ended on March 23, 2017, with a further 21,965,224 shares in conwert being tendered. 4,947,554 shares were tendered in exchange for shares in Vonovia. This corresponds to 2,457,177 new Vonovia shares to be created. The capital increase was entered in the Commercial Register in Düsseldorf on March 31, 2017. This is a transaction that is linked to the actual share purchase (linked transaction). This means that the result of the grace period has to be taken into account when allocating the purchase price as of the acquisition date in respect of the consideration transferred and the resulting goodwill.

The consideration transferred for the acquisition of 93.09% of the total shares in the share capital of conwert comprises the following:

in € million	
Net cash purchase price component	1,442.0
Equity instruments	90.8
Total consideration	**1,532.8**

As part of the first tender, the share-based component relates to 339,135 no-par value shares from the non-cash capital increase of Vonovia SE, which were exchanged by Vonovia SE for the conwert shares. This share-based component was valued at the XETRA closing price of € 31.48 per share on January 10, 2017, and amounts to € 10.7 million.

As part of the extended tender, the share-based component relates to 2,457,177 no-par value shares from the non-cash capital increase of Vonovia SE, which were exchanged by Vonovia SE for the conwert shares. This share-based component was valued at the XETRA closing price of € 32.59 per share on March 23, 2017 and amounts to € 80.1 million.

The allocation of the total purchase price to the acquired assets and liabilities (PPA) of the conwert Group as of the date of first-time consolidation is based on an external valuation report that was commissioned for this purpose to calculate the fair values of these assets and liabilities.

The measurement period for the first-time recognition of the merger with conwert Immobilien Invest SE, Vienna, ended on December 31, 2017.

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

in € million	
Investment properties	2,469.6
Cash and cash equivalents	33.7
Assets held for sale	351.5
Fair value of other assets	149.7
Total assets	**3,004.5**
Non-controlling interests	127.3
Non-derivative financial liabilities	1,227.0
Deferred tax liabilities	153.7
Fair value of other liabilities	195.6
Total liabilities	**1,703.6**
Fair value net assets	**1,300.9**
Consideration	1,532.8
Goodwill	**231.9**

The goodwill represents synergies from the future integration of the conwert Group. The goals associated with the newly acquired conwert portfolio include strengthening its overall regional presence, realizing operational and financial economies of scale and optimizing structures.

Out of the trade receivables that were acquired, an amount of € 20.0 million is likely to have been uncollectible at the time of acquisition. The gross amount of the acquired trade receivables was € 110.9 million. The net carrying amount, which corresponds to the fair value, was € 90.9 million.

Since January 2017, the conwert Group has recognized income from property management in the amount of € 181.9 million as well as an earnings contribution in terms of earnings before fair value adjustments of investment properties, interest, taxes, depreciation and amortization (EBITDA IFRS) of € 82.9 million, which are already reflected in Vonovia's consolidated financial statements in accordance with the IFRS.

Transaction costs of € 5.6 million have been incurred in the 2017 fiscal year, with € 3.7 million recognized as other operating expenses that affected net income. In addition, other transaction costs in connection with the capital increase were offset against the capital reserves outside profit or loss, taking deferred taxes into account.

A total of 120 domestic and 91 foreign companies of the conwert Group were newly included in the scope of consolidation as of the date of acquisition.

On August 29, 2017, Vonovia implemented what is known as a squeeze-out process under the Austrian Squeeze Out Act (Gesellschafter-Ausschlussgesetz) at an extraordinary Annual General Meeting held in Vienna, based on which all of the outstanding shares held by the minority shareholders were transferred to Vonovia as the sole shareholder. This resulted in the shares no longer being listed on the Vienna Stock Exchange. The squeeze-out was entered in the Vienna commercial register with effect from October 25, 2017. Finally, on December 22, 2017, the change in legal form, turning the company into a limited liability company (GmbH), was entered in the Vienna commercial register.

4 Currency Translation

In the separate financial statements of Vonovia SE and the subsidiaries included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the reporting date. Non-monetary items that are measured in terms of historical cost are recorded on the reporting date at the exchange rate on the date when they were first recognized. Non-monetary items that are measured at fair value are translated on the reporting date using the exchange rate on the date when the fair value was determined. Any resulting translation gains and losses are recognized with effect on net income.

5 Accounting Policies

a) Recognition of Income and Expenses

Income from property management includes income from the rental of investment properties and assets held for sale which is recognized, net of discounts, over the duration of the contracts when the remuneration is contractually fixed or can be reliably determined and collection of the related receivable is probable.

In Vonovia's financial statements, the corresponding income for all the services for ancillary costs performed by the end of the year is also recognized in the year in which the service is performed.

Income from real estate sales is recognized as soon as the material risks and rewards of ownership have been transferred to the buyer and Vonovia has no substantial further obligations. As far as any remaining obligations are concerned, a provision is recognized for the probable risk.

Expenses are recognized when they arise or at the time they are incurred. Interest is recognized as income or expense in the period in which it is incurred using the effective interest method.

b) Goodwill

Goodwill results from a business combination and is defined as the amount by which the acquisition costs for shares in a company or a group of companies exceed the pro rata net assets acquired. The net assets are the total of the identifiable assets acquired that are valued at fair value in accordance with IFRS 3 as well as the assumed liabilities and contingent liabilities.

Goodwill is not subject to amortization, but rather is subjected to impairment testing on an annual basis. It is also tested for impairment whenever events or circumstances indicating an impairment arise.

The impairment testing of goodwill is performed at the level of a cash-generating unit (CGU) or a group of cash-generating units. A cash-generating unit is the smallest group of assets which generates cash inflows that are largely independent of the cash inflows generated by other assets or other groups of assets. Goodwill purchased as part of a business combination is allocated to the CGUs or a group of CGUs that are expected to produce benefits resulting from the synergy effects of the combination. At Vonovia, each property meets the requirements for classification as a CGU as a general rule. As part of operational management, these properties are grouped first of all to form geographically structured business units and then to form regional business areas. Since the regional business areas are the lowest level within the company at which goodwill is monitored for internal management purposes, the impairment test is performed at business area level and, as a result, in accordance with IAS 36.80 for a group of CGUs. The acquired assets are allocated to the business areas based on the geographical location of the properties. A further group of CGUs for which goodwill is monitored for internal management purposes relates to the Value-add Business segment. The Value-add Business segment combines all of the business activities relating to the expansion of the core business to include customer-oriented services, e. g., services that are closely related to and/or influence the rental business. The Value-add Business segment also includes the activities performed by the craftsmen's and residential environment organization, new construction, the condominium administration business and insurance.

The group of CGUs to which goodwill has been allocated are tested for impairment.

This involves comparing the recoverable amount with the carrying amount of the group of CGUs. The recoverable amount of the group of CGUs is either its value in use or fair value less costs of sale, whichever is higher. When calculating the value in use, the estimated future cash flows are discounted to their cash value. Discount rates before tax are used that reflect the current market assessment of the interest rate effect and the specific risks associated with the business areas/the Value-add Business segment.

If goodwill has been allocated to a group of CGUs and its carrying amount exceeds the recoverable amount in the future, the goodwill is to be amortized in the amount of the difference in the first instance. Any need for amortization in excess of this amount is distributed among the other assets in the group of CGUs in proportion to their carrying amount. The individual fair value less costs to sell must not be undercut in this regard.

Impairment losses relating to the valuation of goodwill are not reversed.

c) Other Intangible Assets

Acquired other intangible assets are capitalized at amortized cost and internally generated intangible assets at amortized cost provided that the requirements of IAS 38 for the capitalization of internally generated intangible assets are met. All of Vonovia's other intangible assets have definite useful lives and are amortized on a straight-line basis over their estimated useful lives. Software and licenses are amortized on the basis of a useful life of three years.

d) Property, Plant and Equipment

Items of property, plant and equipment are carried at amortized cost less accumulated depreciation and are depreciated over their respective estimated useful lives on a straight-line basis.

Subsequent costs of replacing part of an item of property, plant and equipment are capitalized provided it is probable that future economic benefits associated with the item will flow to Vonovia and the cost can be estimated reliably.

Real estate used by the company itself (owner-occupied properties) is depreciated over 50 years; equipment, fixtures, furniture and office equipment are depreciated over periods of between three and thirteen years.

e) Impairment of Other Intangible Assets and Property, Plant and Equipment

In accordance with IAS 36 “Impairment of Assets,” other intangible assets as well as property, plant and equipment are tested for impairment whenever there is an indication of an impairment. Impairment testing is performed at least once a year. An impairment loss is recognized when an asset’s recoverable amount is less than its carrying amount. If the recoverable amount cannot be determined for the individual asset, the impairment test is conducted on the CGU to which the asset belongs. Impairment losses are recognized as expenses in the income statement with effect on net income.

An impairment loss recognized for prior periods is reversed if there has been a change in the estimates used to determine the asset’s (or the CGU’s) recoverable amount since the last impairment loss was recognized. The carrying amount of the asset (or the CGU) is increased to the newly estimated recoverable amount. The carrying amount is limited to the amount that would have been determined if no impairment loss had been recognized in prior years for the asset (or the CGU).

f) Investment Properties

When Vonovia acquires properties, whether through a business combination or separately, the intended use determines whether such properties are classified as investment properties or as owner-occupied properties.

Investment properties are properties that are held for the purpose of earning rental income or for capital appreciation or both and are not owner-occupied or held for sale in the ordinary course of business. Investment properties include undeveloped land, land and land rights including buildings and land with inheritable building rights of third parties. Properties that are capitalized under a finance lease in accordance with IAS 17 “Leases” and covered by the definition of investment properties are also classified as investment properties.

Investment properties are initially measured at cost. Related transaction costs, such as fees for legal services or real estate transfer taxes, are included in the initial measurement. If properties are purchased as part of a business combination and if the transaction relates to a “business,” then IFRS 3 applies as far as recognition is concerned. Transaction costs are recognized as an expense. Property held under a finance lease is recognized at the lower of the fair value of the property and the present value of the minimum lease payments upon initial recognition.

Following initial recognition, investment properties are measured at fair value. Any change therein is recognized as affecting net income in the income statement.

For a description of the determination of the fair values of investment properties, see note [21] Investment Properties.

Investment properties are transferred to property, plant and equipment when there is a change in use evidenced by the commencement of owner-occupation. The properties’ deemed cost for subsequent measurement corresponds to the fair value at the date of reclassification.

g) Leases

Finance Leases
Leases where all material risks and rewards associated with ownership are transferred to the lessee are accounted for as finance leases.

Vonovia as a Lessee under a Finance Lease
The leased asset and corresponding liability are recognized at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequently, the leased asset is accounted for in accordance with the standards applicable to that asset. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Operating Leases
All leases where not all material risks and rewards associated with ownership are transferred are accounted for as operating leases.

Vonovia as a Lessor under an Operating Lease
Lease payments are recognized as income on a straight-line basis over the lease term.

Vonovia as a Lessee under an Operating Lease
Lease payments are recognized as an expense on a straight-line basis over the lease term.

h) Non-derivative Financial Assets

Loans and Receivables
Loans and receivables are first recognized as incurred, other non-derivative financial assets as of the day of trading. The day of trading is the date on which Vonovia becomes a contracting party of the financial instrument. All financial instruments are initially measured at fair value, taking account of transaction costs. A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or the financial asset is transferred and Vonovia neither retains control nor retains material risks and rewards associated with ownership of the financial asset.

Loans and receivables are stated at amortized cost using the effective interest method.

Vonovia determines whether there is an objective indication of an impairment at the level of individual financial instruments if they are material, and, for financial instruments for which no impairments have been identified at the level of the individual financial instruments or such impairments are immaterial, grouped according to risk profile. Impairments are identified for individual financial instruments when the counterparty has defaulted or breached a contract or there are indications of risks of impairments due to a rating downgrade and general information (loss event). For groups of financial instruments with similar risks, historical default probabilities in relation to the time overdue are drawn upon (loss event). An impairment is calculated after the occurrence of a loss event as the difference between the carrying amount and the value of the discounted estimated future cash flow. The original effective interest rate is taken as the discount rate. Impairment losses are recognized with effect on net income and offset directly with the carrying amount of the financial instrument. Any interest income on impaired financial instruments is still recognized. If there are indications that the amount of the impairment loss will be smaller, this reduction is credited to the financial instrument affecting net income to the extent that the sum does not exceed the amortized cost that would have been recognized if the impairment had not occurred.

Available-for-Sale Financial Assets
Available-for-sale financial assets are initially stated at their fair value, plus the directly attributable transaction costs. Subsequent measurement is at fair value as a general rule. Changes in the fair value are, if not an impairment loss, recognized in other comprehensive income. Impairments are reclassified from other comprehensive income to the income statement. Reversals of impairments are recognized in accordance with IAS 39.67f.

The fair value of available-for-sale financial assets is based on quoted market prices as of the reporting date. When an available-for-sale financial asset is derecognized, the cumulative gain or loss recognized in other comprehensive income is transferred to the income statement with an impact on net income. Interest on interest-bearing financial instruments of this category is calculated using the effective interest method. Dividends on equity instruments in this category are shown in the income statement.

i) Inventories

Inventories are valued at cost or at their net realizable value, whichever is lower.

j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checks and deposits at banking institutions as well as marketable securities with an original term of up to three months.

k) Assets Held for Sale

To be classified as held for sale, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets, and it must be highly probable that a sale will take place. A sale is deemed to be highly probable if there is a commitment to a plan to sell the asset, an active program to locate a buyer and complete the plan has been initiated, the asset is being actively marketed for sale at a reasonable price, and a sale is expected to be completed within one year of the date on which the asset is classified as held for sale.

Vonovia accounts for investment properties as assets held for sale when notarized purchase contracts have been signed or a declaration of intent to purchase has been signed by both parties as of the reporting date but transfer of title will, under the contract, not take place until the subsequent period. Initially they are recognized at the contractually agreed selling price and subsequently at fair value following deductions for costs to sell, if the latter is lower.

l) Income and Expense Recognized Directly in Other Comprehensive Income

This equity line item includes changes in other comprehensive income not affecting net income except those resulting from capital transactions with equity holders (e. g., capital increases or dividend distributions). Vonovia includes under this item unrealized gains and losses from the fair value measurement of available-for-sale financial assets and derivative financial instruments that are designated as cash flow hedges as well as actuarial gains and losses from defined benefit pension commitments.

m) Tax

Current Income Taxes

Income taxes for the current and prior fiscal years are recognized as current income tax liabilities to the extent that they have not yet been paid.

A dividend payment to the shareholders does not trigger any tax obligation at Vonovia SE.

Deferred Taxes

Deferred tax assets and liabilities are recognized using the liability method under the temporary concept, providing for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are only recognized for temporary differences and on loss carryforwards to the extent that there are deferred tax liabilities that can be offset against them – regarding deferred tax assets on loss carryforwards taking the minimum taxation into account – or, based on the predictable profits in the foreseeable future, it can be verified that they will be realized.

Deferred tax assets and liabilities are not recognized where the temporary difference arises from initial recognition of goodwill in connection with a business combination or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that neither affects taxable income nor net income.

The carrying amount of a deferred tax asset is reviewed at each reporting date. If necessary, the carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the future.

Deferred taxes are measured at the tax rates that apply, or are expected to apply, to the period when the tax asset is realized or the liability is settled based on the current legislation in the countries in question. As in 2016, the combined tax rate of corporate income tax and trade tax of 33.1% was used to calculate domestic deferred taxes for 2017. The corporate income tax rate for the companies based in Austria is 25.0%.

Deferred tax assets and liabilities are offset against each other only if Vonovia has a legally enforceable right to set off the recognized amounts, when the same tax authority is involved and when the realization period is the same. In accordance with the regulations of IAS 12 “Income Taxes,” deferred tax assets and liabilities are not discounted.

n) Earnings Per Share

The basic earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation during the reporting period. The diluted earnings per share are obtained by adjusting the profit for the period and the number of outstanding shares on the basis of the assumption that convertible instruments will be converted, options or warrants will be exercised or ordinary shares will be issued under certain conditions. Potential ordinary shares will only be included in the calculation if the conversion into ordinary shares would reduce the earnings per share.

o) Provisions

Provisions for Pensions and Similar Obligations

When valuing the provisions for pensions, the company pension obligations are determined using the projected unit credit method pursuant to IAS 19 “Employee Benefits,” whereby current pensions and vested pension rights as of the reporting date as well as expected future increases in salaries and pensions, are included in the valuation. An actuarial valuation is performed at each reporting date.

The amount shown in the balance sheet is the total present value of the defined benefit obligations (DBO) after offsetting against the fair value of the plan assets.

Actuarial gains and losses are accounted for in full in the period in which they occur and recognized in retained earnings as a component of other comprehensive income and not in profit or loss. The actuarial gains and losses are also no longer recognized with effect on net income in subsequent periods.

Service cost is shown in personnel expenses. The service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the reporting period.

The interest expense is recognized as an increase in the present value in the financial result. Interest expense is the increase during a period in the present value of a defined benefit obligation that arises due to the fact that the benefit obligation is one period closer to being discharged.

Reinsurance contracts that qualify as plan assets have been taken out to cover the pension obligations toward particular individuals. Where the value of those reinsurance contracts exceeds the related pension obligations, the excess is recognized as an asset and shown under other assets.

Obligations from joint defined benefit multi-employer plans at Versorgungsanstalt des Bundes und der Länder (VBL), a pension scheme operated by the German federal government and the German states, are stated, in line with IAS 19.34, in the same way as obligations from defined contribution plans, insofar as the information required for the statement of defined benefit plans is not available. The obligations are based on the amounts to be paid for the current period.

Other Provisions

Other provisions are recognized when there is a present obligation, either legal or constructive, vis-à-vis third parties as a result of a past event, if it is probable that a claim will be asserted and the probable amount of the required provision can be reliably estimated. Provisions are discounted if the resulting effect is material. The carrying amount of discounted provisions increases in each period to reflect the passage of time and the unwinding of the discount is recognized within interest expense. The discount rate is a pre-tax rate that reflects current market assessments.

Provisions for restructuring expenses are recognized when the Group has set up and communicated a detailed formal plan for restructuring and has no realistic possibility of withdrawing from these obligations.

Provisions for onerous contracts are recognized when the expected benefits from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is stated at the lower of the present value of the fulfillment obligation and the cost of terminating the contract, i. e., a possible indemnity or fine for breach or non-fulfillment of contract.

Provisions are reviewed regularly and adjusted to reflect new information or changed circumstances.

The provisions for pre-retirement part-time work arrangements are basically to be classified as other long-term employee benefits that are to be accrued over the employees' service periods.

The assets of the insolvency policy to secure fulfillment shortfalls arising from pre-retirement part-time work arrangements are offset against the amounts for fulfillment shortfalls contained in the provisions for pre-retirement part-time work arrangements.

p) Financial Liabilities

Vonovia recognizes non-derivative financial liabilities, which mainly include liabilities to banks and to investors, at their fair value on the day of trading, less the directly attributable transaction costs (this generally corresponds to the acquisition cost). These liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities are derecognized when Vonovia's obligations specified in the contract expire or are discharged or canceled.

Liabilities bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are recorded at present value.

Derivative financial instruments are stated at their fair value on the day of trading when they are recognized for the first time. The fair values of the derivative financial instruments are calculated using standard market valuation methods for such instruments on the basis of the market data available on the valuation date.

With derivatives that are not designated as a hedging instrument in the balance sheet, changes in the fair value are recognized in profit or loss with effect on net income.

With derivatives designated as hedging instruments, the recognition of changes in the fair value depends on the type of hedge:

With a fair value hedge, the changes in the fair value of the derivative financial instruments and of the underlying hedged items attributable to the hedged risk are recognized affecting net income.

With a cash flow hedge, the unrealized gains and losses are initially recognized in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to the income statement at the same time the underlying hedged item affects net income. To the extent that the hedge is ineffective, the change in fair value is immediately recognized in net interest.

Embedded derivative financial instruments that are combined with a non-derivative financial instrument (host contract) to form a hybrid financial instrument are to be separated from the underlying contract pursuant to IAS 39 as a general rule and accounted for separately if (i) its economic risks and characteristics are not closely related to those of the host contract, (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (iii) the hybrid instrument is not measured at fair value affecting net income with changes in fair value recognized in the income statement. As soon as the derivative is to be separated from its host contract, the individual components of the hybrid financial instrument are to be accounted for based on the provisions that apply to the individual financial instruments.

In order to measure interest rate swaps, future cash flows are calculated and then discounted. The calculated cash flows result from the contract conditions. The contract conditions refer to the EURIBOR reference rates (3M and 6M EURIBOR). Discounting is based on market interest rate data as of the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the interest rate swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

To measure the cross currency swaps, future cash flows are calculated and then discounted. The calculated cash flows result from the contract conditions and the USD forward rates (development of exchange rates expected by the market). Discounting is based on market interest rate data as of the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the cross currency swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

Liabilities from finance leases are initially recognized at the fair value of the leased object or the lower present value of the minimum lease payments. For the purposes of subsequent measurement, the leased asset is accounted for in accordance with the standards applicable to that asset. The minimum lease payments are split into an interest and a principal repayment component in respect of the residual debt.

Liabilities to non-controlling interests, which include obligations from the guaranteed dividend agreements, in particular, are stated at fair value when they are recognized for the first time. They are subsequently measured at amortized cost using the effective interest method.

q) Share-based Payment

The obligations arising from share-based payments are calculated using standard valuation methods based on option pricing models.

Equity-settled share-based payments are recognized at the grant date at the fair value of the equity instruments vested by that date. The fair value of the obligation is therefore recognized as personnel expenses proportionally over the vesting period and is offset directly against the capital reserves.

The cash-settled share-based payments are shown under other provisions and remeasured at fair value at each reporting date. The expenses are also recognized as personnel expenses over the vesting period (see notes [30] Provisions and [46] Share-Based Payment).

r) Government Grants

Vonovia companies receive grants from public authorities in the form of construction subsidies, expenses subsidies, expenses loans and low-interest loans.

Government grants are recognized when there is reasonable assurance that the relevant conditions will be fulfilled and that the grants will be awarded.

Government grants that do not relate to investments are regularly recognized as income in the periods in which the relevant expenses are incurred.

Expenses subsidies granted in the form of rent, interest and other expenses subsidies are recorded as income in the periods in which the expenses are incurred and shown within other income from property management.

The low-interest loans are grants from public authorities that – insofar as the company received them as part of a business combination – are recorded at present value. The difference between face value and present value is recognized with an effect on net income over the maturity term of the corresponding loans.

New expenses loans or low-interest loans are initially recognized at their present value within the non-derivative financial liabilities on the basis of the market interest rate at the time the loans are taken out. The difference between the face value and the present value of the loan is recognized as deferred income. Reversal occurs, in principle, with an effect on net income in line with the length of the fixed-interest-rate period of the relevant loans. In cases where the low-interest loans are issued as part of capitalized modernization measures, the difference between the face value and the present value of the loan is deducted from the capitalized acquisition cost. In subsequent measurements, the loans are measured at amortized cost. In the 2017 fiscal year, Vonovia was granted low-interest loans of € 494.6 million (2016: € 75.0 million).

s) Contingent Liabilities

A contingent liability is a possible obligation towards third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or a present obligation that arises from past events for which an outflow of resources is not probable or the amount of which cannot be estimated with sufficient reliability. According to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets,” contingent liabilities are not generally recognized.

t) Estimates, Assumptions, Options and Management Judgment

Estimates and Assumptions

To a certain extent, the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the reporting date, as well as reported amounts of income and expenses during the reporting year. The actual amounts may differ from the estimates as the business environment may develop differently than assumed. In this case, the assumptions and, where necessary, the carrying amounts of the assets or liabilities affected are prospectively adjusted accordingly.

Assumptions and estimates are reviewed on an ongoing basis and are based on experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances.

The estimates and assumptions that may have a material risk of causing an adjustment to the carrying amounts of assets and liabilities mainly relate to the determination of the fair value of investment properties.

The best evidence of fair value of investment properties is current prices in an active market for comparable properties. As such information is not available, however, Vonovia uses standard valuation techniques.

A detailed description of the discounted cash flow (DCF) method used can be found in note [21] Investment Properties.

In accordance with IAS 40 in conjunction with IFRS 13, the respective market values of the investment properties owned by Vonovia are determined for accounting purposes. Changes in certain market conditions such as prevailing rent levels and vacancy rates may affect the valuation of investment properties. Any changes in the fair value of the investment portfolio are recognized as part of the profit for the period in the Group's income statement and can thus substantially affect Vonovia's results of operations.

The statement of financial liabilities at amortized cost using the effective interest method takes the expected contractual cash flows into account. In some cases, the agreements do not have any fixed maturity terms. As a result, the cash flows included in the valuation are subject to management assumptions in terms of amount and term.

As explained in the accounting policies, Vonovia checks for goodwill impairments on an annual basis, or if there is any reason to suspect such impairments. The next step involves estimating the recoverable amount of the group of cash-generating units (CGU). This corresponds to either the fair value less costs of sale or the value in use, whichever is higher. Determining the value in use includes adjustments and estimates regarding the forecast and discounting of the future cash flow. Although the management believes that the assumptions used to determine the recoverable amount are appropriate, any unforeseeable changes in these assumptions could result in impairment losses, with a detrimental impact on the net assets, financial position and results of operations.

When determining the volume of current and deferred taxes, the Group takes into account the effects of uncertain tax items and whether additional taxes and interest may be due. This assessment is made on the basis of estimates and assumptions and may contain a number of judgments about future events. New information may become available that causes the Group to change its judgments regarding the appropriateness of existing tax liabilities; such changes to tax liabilities will affect the tax expense in the period in which such a change is made.

Deferred tax assets are recognized to the extent that it can be demonstrated that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that there will be sufficient future taxable profits to realize the tax benefit in the future.

Additional estimates and assumptions mainly relate to the uniform definition of useful lives, the assumptions made on the value of land and buildings, the recognition and measurement of provisions, as well as the realization of future tax benefits.

Options and Judgments

Options exercised and judgments made by Vonovia's management in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognized in the consolidated financial statements include the following:

> Determining whether the acquisition of investment properties as part of a business combination constitutes the acquisition of a "business" or the acquisition of an individual asset or group of assets can involve discretionary judgments.
> Vonovia measures investment properties at fair value. If management had opted to use the cost model as permitted under IAS 40, the carrying amounts of the investment properties, as well as the corresponding income and expense items in the income statement, would differ significantly.
> The criteria for assessing in which category a financial asset is to be classified may involve discretionary judgments.
> Vonovia accounts for ancillary costs using the principal method, since Vonovia, as the landlord, bears responsibility for performing the service as well as the credit risk. With the principal method, income and expenses are not netted.
> The decision on how to define a group of cash-generating units to which goodwill is allocated may involve discretionary judgments.
> Allocating the goodwill to the group of individual cash-generating units may also involve discretionary judgments.
> The parameters used in the impairment test, such as the determination of undiscounted cash flows, the weighted average cost of capital and the growth rate, may also involve discretionary judgments.
> Due to a lack of any detailed definition of the term "operation" (IAS 36.86), the disposal of goodwill within the context of real estate sales may involve discretionary decisions.
> Due to a lack of any detailed definition of the term "a separate major line of business or geographical area of operations" (IFRS 5), a disposal group within the context of real estate sales may involve discretionary decisions.
> At the moment, there are no definitive provisions on how to reflect a mandatory acquisition of non-controlling interests following the acquisition of control as part of a voluntary public takeover offer. In general, the acquisition of shares as part of a public offer during the second offer period is based on exactly the same conditions as those that applied in the first offer period, and the two acquisitions are closely related in terms of content and timing. This means that, even if it is executed in two offer periods, the acquisition constitutes one and the same transaction (linked transaction). Following the completion of the later acquisition, the original purchase price allocation is to be adjusted with retroactive effect from the acquisition date, resulting in a change in the consideration transferred, the fair value net assets transferred and, consequently, the resulting goodwill.

u) Changes in Accounting Policies Due to New Standards and Interpretations

The application of numerous new standards, interpretations and amendments to existing standards became mandatory for the 2017 fiscal year.

The following new or amended standards and interpretations became mandatory for the first time in the 2017 fiscal year and have no material effects on Vonovia's consolidated financial statements:

> Improvements and supplements to a selection of IFRS 2014–2016
> IAS 7 "Statement of Cash Flows"
> IAS 12 "Income Taxes"

v) New Standards and Interpretations Not Yet Applied

Application of the following standards, interpretations and amendments to existing standards was not yet mandatory for the 2017 fiscal year. Vonovia also did not choose to apply them in advance. Their application will be mandatory for the fiscal years following the dates stated in the following table:

Relevant New Standards, Interpretations and Amendments to Existing Standards and Interpretations		Effective date for Vonovia
Improvements and supplements to a selection of IFRS 2014–2016		Jan 1, 2018*
Improvements and supplements to a selection of IFRS 2015–2017		Jan 1, 2019*
Amendments to Standards		
IAS 28	"Investments in Associates and Joint Ventures"	Jan 1, 2019*
IAS 40	"Investment Property"	Jan 1, 2018*
IFRS 2	"Share-Based Payment"	Jan 1, 2018*
IFRS 4	"Insurance Contracts"	Jan 1, 2018
IFRS 9	"Financial Instruments: Classification and Measurement"	Jan 1, 2019*
IFRS 15	"Revenue Recognition"	Jan 1, 2018
IFRS 17	"Insurance Contracts"	Jan 1, 2021*
New Standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	Jan 1, 2018
IFRS 15	"Revenue Recognition"	Jan 1, 2018
IFRS 16	"Leases"	Jan 1, 2019
IFRS 17	"Insurance Contracts"	Jan 1, 2021*
IFRIC 22	"Foreign Currency Transactions and Advance Consideration"	Jan 1, 2018*
IFRIC 23	"Uncertainty over Income Tax Treatments"	Jan 1, 2019*

* not yet endorsed

IFRS 9

The main impact of IFRS 9 "Financial Instruments" is shown below:

Classification and Measurement

In particular, IFRS 9 contains a new approach to the classification and measurement of **financial assets** that reflects both the business model in which the assets are held and the characteristics of their cash flows. The criteria determine whether the instrument in the subsequent measurement is to be measured at cost or fair value. Whenever financial investments are categorized as equity instruments, Vonovia will exercise an irrevocable option to state future changes to the fair value under other comprehensive income in equity. Gains or losses recognized in other comprehensive income are never reclassified from equity to the income statement when disposed of. In general, the new classification requirements will not have any material impact.

The following table shows the quantitative impact of classification in accordance with IFRS 9 compared with IAS 39:

Measurement category as of Dec. 31, 2017 in € million	IAS 39	IFRS 9
At amortized cost	14,766.4	14,766.4
At fair value through profit and loss	4.2	4.2
At fair value recognized directly in equity under other comprehensive income (OCI) with reclassification to the income statement	648.3	
At fair value recognized directly in equity under other comprehensive income (OCI) without reclassification to the income statement		648.3

As far as the classification of **financial liabilities** is concerned, IFRS 9 continues to apply the existing requirements set out in IAS 39.

Impairment Losses

The main difference compared with IAS 39 relates to the newly developed expected loss model. The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. Under the old standard, impairments tended only to be recognized when the counterparty triggered such an event (incurred loss model). Based on the new standard, expected losses are already to be reflected in an impairment loss.

The need to include information concerning the future in the valuation of expected defaults means that the application of the standard will involve discretionary decisions regarding the impact that changes in economic factors will have on the expected defaults.

General Impairment Approach

According to the general approach, there are three levels of measurement:

> Level 1: Twelve-month expected credit losses (ECLs), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality,
> Level 2: Lifetime ECLs (regarding homogenous debtor portfolios), which applies when a significant increase in credit risk has occurred on an individual financial instrument or a collective basis of financial instruments.
> Level 3: Lifetime ECLs (based on an individual assessment): If an individual assessment of assets produces objective indications of a need for impairment, then Vonovia calculates the ECLs as it calculates the specific provisions (SP) at present.

Cash and cash equivalents, other non-current loans and other financial assets are measured as part of the **general impairment approach**.

Simplified Impairment Approach

With regard to trade receivables (e. g. rent receivables, receivables from ancillary costs, receivables from the sale of properties) or contract assets, the **"simplified approach"** is used and the entire term is taken as a basis.

The simplified approach means that the company does not need to track the changes in credit risk. Instead, loan loss provisions are set up in the amount of the lifetime expected credit losses both at the time of initial recognition and on each following reporting date.

The application of IFRS 9 will result in a considerable change in the calculation processes for the risk clustering of receivables from property letting, for updates to historical credit losses and for calculating the need for impairments taking forward-looking information into account. Nevertheless, Vonovia does not currently expect any major impact in terms of amount (less than € 5 million) within the scope of the impairment model according IFRS 9.

Hedge Accounting

The changes to IFRS 9 relating to hedge accounting include, among other things, an expanded range of eligible hedged items, changes regarding the posting approach for certain undesignated value components of hedging instruments, the abolition of the fixed effectiveness ranges and retrospective effectiveness testing as well as the first-time introduction of "recalibration." The less restrictive provisions compared with IAS 39 make it easier to reflect economic risk management in the balance sheet, which can, in turn, reduce artificial volatility in the income statement.

In general, the new provisions set out above will not have any impact on the Vonovia Group.

At the time of initial application of IFRS 9, Vonovia will opt to continue to apply the hedge accounting provisions set out in IAS 39 instead of the provisions of IFRS 9. Vonovia will apply this accounting method to all hedge relationships.

Transition

Changes to accounting methods based on the application of IFRS 9 will be applied with retroactive effect as a general rule. There is, however, the option of making use of the exemption clause under which comparative information for prior periods does not have to be adjusted to reflect the changes in classification and measurement (including impairment). Vonovia will make use of the exemption clause. Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 will generally be recognized in retained earnings and other reserves as of January 1, 2018. At present, the application of IFRS 9 is not expected to have any material impact over and above the minor effects set out in quantitative terms above.

The initial application of IFRS 9 will result in changes to the information provided in the Notes. In Vonovia's case, these changes will relate primarily to the presentation of impairment losses. In detail, the disclosures will start by explaining how the risk categories were set up, before calculating an expected loss rate based on the historical losses observed and indicators as to credit risks in the future that are already foreseeable (forward-looking information). The disclosures on the impairment accounts will provide transparent information on the individual developments in the fiscal year.

IFRS 15

The new accounting standard IFRS 15 – "Revenue from Contracts with Customers" establishes a comprehensive framework for determining whether and when to recognize revenue and how much revenue to recognize.

The aim of the new standard is to consolidate the wide range of provisions previously contained in various standards and interpretations. The new standard contains a single, comprehensive model on how companies are to recognize revenue from contracts with customers. The core principle of this model is that companies should recognize revenue in an amount that reflects the consideration to which they expect to be entitled in exchange for the performance obligations they have assumed. The standard contains much more extensive application guidelines and provisions on disclosures in the notes to the financial statements than the previous provisions and also includes a new concept for defining whether an entity is a principal or an agent. The assessment of Vonovia's position as the principal or the agent involves discretionary decisions, e. g., with regard to the weighting of the criteria set out in IFRS 15.B37.

IFRS 15 is to be applied to all contracts with customers, with the exception, inter alia, of leases covered by IAS 17 "Leases."

The main types of revenue within the Vonovia Group are:

> Income from property letting (rental income and ancillary costs),
> Income from disposal of investment properties and
> Other income from property management.

Within income from property letting, rental income does not fall under IFRS 15, but rather is covered by IAS 17 and as of January 1, 2019 by IFRS 16. As part of the implementation projects for IFRS 15 and IFRS 16, all ancillary cost components were analyzed in detail. IFRS 16 distinguishes not only between separate lease components, but also between other services (non-lease components, covered by IFRS 15) and components of the continuing obligation that do not result in the lessor providing a service (IFRS 16 B33).

In connection with this, an analysis of ancillary costs showed that the individual components will not be accounted for together, rather they will be recognized separately and that, in future, those parts of the continuing obligation that result in Vonovia being obliged to perform a service (other ancillary costs – covered by IFRS 15) will be distinguished from those that do not result in the tenant receiving a separate service, but for which the tenant has to reimburse Vonovia as part of the ancillary costs bill (land tax and buildings insurance – not covered by IFRS 15, but by IFRS 16 as of 2019). Before the application of IFRS 16, all components of a contract that are not leasing components pursuant to IAS 17 must, in accordance with IAS 17 in conjunction with IFRIC 4.12, be accounted for in accordance with other standards, meaning that they fall under IFRS 15.

The other ancillary costs will continue to be accounted for using the principal method, in particular due to Vonovia's business model, which provides for a large proportion of services relevant to ancillary costs being performed by Vonovia itself as Vonovia is considered the primary party responsible for providing the service. For all services that it does not perform itself, Vonovia also bears an inventory risk, in particular due to the settlement method (based on rentable area), which corresponds to Section 565a of the German Civil Code (BGB) and is standard practice in the real estate sector. A particular weighting is to be assigned to this inventory risk at Vonovia due to the structure of the stock, as the settlement of ancillary costs based on individual consumption is usually not possible due to a current lack of meters at unit level.

Ultimately, the expenses relating to ancillary costs and the corresponding income are still not netted in the income statement under IFRS 15, which results in consistency of presentation and the clear reporting of net rent excluding ancillary expenses and rent including ancillary expenses. As there are no changes regarding the period-based recognition of income from ancillary costs, the application of IFRS 15 does not have any impact in terms of amount.

Otherwise, the new standard will not have any impact on the income from disposal of investment properties and other income from property management.

The standard is to be applied, for the first time, in the first reporting period in a fiscal year beginning on or after January 1, 2018. As the new standard does not have any impact in terms of amount, there is no need to select a transitional approach.

IFRS 16

The European Union adopted IFRS 16 "Leases" for application in Europe on November 9, 2017. IFRS 16 specifies how a company measures, presents and discloses leases according to IFRS.

The standard provides a single lessee accounting model. This model requires lessees to recognize all assets and liabilities for leases in the balance sheet unless the lease term is 12 months or less or the underlying asset has a low value (option in each case). Under IFRS 16, the lessee recognizes a lease liability equal to the present value of the future lease payments, plus directly attributable costs, and at the same time capitalizes a corresponding right of use to the underlying asset, for all leases in the balance sheet. During the term of a lease, the lease liability is adjusted in line with actuarial principles in a manner similar to that set out in the provisions of the previous IAS 17 for finance leases. Rights of use to assets that are not investment properties pursuant to IAS 40 are subject to scheduled amortization. Rights of use to investment properties that are measured at fair value in accordance with IAS 40 are measured in line with the standard recognition and measurement rules set out in IAS 40.

At the time of initial application, Vonovia expects to see an increase in its total assets due to the recognition of lease liabilities as well as a similarly marked increase in assets due to the rights of use to be capitalized. The equity ratio will fall accordingly. The main effect results from the capitalization of rights of use in connection with leasehold agreements.

The type of expenses associated with these leases will change in the income statement. The linear expenses for operating leases will be replaced by interest expenses for lease liabilities and, depending on the right-of-use asset, either by amortization expense for the right of use or by the earnings effect of the fair value measurement of investment properties. This will result in an improvement in adjusted EBITDA and an increase in the cash flow from operating activities.

As far as lessors are concerned, the accounting model that IFRS 16 provides for does not differ significantly from the requirements set out in IAS 17. For Vonovia as a lessor, the rental income still falls within the scope of IFRS 16. IFRS 16 distinguishes not only between separate lease components but also between other services (non-lease components, covered by IFRS 15) and other components of the continuing obligation that do not result in the lessor providing a service. The condition for identifying a separate non-lease component is the lessor's obligation to provide a service pursuant to the continuing obligation (IFRS 16.B33). This means that the income from the ancillary costs land tax and buildings insurance fall within the scope of IFRS 16, as the tenants do not receive any additional service in return.

The Group will apply IFRS 16 for the first time as of January 1, 2019. At present, Vonovia is considering applying the modified retrospective approach as a transitional approach.

The financial statements for the previous year already contain a description of the other new and amended standards and interpretations and their possible impact on Vonovia's consolidated financial statements.

Notes to the Consolidated Income Statement

The figures from the previous year are only comparable to a limited extent due to acquisitions made in the first quarter of 2017.

6 Income from Property Management

in € million	2016	2017
Rental income	1,542.5	1,672.1
Ancillary costs	627.5	671.9
Income from property letting	2,170.0	2,344.0
Other income from property management	39.3	47.6
Income from property management	**2,209.3**	**2,391.6**

7 Profit on Disposal of Properties

in € million	2016	2017
Income from disposal of investment properties	366.7	466.9
Carrying amount of investment properties sold	-317.0	-396.5
Profit on disposal of investment properties	49.7	70.4
Income from sale of assets held for sale	861,2	739,5
Retirement carrying amount of assets held for sale	-860,7	-739,5
Revaluation of assets held for sale	52.0	81.1
Profit on disposal of assets held for sale	52.5	81.1
	102.2	**151.5**

The fair value adjustment of investment properties held for sale for which a purchase contract had been signed but for which transfer of title had not yet taken place led to a gain of € 81.1 million as of December 31, 2017 (2016: € 52.0 million).

8 Net Income from Fair Value Adjustments of Investment Properties

Investment properties are measured according to the fair value model. Any gains or losses from a change in fair value are recognized in the income statement. The measurement of the investment properties led to a net valuation gain during the 2017 fiscal year of € 3,434.1 million (2016: € 3,236.1 million). The high valuation result for 2017 is mainly due, in addition to the strong development of Vonovia's operating business, to the dynamic market conditions for residential properties in Germany at the moment. These are reflected both in rental price developments and, in particular, also in an increase in real estate purchase prices triggered, among other things, by yield compression on the demand side.

9 Capitalized Internal Expenses

Capitalized internal expenses in the fiscal year amount to € 458.1 million (2016: € 341.0 million) and mainly relate to the expenses of the Group's own craftsmen's organization contained in the capitalized modernization costs as well as the management costs for major modernization projects.

10 Cost of Materials

in € million	2016	2017
Expenses for ancillary costs	611.9	625.6
Expenses for maintenance	387.3	446.8
Other cost of purchased goods and services	82.7	104.0
	1,081.9	**1,176.4**

11 Personnel Expenses

in € million	2016	2017
Wages and salaries	290.4	342.1
Social security, pensions and other employee benefits	63.4	73.9
	353.8	**416.0**

The personnel expenses include expenses for severance payments in the amount of € 10.3 million (2016: € 12.0 million), allocations to the provisions for pre-retirement part-time work arrangements in the amount of € 6.0 million (2016: € 7.8 million) and expenses for the long-term incentive plan (LTIP) at € 12.0 million (2016: € 7.8 million) (see note [30] Provisions).

In the fiscal year under review, employers' contributions to statutory pension insurance amounted to € 28.9 million (2016: € 24.2 million).

As of December 31, 2017, Vonovia had 8,448 employees (Dec. 31, 2016: 7,437). On an annual average, 8,300 people (2016: 6,937) were employed. As of December 31, 2017, Vonovia employed 462 apprentices (Dec, 31, 2016: 419).

12 Depreciation and Amortization

With regard to developments in depreciation, amortization and impairment, we refer to the information set out in notes [19] Intangible Assets and [20] Property, Plant and Equipment.

13 Other Operating Income

in € million	2016	2017
Compensation for damages and cost reimbursements	40.2	45.0
Reversal of provisions	25.5	15.9
Dunning and debt collection fees	10.3	12.5
Reversal of impairment losses	1.6	3.0
Miscellaneous other	27.7	39.8
	105.3	**116.2**

Income from compensation for damages and cost reimbursements includes € 35.4 million in compensation paid by insurance companies (2016: € 32.8 million).

14 Other Operating Expenses

in € million	2016	2017
Consultants' and auditors' fees	73.0	58.5
Vehicle and traveling costs	33.7	41.1
Impairment losses	25.5	28.1
Additions to provisions	10.1	22.4
Rents, leases and ground rents	20.1	22.0
Communication costs and work equipment	15.8	16.0
Administrative services	15.6	15.6
Advertising costs	1.2	8.1
Legal and notary costs	3.8	6.5
Dunning and debt collection fees	5.1	5.6
Sales incidentals	10.9	4.4
Insured losses	1.7	3.2
Miscellaneous other	33.0	41.8
	249.5	**273.3**

15 Financial Income

in € million	2016	2017
Income from other investments	11.1	20.1
Income from non-current securities and non-current loans	1.9	1.6
Other interest and similar income	14.1	25.1
	27.1	**46.8**

The income from other investments comprises financial income from investments in other real estate companies in the amount of € 13.0 million (2016: € 9.6 million) and also € 6.3 million (2016: € 0.6 million) in financial income from the collection of the profit share in AVW GmbH & Co. KG, Hamburg, for the previous fiscal year in each case.

The other interest and similar income in 2017 includes, at € 21.4 million, the earnings effect resulting from the derecognition of the put option of the co-investor J.P. Morgan Securities plc reported in connection with the Gagfah acquisition (2016: valuation result of € 9.4 million).

16 Financial Expenses

The financial expenses mainly relate to interest expense on financial liabilities measured at amortized cost as well as transaction costs and prepayment penalties for financing measures.

in € million	2016	2017
Interest expense from non-derivative financial liabilities	325.0	299.0
Swaps (current interest expense for the period)	27.7	5.3
Effects from the valuation of non-derivative financial instruments	-31.0	-8.8
Effects from the valuation of swaps	13.3	9.9
Transaction costs	21.5	7.9
Prepayment penalties and commitment interest	64.4	16.4
Interest expenses purchase price liabilities from put options/rights to reimbursement	9.1	8.4
Interest accretion to provisions	11.3	9.2
Other financial expenses	7.7	5.7
	449.0	**353.0**

The prepayment penalties include not only the fees for the unscheduled repayment of loans during the fixed interest period, but also the hedge break costs for corresponding cash flow hedges that were dissolved prematurely. This interest expense is adjusted, where appropriate, to reflect the results from the reversal of valuation changes for these loans and from the derecognition of the last market valuation of the abovementioned derivatives.

A reconciliation of net interest to net interest with regard to measurement categories in accordance with IAS 39 is shown in the following table:

in € million	2016	2017
Interest income	14.1	25.1
Interest expense	-449.0	-353.0
Net interest	-434.9	-327.9
Less:		
Net interest from provisions for pensions in acc. with IAS 19*	10.4	8.7
Net interest from other provisions in acc. with IAS 37	0.9	0.3
Net interest from derivatives in acc. with IAS 39: swaps	41.0	15.2
Net interest from finance leases in acc. with IAS 17	5.7	5.6
Net interest with regard to measurement categories in acc. with IAS 39	**-376.9**	**-298.1**

* including interest income on plan assets of € 0.4 million (2016: € 0.5 million)

The net interest breaks down into the measurement categories in accordance with IAS 39 as follows:

in € million	Measurement category in acc. with IAS 39*	2016	2017
Loans and receivables	LaR	4.5	2.5
Available-for-sale financial assets	AfS	0.1	-
Financial liabilities held-for-trading	FLHfT	0.4	13.9
Financial liabilities measured at amortized cost	FLAC	-381.9	-314.5
		-376.9	**-298.1**

* see note [37] Additional Financial Instrument Disclosures

17 Income Taxes

in € million	2016	2017
Current income tax	40.0	35.1
Prior-year current income tax	10.2	3.1
Deferred tax – temporary differences	1.353.9	1.449.3
Deferred tax – unutilized loss carryforwards	-57.2	-47.0
	1,346.9	**1,440.5**

The current tax expense is determined on the basis of the taxable income for the fiscal year. For the 2017 fiscal year, the combined tax rate of corporate income tax and solidarity surcharge for domestic companies is 15.8% (2016: 15.8%). Including trade tax at a rate of about 17.3% (2016: 17.3%), the combined domestic tax rate is 33.1% in 2017 (2016: 33.1%). The corporate income tax rate for the companies based in Austria is 25.0%. The income generated by Vonovia Finance B.V. is subject to Dutch tax law; current taxes of € 2.3 million were incurred there (2016: € 2.0 million). The other companies that hold properties and are based in the Netherlands have limited corporation tax liability in Germany. These companies, together with the other foreign companies, pay taxes that are of a negligible amount from the Group's perspective in the countries in which they are based.

In 2016, deferred tax liabilities were subject to trade tax for the first time due to the discontinuation of the extended trade tax exemption at various companies. This effect led to deferred tax expenses of € 46.7 million in the previous year. This effect had no impact on the current fiscal year as the deferred taxes of all affected companies are now also subject to trade tax.

For domestic deductible temporary differences (excl. loss carryforwards) in the amount of € 18.4 million (Dec. 31, 2016: € 21.4 million), no deferred corporate income taxes or deferred trade taxes were recognized, because they are not likely to be used in the future. For Austrian deductible differences (excl. loss carryforwards) in the amount of € 15.8 million (Dec. 31, 2016: € 0.0 million), no deferred corporate income taxes were recognized as a result.

As of December 31, 2017, there were domestic corporate income tax loss carryforwards amounting to € 3,840.8 million (Dec. 31, 2016: € 3,636.9 million), as well as trade tax loss carryforwards amounting to € 2,040.1 million (Dec. 31, 2016: € 1,899.2 million), for which deferred tax assets have been recognized to the extent that their realization is sufficiently probable. As of December 31, 2017, there were corporate income tax loss carryforwards in Austria amounting to € 165.4 million (Dec. 31, 2016: € 0.0 million) for which deferred tax assets have also been recognized to the extent that their realization is sufficiently probable. The increase in tax loss carryforwards resulted from current tax losses at individual companies and from the business combination with the conwert Group.

No deferred taxes were recognized in the balance sheet for domestic and foreign corporate income tax loss carryforwards amounting to € 968.4 million (Dec. 31, 2016: € 949.8 million). Of this amount, € 29.0 million (2016: € 13.5 million) arose for the first time in the 2017 fiscal year. Under current tax law, these loss carryforwards are not subject to restrictions either with regard to time or the amount of the loss carryforward. The fact that no deferred tax assets were recognized on the new corporate income tax loss carryforwards results in a tax effect of € 4.6 million (2016: € 2.1 million). In addition, there are further trade tax loss carryforwards subject to no restrictions with regard to how they can be carried forward in the amount of € 623.2 million in total (Dec. 31, 2016: € 631.2 million). These did not give rise to any deferred tax assets. Of this amount, € 25.0 million arose for the first time in the 2017 fiscal year (2016: € 7.1 million) and the resulting tax effect is € 4.3 million (2016: € 1.2 million).

The remeasurement of deferred tax assets on temporary differences and loss carryforwards from the previous year led to tax income amounting to € 27.7 million in the 2017 fiscal year (2016: € 30.4 million).

Deferred taxes on interest carryforwards are recognized if the interest carryforward is likely to be able to be used in the future. Due to the Group's capital structure, no interest carryforwards are likely to be able to be used in the future. As a result, no deferred tax assets have been recognized on interest carryforwards in the amount of € 675.5 million (Dec. 31, 2016: € 557.5 million). In the 2017 fiscal year, non-deductible interest at individual companies increased the interest carryforward by € 104.6 million (2016: € 179.3 million). The fact that no deferred tax assets were recognized on the new interest carryforward generated a tax effect of € 34.6 million (2016: € 59.4 million).

A reconciliation between actual income taxes and expected tax expense, which is the product of the accounting profit for the period multiplied by the average tax rate applicable in Germany, is shown in the table below.

in € million	2016	2017
Earnings before tax	3,859.8	4,007.4
Income tax rate in %	33.1	33.1
Expected tax expense	1,277.6	1,326.4
Trade tax effects	42.7	-16.0
Non-deductible operating expenses	43.2	23.5
Tax-free income	-1.0	-19.0
Change in the deferred tax assets on loss carryforwards and temporary differences	-30.4	-27.7
New loss and interest carryforwards not recognized	62.7	43.5
Prior-year current income tax and taxes on guaranteed dividends	13.7	7.4
Tax effect goodwill impairment	–	111.7
Differing foreign tax rates	-54.0	-15.4
Other tax effects (net)	-7.6	6.1
Effective income tax	**1,346.9**	**1,440.5**
Effective income tax rate in %	**34.9**	**35.9**

The deferred taxes refer to temporary differences in balance sheet items and unutilized loss carryforwards as follows:

in € million	Dec. 31, 2016	Dec. 31, 2017
Intangible assets	–	2.9
Investment properties	1.2	8.9
Assets held for sale	0.1	0.9
Property, plant and equipment	0.2	0.4
Financial assets	3.6	5.4
Other assets	52.5	52.2
Provisions for pensions	86.7	82.2
Other provisions	13.5	11.9
Liabilities	94.1	100.3
Loss carryforwards	641.9	731.8
Deferred tax assets	**893.8**	**996.9**

in € million	Dec. 31, 2016	Dec. 31, 2017
Intangible assets	3.4	5.0
Investment properties	4,541.7	6,171.6
Assets held for sale	9.7	23.9
Property, plant and equipment	7.8	6.9
Financial assets	5.0	–
Other assets	7.0	12.6
Other provisions	31.5	52.0
Liabilities	37.6	37.2
Deferred tax liabilities	4,643.7	6,309.2
Excess deferred tax liabilities	**3,749.9**	**5,312.3**

Deferred tax assets and liabilities are netted against each other when the same company and the same tax authority are involved and the realization period is the same. As a result, the following deferred tax assets and liabilities are stated:

in € million	Dec. 31, 2016	Dec. 31, 2017
Deferred tax assets	19.6	10.3
Deferred tax liabilities	3,769.5	5,322.6
Excess deferred tax liabilities	**3,749.9**	**5,312.3**

The change in deferred taxes is as follows:

in € million	2016	2017
Excess deferred tax liabilities as of Jan. 1	2,456.0	3,749.9
Deferred tax expense in income statement	1,296.7	1,402.3
Deferred tax due to first-time consolidation	1.8	149.1
Change recognized in other comprehensive income in deferred taxes on available-for-sale financial assets	1.5	2.4
Change recognized in other comprehensive income in deferred taxes on actuarial gains and losses from pensions and similar obligations	-10.6	1.7
Change recognized in other comprehensive income in deferred taxes on derivative financial instruments regarding liabilities	5.7	7.4
Deferred taxes recognized in equity on accrued capital procurement costs resulting from the issuance of a hybrid bond with an indefinite term	-0.4	-0.2
Deferred taxes recognized in the capital reserve on capital procurement costs of capital increases	-0.8	–
Other	–	-0.3
Excess deferred tax liabilities as of Dec. 31	**3,749.9**	**5,312.3**

No deferred tax liabilities are recognized for profits accumulated at subsidiaries of € 15,108.4 million (Dec. 31, 2016: € 10,505.9 million), as these profits are to remain invested for an indefinite period or are not subject to taxation. In the event of distribution or disposal of the subsidiaries, 5% of the distributed amounts or the capital gains would be subject to German taxation so that there would normally be an additional tax obligation.

18 Earnings per Share

The earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation during the reporting period.

	2016	2017
Profit for the period attributable to Vonovia shareholders (in € million)	2,300.7	2,410.7
Weighted average number of shares	466,000,624	476,462,903
Earnings per share (basic and diluted) in €	**4.94**	**5.06**

When calculating the diluted weighted average of ordinary shares as of December 31, 2016, 14,743,685 potential ordinary shares resulting from the public takeover offer made to the shareholders of conwert were not included, as they do not have a diluting effect.

At the end of the reporting period, no diluting financial instruments were in circulation. The basic earnings per share correspond to the diluted earnings per share.

Notes to the Consolidated Balance Sheet

19 Intangible Assets

in € million	Concessions, industrial property rights, licences and similar rights	Self-developed software	Customer relationships and similar values	Goodwill	Total
Cost					
As of Jan. 1, 2017	31.2	4.7	12.1	2,718.9	**2,766.9**
Additions due to business combinations	8.2	–	–	231.9	**240.1**
Additions	7.6	1.8	–	–	**9.4**
Disposals	-9.7	–	–	–	**-9.7**
As of Dec. 31, 2017	37.3	6.5	12.1	2,950.8	**3,006.7**
Accumulated amortization					
As of Jan. 1, 2017	19.8	1.6	2.4	–	**23.8**
Additions due to business combinations	4.7	–	–	–	**4.7**
Amortization in reporting year	8.9	1.7	2.9	–	**13.5**
Impairment	–	–	–	337.3	**337.3**
Disposals	-9.7	–	–	–	**-9.7**
As of Dec. 31, 2017	23.7	3.3	5.3	337.3	**369.6**
Carrying amounts					
As of Dec. 31, 2017	13.6	3.2	6.8	2,613.5	**2,637.1**
Cost					
As of Jan. 1, 2016	25.8	2.9	–	2,714.7	2,743.4
Additions due to business combinations	0.1	–	7.8	4.2	12.1
Additions	9.3	2.0	4.3	–	15.6
Disposals	-4.0	-0.2	–	–	-4.2
As of Dec. 31, 2016	31.2	4.7	12.1	2,718.9	2,766.9
Accumulated amortization					
As of Jan. 1, 2016	19.3	0.1	–	–	19.4
Additions due to business combinations	0.1	-	–	–	0.1
Amortization in reporting year	4.4	1.5	2.4	–	8.3
Disposals	-4.0	–	–	–	-4.0
As of Dec. 31, 2016	19.8	1.6	2.4	–	23.8
Carrying amounts					
As of Dec. 31, 2016	11.4	3.1	9.7	2,718.9	2,743.1

Goodwill

Goodwill came to € 2,613.5 million as of December 31, 2017. Compared with December 31, 2016, goodwill has dropped by € 105.4 million. The change is due to an increase resulting from the acquisition of conwert in 2017 in the amount of € 231.9 million and the complete write-off of goodwill in the "East business area" of the Rental segment in the amount of € 337.3 million.

The allocation of goodwill to the regional business areas and to the Value-add Business segment was performed based on the two indicators that reflect the synergy effects expected to be generated as a result of the business combination: "direct planned synergies" and "fair values."

In the fourth quarter, the mandatory annual impairment test was performed. As part of the impairment test and in accordance with IAS 36.19, first the value in use was calculated based on the Management Board-approved detailed plan with a planning period of five years. This was derived from the five-year plan at Group level that was adopted by the Management Board and the Supervisory Board. With regard to the regional business areas of the Rental segment, the main drivers behind the results of the five-year plan are the increase in gross rental income by an average of 4.3% every year, as well as the planned reduction in the vacancy rate to 2.3% at the end of the detailed planning period. Developments in the Value-add Business segment are characterized primarily by the extension of existing business areas (craftsmen's organization, multimedia, management of residential property, smart metering, etc.). On the other hand, there is an increase in operating expenses, taking into account the rate of inflation. The development in these values is in line with the past experience of business model development. The cash flows from the last detailed planning year were derived to calculate the perpetual annuity. The plans were drawn up taking into account both factors that can be influenced, and factors that cannot be influenced at all, or can hardly be influenced.

The main parameters for calculating the value in use are the sustainable rate of increase, the weighted average cost of capital (WACC) and payments for maintenance and modernization measures as well as rent increases.

The growth rate was calculated in a regionally specific manner based on in-place rents. The weighted average cost of capital before tax is based on the risk-free interest rate of 1.29% calculated as a three-month average using the Svensson method, a market risk premium of 6.75% and a beta of 0.54. The beta and the equity ratio used are determined on the basis of a peer comparison.

Groups of cash-generating units

in € million	North area	East area	Southeast area	West area	Middle area	South area	Central area	Value-add Business segment	Group
Goodwill 2016	481.4	307.7	337.7	527.8	400.1	455.3	11.2	197.7	2.718.9
Additions due to business combinations	39.6	29.6	32.3	48.2	32.2	33.0	2.6	14.4	231.9
Disposal due to depreciation	–	-337.3	–	–	–	–	–	–	-337.3
Goodwill 2017	521.0	–	370.0	576.0	432.3	488.3	13.8	212.1	2.613.5
WACC before tax 2017 in %	4.5	4.5	4.5	4.6	4.5	4.5	4.5	4.7	–
WACC before tax 2016 in %	3.8	3.8	3.9	3.9	3.9	3.9	3.8	4.1	–
Sustainable rate of increase 2017 in %	1.0	1.1	1.0	0.8	1.0	1.1	0.9	1.0	1.0
Sustainable rate of increase 2016 in %	1.0	1.0	1.0	0.8	1.1	1.1	1.0	1.0	1.0

Aside from the "East business area," the results of the assessment confirm the value of the goodwill from the acquisitions. The need for impairment arose for the East region due to a further increase in property values due in particular in Berlin to further noticeable yield compression in connection with a rise in the cost of capital (WACC) as a result of an increased base interest rate and a lower level of indebtedness of the peer group.

The impairment loss was recognized in the consolidated income statement under "depreciation and amortization." The value in use for the East area amounted to approx. € 4.5 billion as of the reporting date.

No need for further impairment would arise up to an increase of the average weighted cost of capital (before tax) by 0.26 percentage points. If a similar increase occurs in the 2018 fiscal year as it did in the 2017 fiscal year by 0.65 percentage points, further impairment of € 0.5 billion would arise in the South area, € 0.4 billion in the North area, € 0.2 billion in the Central area and € 0.1 billion in the Southeast area.

Possible changes to the additional key parameters have no impact on the value of goodwill compared with December 31, 2017.

20 Property, Plant and Equipment

in € million	Owner-occupied properties	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Total
Cost				
As of Jan. 1, 2017	70.6	36.5	46.9	154.0
Additions due to business combinations	–	0.2	2.9	3.1
Additions	40.2	7.1	39.2	86.5
Capitalized modernization costs	1.1	–	–	1.1
Disposals	-2.3	-0.7	-11.6	-14.6
Transfer from investment properties	12.9	–	–	12.9
Transfer to investment properties	-18.0	–	–	-18.0
As of Dec. 31, 2017	104.5	43.1	77.4	225.0
Accumulated depreciation				
As of Jan. 1, 2017	6.1	9.7	22.5	38.3
Additions due to business combinations	–	0.1	1.8	1.9
Depreciation in reporting year	0.7	5.7	14.3	20.7
Impairment	0.7	–	–	0.7
Reversal of impairments	-0.6	–	–	-0.6
Disposals	-1.9	-0.7	-11.0	-13.6
As of Dec. 31, 2017	5.0	14.8	27.6	47.4
Carrying amounts				
As of Dec. 31, 2017	99.5	28.3	49.8	177.6
Cost				
As of Jan. 1, 2016	50.1	19.4	41.4	110.9
Additions due to business combinations	–	–	0.7	0.7
Additions	9.1	19.6	20.5	49.2
Capitalized modernization costs	1.3	–	–	1.3
Disposals	-2.9	-2.5	-15.7	-21.1
Transfer from investment properties	27.1	–	–	27.1
Transfer to investment properties	-14.1	–	–	-14.1
As of Dec. 31, 2016	70.6	36.5	46.9	154.0
Accumulated depreciation				
As of Jan. 1, 2016	5.6	8.2	26.4	40.2
Additions due to business combinations	–	–	0.4	0.4
Depreciation in reporting year	0.5	3.6	10.5	14.6
Impairment	4.2	–	–	4.2
Reversal of impairments	-2.1	–	–	-2.1
Disposals	-2.1	-2.1	-14.8	-19.0
As of Dec. 31, 2016	6.1	9.7	22.5	38.3
Carrying amounts				
As of Dec. 31, 2016	64.5	26.8	24.4	115.7

As of December 31, 2017, the "owner-occupied properties" item includes € 49.2 million (Dec. 31, 2016: € 9.1 million) in construction costs for the construction of the new Vonovia headquarters.

Furthermore, carrying amounts of owner-occupied properties amounting to € 18.0 million as of December 31, 2017 (Dec. 31, 2016: € 36.8 million) are encumbered with land charges in favor of various lenders.

21 Investment Properties

in € million	
As of Jan. 1, 2017	**26,980.3**
Additions due to business combinations	2,469.6
Additions	307.2
Capitalized modernization costs	771.8
Grants received	-0.6
Transfer from property, plant and equipment	18.0
Transfer to property, plant and equipment	-12.9
Transfer from assets held for sale	2.5
Transfer to assets held for sale	-471.4
Disposals	-396.5
Net income from fair value adjustments of investment properties	3,434.1
Revaluation of assets held for sale	81.1
Revaluation from currency effects	-0.4
As of Dec. 31, 2017	**33,182.8**
As of Jan. 1, 2016	**23,431.3**
Additions	304.8
Capitalized modernization costs	518.8
Grants received	-1.2
Transfer from property, plant and equipment	14.1
Transfer to property, plant and equipment	-27.1
Transfer from assets held for sale	0.1
Transfer to assets held for sale	-230.8
Disposals	-317.0
Net income from fair value adjustments of investment properties	3,236.1
Revaluation of assets held for sale	51.2
As of Dec. 31, 2016	**26,980.3**

The additions in 2017 include € 65.7 million (Dec. 31, 2016: € 13.9 million) in construction costs for new construction activities.

In the amount of € 59.9 million (Dec. 31, 2016: € 51.6 million), the investment properties contain leased assets that are defined as finance leases according to IAS 17 and are treated as if they were the Group's economic property. These relate to the Spree-Bellevue (Spree-Schlange) property in Berlin. The property has been leased from DB Immobilienfonds 11 Spree-Schlange von Quistorp KG until 2044. The lease agreement includes an obligation to pay compensation for loss of use as agreed by contract. At the end of 2028, each fund subscriber is entitled to return his share to the property fund at a fixed redemption price. If all of the fund investors make use of this option, Vonovia is obliged to acquire the property at a fixed purchase price after deduction of borrowings. If more than 75% of the shares are returned in this way, Vonovia has a call option for the purchase of all fund shares. Details of minimum lease payments are given under note [32] Non-derivative Financial Liabilities.

For the investment properties encumbered with land charges in favor of various lenders, see note [34] Liabilities from Finance Leases.

Directly Attributable Operating Expenses

Rental income from investment properties amounted to € 1,672,1 million during the fiscal year (2016: € 1,542.5 million). Operating expenses directly relating to these properties amounted to € 200.8 million during the fiscal year (2016: € 236.8 million). These include expenses for maintenance, ancillary costs that cannot be passed on to the tenants, personnel expenses from the caretaker and craftsmen's organizations, and income from the capitalized internal expenses. The capitalized internal expenses relate to the work performed by the Group's own craftsmen's organization and the management costs for major modernization projects.

Long-Term Leases

Vonovia as a lessor has concluded long-term leases on commercial properties. These are non-cancelable operating leases. The minimum future lease receipts from these leases are due as follows:

in € million	Dec. 31, 2016	Dec. 31, 2017
Total minimum lease payments	62.1	82.2
Due within 1 year	18.5	26.0
Due in 1 to 5 years	40.5	50.7
Due after 5 years	3.1	5.5

Fair Values

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value. Portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, were not included. Nor were time restrictions in the marketing of individual properties. Vonovia determines fair value in accordance with the requirements of IAS 40 in conjunction with IFRS 13.

Vonovia values its portfolio in Germany using a method known as the discounted cash flow (DCF) method. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of ten years and discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. These are derived for each location from the latest rent indices and rent tables (empirica and IVD) as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmannstiftung, etc.).

On the cost side, maintenance expenses and administrative costs are taken into account in accordance with the II. Berechnungsverordnung and inflated in the reporting period (II. BV; German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law, stipulating how economic viability calculations for accommodation are to be performed). Further cost items are, for example, ground rents, non-allocable ancillary costs and rent losses. Modernization measures carried out in the housing stocks are factored in by decreasing the current maintenance expenses and adjusting market rents.

On this basis, the forecast cash flows are calculated on an annual basis and discounted to the date of valuation as the net present value. In addition, the terminal value of the property at the end of the ten-year period is determined using the expected stabilized net operating income and again discounted to the date of valuation as the net present value. The discount rate applied reflects the market situation, location, type of property, special property features (e. g., inheritable building rights, rent restrictions), the yield expectations of a potential investor and the risk associated with the forecast future cash flows of the property. The present value calculated in this way is reconciled to the market value by deducting standard market transaction costs, such as real estate transfer taxes, agent and notary costs.

The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. Different cost approaches were used to those for residential properties, and the discount rates were adjusted to reflect the market specifics.

The valuation is, in principle, performed on the basis of homogeneous valuation units. These meet the criteria of economically cohesive and comparable land and buildings. They include:

> Geographical location (identity of the microlocation and geographical proximity)
> Comparable types of use, building class, construction year class and condition of property
> Same property features such as rent restrictions, inheritable building rights and full or part ownership

The Vonovia portfolio also contains development areas and land areas with inheritable building rights that make up less than 1% of the total value. The development areas are valued using a comparable method on the basis of the local standard land value. Deductions are taken into account, in particular for the readiness for construction and potential use as well as for likelihood of development and the development situation. Inheritable building rights granted are valued in the same way as the property portfolio using a gross rental method. The input parameters here are the duration and amount of ground rent and the value of the land.

Vonovia determined the fair values of Vonovia's real estate portfolio in Germany (incl. conwert) as of December 31, 2017, in its in-house valuation department on the basis of the methodology described above. The property assets are also assessed by the independent property appraiser CBRE GmbH. The external appraiser was selected in a tender procedure. The contractually fixed remuneration for the valuation report is not linked to the valuation results.

The market value calculated externally deviates from the internal valuation result by less than 0.1%.

As far as conwert's portfolio outside of Germany is concerned, the result of the valuation performed by the external expert CBRE was applied to the consolidated financial statements. Both properties were also valued by CBRE using a gross rental method. This involved calculating the value of a property by multiplying the net income (income that can be generated in the long term less property management costs that cannot be passed on, the risk of loss of rent and maintenance measures) by a multiplier. This multiplier depends on the capitalized interest rate and the remaining useful life.

The real estate portfolio of Vonovia is to be found in the items investment properties, property, plant and equipment (properties used by the company itself) and assets held for sale. The fair value of the real estate portfolio comprising residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable building rights granted was € 33,436.3 million as of December 31, 2017 (Dec. 31, 2016: € 27,115.6 million). This corresponds to a net initial yield of 3.6% (Dec. 31, 2016: 4.0%) for the developed land, an in-place-rent multiplier of 19.7 (Dec. 31, 2016: 17.6) and a fair value per m² of € 1,475 (Dec. 31, 2016: € 1,264).

The material valuation parameters for the investment properties (level 3) are as follows as of December 31, 2017, broken down by regional markets*:

Dec. 31, 2017 Regional Market	Valuation results** Fair Value (in € million)	thereof Assets held for sale (in € million)	thereof Owner-occupied properties (in € million)	thereof Investment properties (in € million)
Berlin	5,181.9	12.6	7.0	5,162.3
Rhine Main Area	3,525.1	3.2	5.7	3,516.2
Rhineland	3,240.3	2.2	7.6	3,230.5
Southern Ruhr Area	2,884.2	2.8	3.7	2,877.7
Dresden	2,875.2	0.0	5.1	2,870.1
Hamburg	1,940.1	2.5	2.9	1,934.7
Munich	1,820.2	6.6	2.4	1,811.2
Stuttgart	1,742.0	1.7	2.5	1,737.8
Northern Ruhr Area	1,417.5	2.3	3.8	1,411.5
Hanover	1,297.5	1.1	1.3	1,295.1
Kiel	992.3	4.5	2.8	985.1
Bremen	913.9	0.0	3.5	910.3
Leipzig	763.3	0.0	5.1	758.2
Westphalia	667.0	0.0	1.0	666.0
Freiburg	545.0	0.2	1.9	542.9
Other Strategic Locations	2,102.8	4.3	4.5	2,094.0
Total strategic locations	**31,908.2**	**44.0**	**60.8**	**31,803.5**
Non-Strategic Locations	645.1	68.9	1.0	575.2
Vonovia Germany	**32,553.3**	**112.9**	**61.7**	**32,378.6**
Vonovia Austria***	551.6	3.3	0.0	548.3

* For explanatory information on the regional markets, please refer to the chapter on portfolio structure in the management report.
** Fair value of the developed land excluding € 331.4 million for undeveloped land, inheritable building rights granted, assets under construction and other, thereof € 255.9 million investment properties.
*** The gross rental method for the portfolio in Austria uses valuation parameters that are only partially comparable.

Valuation parameters investment properties (Level 3)						
Management costs residential (€ per residential unit p. a.)	Maintenance costs total residential (per m² p. a.)	Market rent residential (per m² p. a.)	Market rent increase residential	Stabilized vacancy rate residential	Discount rate total	Capitalized interest rate total
251	14.02	6.98	1.5%	1.4%	4.3%	2.9%
271	14.05	8.43	1.4%	1.3%	5.1%	3.7%
267	13.58	7.52	1.3%	2.0%	5.3%	4.0%
263	12.96	6.18	1.1%	2.6%	5.5%	4.5%
236	14.59	6.47	1.3%	2.1%	5.4%	4.3%
257	14.22	7.76	1.3%	1.3%	4.9%	3.8%
258	13.79	10.69	1.5%	0.6%	4.9%	3.4%
269	14.21	8.41	1.4%	1.5%	5.2%	3.8%
266	13.31	5.79	0.9%	3.6%	5.8%	5.1%
256	13.89	6.70	1.3%	1.9%	5.3%	4.0%
255	14.39	6.37	1.2%	1.7%	5.3%	4.3%
259	13.28	6.09	1.3%	2.4%	5.1%	3.9%
252	14.34	6.16	1.4%	4.0%	5.3%	4.0%
259	13.44	6.17	1.2%	2.0%	5.5%	4.4%
266	14.36	7.72	1.4%	1.0%	4.8%	3.4%
267	13.82	6.96	1.2%	2.1%	5.3%	4.1%
259	**13.82**	**7.01**	**1.3%**	**2.0%**	**5.2%**	**3.8%**
269	13.43	5.51	1.0%	5.6%	5.7%	5.0%
259	**13.81**	**6.96**	**1.3%**	**2.1%**	**5.2%**	**3.9%**
n. a.	n. a.	9.15	n. a.	n. a.	n. a.	3.3%

Dec. 31, 2016 Regional Market	Valuation results* Fair Value (in € million)	thereof Assets held for sale (in € million)	thereof Owner-occupied properties (in € million)	thereof Investment properties (in € million)
Berlin	3,448.3	0.6	13.0	3,434.7
Rhine Main Area	3,099.8	7.0	4.8	3,088.0
Rhineland	2,847.4	2.5	4.7	2,840.1
Dresden	2,438.6	0.0	5.5	2,433.1
Southern Ruhr Area	2,370.7	4.5	4.0	2,362.2
Hamburg	1,733.2	0.7	2.6	1,729.9
Munich	1,651.9	6.3	2.5	1,643.1
Stuttgart	1,584.7	6.1	7.8	1,570.9
Northern Ruhr Area	1,290.8	3.1	4.1	1,283.6
Hanover	1,027.1	1.1	1.3	1,024.8
Kiel	861.2	0.0	2.9	858.3
Bremen	761.6	0.2	3.9	757.5
Westphalia	588.9	0.1	1.1	587.7
Freiburg	493.3	0.8	1.7	490.8
Leipzig	260.7	0.5	0.5	259.8
Other Strategic Locations	1,882.5	5.4	3.2	1,873.9
Total strategic locations	**26,340.7**	**38.9**	**63.5**	**26,238.3**
Non-Strategic Locations	671.9	22.1	1.2	648.6
Vonovia Germany	**27,012.6**	**61.0**	**64.7**	**26,886.9**
Vonovia Austria	n. a.	n. a.	n. a.	n. a.

* Fair value of the developed land excluding € 103.0 million for undeveloped land, inheritable building rights granted and other, thereof € 93.4 million investment properties

The same inflation rate, namely 1.5%, has been applied across the portfolio. This led overall to net income from fair value adjustments of € 3,434.1 million in the 2017 fiscal year (2016: € 3,236.1 million).

Sensitivity Analyses

The sensitivity analyses performed on Vonovia's real estate portfolio show the impact of the value drivers influenced by the market. Those influenced in particular are the market rents and their development, the amount of recognized administrative and maintenance expenses, cost increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter according to regional market in the following.

Interactions between the parameters are possible but cannot be quantified owing to the complexity of the interrelationships. The "vacancy" and "market rent" parameters, for example, can influence each other. If rising demand for housing is not met by adequate supply developments, then this can result in lower vacancy rates and, at the same time, rising market rents. If, however, the rising demand is compensated for by a high vacancy reserve in the location in question, then the market rent level does not necessarily change.

Changes in the demand for housing can also impact the risk associated with the expected payment flows, which is then reflected in adjusted amounts recognized for discounting and capitalized interest rates. The effects do not, however, necessarily have to have a favorable impact on each other, for example if the changes in the

Valuation parameters investment properties (Level 3)						
Management costs residential (€ per residential unit p. a.)	Maintenance costs total residential (per m² p. a.)	Market rent residential (per m² p. a.)	Market rent increase residential	Stabilized vacancy rate residential	Discount rate total	Capitalized interest rate total
245	13.78	6.57	1.3%	1.7%	4.6%	3.3%
266	13.98	8.21	1.4%	1.3%	5.5%	4.1%
262	13.54	7.26	1.3%	2.0%	5.5%	4.2%
231	14.24	6.07	1.2%	2.3%	5.6%	4.5%
259	13.09	5.85	1.1%	2.8%	6.0%	5.0%
252	14.24	7.47	1.2%	1.5%	5.1%	4.1%
255	13.69	10.15	1.5%	0.9%	5.0%	3.5%
264	13.98	8.15	1.4%	1.6%	5.5%	4.2%
261	13.27	5.54	0.9%	4.0%	6.0%	5.4%
252	13.77	6.44	1.2%	2.1%	5.7%	4.5%
251	14.24	6.14	1.2%	1.8%	5.7%	4.8%
255	13.05	5.87	1.3%	2.8%	5.5%	4.3%
254	13.53	5.92	1.1%	2.4%	5.8%	4.8%
261	14.12	7.58	1.4%	1.2%	5.0%	3.7%
246	13.21	5.82	1.2%	3.7%	5.6%	4.5%
264	13.59	6.66	1.2%	2.2%	5.6%	4.4%
254	**13.69**	**6.73**	**1.3%**	**2.2%**	**5.5%**	**4.2%**
261	13.08	5.15	0.9%	5.7%	6.0%	5.3%
255	**13.66**	**6.66**	**1.2%**	**2.4%**	**5.5%**	**4.3%**
n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.

demand for residential real estate are overshadowed by macroeconomic developments.

In addition, factors other than demand can have an impact on these parameters. Examples include changes in the housing stock, in seller and buyer behavior, political decisions and developments on the capital market.

The table below shows the percentage impact on values in the event of a change in the valuation parameters. The absolute impact on values is calculated by multiplying the percentage impact by the fair value of the investment properties.

	Change in parameters		
Dec. 31, 2017	Management costs residential	Maintenance costs residential	Cost increase/inflation
Regional Market	-10%/+10%	-10%/+10%	-0.5%/+0.5% points
Berlin	0.6/-0.6	2.1/-2.0	5.3/-5.4
Rhine Main Area	0.6/-0.5	1.7/-1.7	3.2/-3.3
Rhineland	0.6/-0.6	1.9/-1.9	3.5/-3.6
Southern Ruhr Area	0.9/-0.9	2.6/-2.6	4.4/-4.5
Dresden	0.8/-0.8	2.4/-2.4	4.2/-4.3
Hamburg	0.6/-0.6	2.0/-2.0	3.9/-4.0
Munich	0.4/-0.4	1.3/-1.3	3.3/-3.4
Stuttgart	0.5/-0.5	1.7/-1.7	3.3/-3.4
Northern Ruhr Area	1.1/-1.1	3.1/-3.1	4.7/-4.8
Hanover	0.7/-0.7	2.3/-2.3	4.1/-4.2
Kiel	0.9/-0.9	2.6/-2.6	4.4/-4.5
Bremen	0.9/-0.9	2.7/-2.7	5.4/-5.5
Leipzig	0.8/-0.8	2.5/-2.5	5.0/-5.0
Westphalia	0.9/-0.9	2.8/-2.8	4.6/-4.7
Freiburg	0.6/-0.6	1.9/-1.9	3.9/-4.0
Other strategic locations	0.7/-0.7	2.2/-2.2	3.8/-4.0
Total strategic locations	**0.7/-0.7**	**2.2/-2.1**	**4.2/-4.3**
Non-strategic locations	1.1/-1.1	3.4/-3.4	5.5/-5.5
Vonovia Germany	**0.7/-0.7**	**2.2/-2.2**	**4.2/-4.3**
Vonovia Austria*	n. a.	n. a.	n. a.

* The gross rental method for the portfolio in Austria uses valuation parameters that are only partially comparable.

Change in parameters			
Market rent residential	Market rent increase residential	Stabilized vacancy rate residential	Discounting and capitalized interest rates total
-2.0% / +2.0%	-0.2% / +0.2% points	-1% / +1% points	-0.25% / +0.25% points
-2.4 / 2.4	-8.5 / 10.1	1.9 / -1.9	10.0 / -8.3
-2.2 / 2.3	-6.2 / 7.1	1.3 / -1.7	7.4 / -6.4
-2.2 / 2.3	-6.0 / 6.8	1.8 / -1.8	6.9 / -6.1
-2.4 / 2.4	-5.8 / 6.5	2.1 / -2.2	6.0 / -5.4
-2.3 / 2.3	-6.0 / 6.7	2.0 / -2.0	6.5 / -5.8
-2.2 / 2.2	-6.5 / 7.5	1.4 / -1.8	7.6 / -6.7
-2.0 / 2.0	-6.8 / 7.9	0.8 / -1.6	8.6 / -7.4
-2.2 / 2.2	-6.1 / 6.9	1.6 / -1.7	7.1 / -6.2
-2.6 / 2.6	-5.5 / 6.1	2.4 / -2.4	5.3 / -4.8
-2.3 / 2.3	-6.1 / 6.9	1.9 / -1.9	6.8 / -6.0
-2.4 / 2.4	-6.1 / 6.9	2.1 / -2.0	6.4 / -5.7
-2.3 / 2.3	-6.7 / 7.8	2.1 / -2.1	7.2 / -6.3
-2.5 / 2.5	-6.5 / 7.5	2.1 / -2.1	7.0 / -6.1
-2.4 / 2.3	-6.0 / 6.7	2.1 / -2.2	6.2 / -5.5
-2.4 / 2.3	-7.1 / 8.1	1.4 / -1.8	8.1 / -7.0
-2.3 / 2.4	-6.0 / 6.9	1.9 / -1.9	6.6 / -5.9
-2.3 / 2.3	**-6.5 / 7.5**	**1.8 / -1.9**	**7.4 / -6.4**
-2.6 / 2.6	-5.9 / 6.6	2.5 / -2.5	5.7 / -5.1
-2.3 / 2.3	**-6.5 / 7.5**	**1.8 / -1.9**	**7.4 / -6.4**
-1.6 / 1.6	n. a.	n. a.	7.3 / -6.7

	Change in parameters		
Dec. 31, 2016	Management costs residential	Maintenance costs residential	Cost increase/inflation
Regional Market	-10%/+10%	-10%/+10%	-0.5%/+0.5% points
Berlin	0.7/-0.7	2.3/-2.3	5.2/-5.2
Rhine Main Area	0.6/-0.6	1.8/-1.8	2.9/-3.1
Rhineland	0.6/-0.6	2.0/-2.0	3.4/-3.5
Dresden	0.8/-0.8	2.6/-2.6	4.3/-4.4
Southern Ruhr Area	1.0/-1.0	2.8/-2.9	4.2/-4.4
Hamburg	0.6/-0.6	2.1/-2.1	3.8/-3.9
Munich	0.4/-0.4	1.4/-1.4	3.3/-3.5
Stuttgart	0.5/-0.5	1.8/-1.8	3.4/-3.3
Northern Ruhr Area	1.1/-1.1	3.3/-3.3	4.6/-4.7
Hanover	0.8/-0.8	2.5/-2.5	3.8/-3.9
Kiel	0.9/-0.9	2.7/-2.7	4.1/-4.2
Bremen	0.9/-0.9	2.8/-2.8	4.9/-5.0
Westphalia	0.9/-0.9	3.0/-3.0	4.4/-4.6
Freiburg	0.6/-0.6	1.9/-2.0	3.7/-3.8
Leipzig	0.9/-0.9	2.7/-2.8	4.6/-4.8
Other strategic locations	0.8/-0.8	2.3/-2.3	3.8/-3.9
Total strategic locations	**0.7/-0.7**	**2.3/-2.3**	**4.0/-4.1**
Non-strategic locations	1.2/-1.2	3.7/-3.7	5.4/-5.4
Vonovia Germany	**0.7/-0.7**	**2.3/-2.3**	**4.0/-4.1**
Vonovia Austria	n. a.	n. a.	n. a.

Contractual Obligations

In connection with major acquisitions, Vonovia entered into contractual obligations or assumed such obligations indirectly via acquired companies, among other things in the form of Social Charters, which could limit its ability to freely sell parts of its portfolio, increase rents or terminate existing rent agreements for certain units and which, in the event of a breach, could give rise to substantial contractual penalties in some cases. Moreover, when acquiring and financing some of the properties in the portfolio, Vonovia also entered into an obligation to spend a certain average amount per square meter on maintenance and improvements.

After a certain period of time, these obligations often cease to apply either in full or in part. As of December 31, 2017, around 153,000 units in Vonovia's portfolio were subject to one or several contractual restrictions or other obligations.

> **Sale restrictions:** As of December 31, 2017, around 55,000 units were subject to sale restrictions (excl. occupancy rights). Around 19,000 of these units cannot be freely sold before a certain date. Sale restrictions like these include a full or partial ban on the sale of units and provisions requiring the consent of certain representatives of the original seller prior to sale.

Change in parameters			
Market rent residential	Market rent increase residential	Stabilized vacancy rate residential	Discounting and capitalized interest rates total
-2.0% / +2.0%	-0.2% / +0.2% points	-1% / +1% points	-0.25% / +0.25% points
-2.4 / 2.4	-7.7 / 9.0	1.9 / -1.9	8.6 / -7.4
-2.2 / 2.2	-5.6 / 6.3	1.4 / -1.6	6.5 / -5.8
-2.2 / 2.2	-5.6 / 6.4	1.7 / -1.7	6.5 / -5.7
-2.4 / 2.3	-5.8 / 6.4	2.0 / -2.0	6.1 / -5.5
-2.5 / 2.4	-5.4 / 6.0	2.1 / -2.1	5.4 / -4.9
-2.2 / 2.2	-6.2 / 7.0	1.5 / -1.8	7.1 / -6.2
-2.0 / 2.0	-6.7 / 7.7	1.0 / -1.5	8.3 / -7.2
-2.2 / 2.2	-5.8 / 6.6	1.6 / -1.6	6.7 / -5.9
-2.6 / 2.6	-5.3 / 5.8	2.3 / -2.3	5.0 / -4.6
-2.3 / 2.3	-5.5 / 6.2	2.0 / -1.9	6.0 / -5.3
-2.3 / 2.4	-5.5 / 6.2	2.0 / -2.0	5.8 / -5.1
-2.3 / 2.2	-6.1 / 6.8	2.0 / -2.1	6.4 / -5.7
-2.3 / 2.3	-5.6 / 6.2	2.1 / -2.1	5.7 / -5.1
-2.3 / 2.3	-6.6 / 7.5	1.5 / -1.7	7.4 / -6.5
-2.7 / 2.6	-6.1 / 6.7	2.1 / -2.2	6.0 / -5.5
-2.3 / 2.3	-5.7 / 6.4	1.8 / -1.9	6.2 / -5.5
-2.3 / 2.3	**-6.0 / 6.8**	**1.8 / -1.9**	**6.7 / -5.9**
-2.6 / 2.6	-5.5 / 6.1	2.5 / -2.5	5.1 / -4.7
-2.3 / 2.3	**-6.0 / 6.8**	**1.8 / -1.9**	**6.6 / -5.9**
n. a.	n. a.	n. a.	n. a.

> **Preemptive rights on preferential terms:** Around 5,000 units can only be sold if the tenants are offered preemptive rights on preferential terms. This means that Vonovia is obliged to offer these tenants the units at a price that is up to 15% below the price that could be achieved by selling the units in question to third parties.

> **Restrictions on the termination of rent agreements:** Around 64,000 units are affected by restrictions on the termination of rent agreements. These restrictions include notice to vacate for personal use and notice to vacate for appropriate commercial utilization. In some cases, units are covered by a lifelong security of tenure.

> **Expenses for minimum maintenance and restrictions on maintenance and modernization measures:** Around 130,000 units are subject to a requirement to spend a weighted average of at least € 13.34 per square meter on maintenance and modernization every year. Furthermore, around 110,000 units are affected by restrictions relating to modernization and maintenance measures, which are designed to prevent changes in socio-economic tenant composition (i.e., to prevent luxury modernization). Some of the restrictions to prevent luxury modernization have been agreed on a permanent basis.

> **Restrictions on rent increases:** Restrictions on rent increases (including provisions stating that "luxury modernization" measures are subject to approval) affect around 75,000 units. These restrictions could prevent Vonovia from realizing the rent that could potentially be generated from the units in question.

In many cases, in the event that all or part of a portfolio is transferred or individual units are sold, the aforementioned obligations are to be assumed by the buyers, who are in turn subject to the obligation to pass them on to any future buyers.

Under structured financing programs, Vonovia is subject to fundamental restrictions on the use of excess property disposal proceeds, such restrictions being particularly in the form of mandatory minimum capital repayments. Excess cash from property management is also restricted to a certain extent.

Due to their structure and content, the aforementioned contractual obligations have no significant effect on the valuation of the investment properties.

22 Financial Assets

	Dec. 31, 2016		Dec. 31, 2017	
in € million	non-current	current	non-current	current
Non consolidated subsidiaries	0.9	–	–	–
Joint venture investments measured using the equity method	3.9	–	7.0	–
Other investments	504.5	–	644.7	–
Loans to other investments	33.5	–	33.4	–
Securities	7.4	–	3.6	–
Other non-current loans	4.0	–	4.3	–
Derivatives	31.7	153.2	5.0	0.5
	585.9	**153.2**	**698.0**	**0.5**

The carrying amount of financial assets corresponds to maximum risk of loss as of the reporting date.

The other investments include € 613.3 million (Dec. 31, 2016: € 501.9 million) in shares in Deutsche Wohnen AG.

The loans to other investments not yet due relate to a loan to the property fund DB Immobilienfonds 11 Spree-Schlange von Quistorp KG.

Positive market values from cross currency swaps in the amount of € 5.0 million (Dec. 31, 2016: € 182.3 million) are reported under derivatives.

23 Other Assets

	Dec. 31, 2016		Dec. 31, 2017	
in € million	non-current	current	non-current	current
Right to reimbursement for transferred pensions	7.0	–	5.3	–
Receivables from insurance claims	2.0	22.3	1.6	17.8
Miscellaneous other assets	6.2	80.4	6.9	80.6
	15.2	**102.7**	**13.8**	**98.4**

The right to reimbursement for transferred pensions is in connection with the indirect obligation shown under provisions for pensions arising from pension obligations transferred to former affiliated companies of the Viterra Group.

The receivables from insurance claims include the recognition of the excess of the fair value of plan assets over the corresponding pre-retirement part-time work arrangement obligations amounting to € 0.5 million (Dec. 31, 2016: € 0.9 million).

24 Income Tax Receivables

The income tax receivables shown relate to corporate income tax and trade tax receivables for the current fiscal year and prior years.

25 Inventories

The raw materials and supplies recognized relate to repair materials for our craftsmen's organization.

26 Trade Receivables

The trade receivables break down as follows:

	Impaired		Not impaired						Carrying amount
in € million	Gross amount	Impairment losses	Neither impaired nor past due at the end of the reporting period	less than 30 days	between 30 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days	Corresponds to maximum risk of loss*
Receivables from the sale of properties	4.9	-4.2	79.1	82.3	8.6	20.6	7.2	2.7	201.2
Receivables from property letting	69.6	-37.4	-	-	-	-	-	-	32.2
Receivables from other management	-	-	0.5	-	-	-	-	-	0.5
Receivables from other supplies and services	1.2	-0.2	-	-	-	-	-	-	1.0
As of Dec. 31, 2017	**75.7**	**-41.8**	**79.6**	**82.3**	**8.6**	**20.6**	**7.2**	**2.7**	**234.9**
Receivables from the sale of properties	3.5	-2.7	18.8	112.2	1.4	0.5	1.6	0.1	135.4
Receivables from property letting	52.3	-24.3	-	-	-	-	-	-	28.0
Other receivables from trading	-	-	1.0	-	-	-	-	-	1.0
As of Dec. 31, 2016	55.8	-27.0	19.8	112.2	1.4	0.5	1.6	0.1	164.4

* The maximum default risk on the receivables from the sale of properties is limited to the margin and the transaction unwinding costs as the title to the properties remains with Vonovia as security until receipt of payment.

The carrying amounts of current trade receivables correspond to their fair values.

In principle, all impaired trade receivables are due and payable. As regards the trade receivables that are neither impaired nor past due, there was no indication on the reporting date that the debtors would not meet their payment obligations.

Receivables from the sale of properties arise on economic transfer of ownership. The due date of the receivable may, however, depend on the fulfillment of contractual obligations. Some purchase contracts provide for the purchase price to be deposited in an escrow account. Impairment losses for doubtful debts are recorded up to the amount of the posted proceeds from sales.

Receivables from property letting generally arise at the beginning of a month. When determining the impairment losses on rent receivables, a difference is made with regard to rent arrears between those under terminated contracts and those under continuing rental contracts. Furthermore, with rent receivables under continuing rental contracts, a difference is made between rent arrears resulting from existing payment difficulties and product-related rent arrears based on rent increases, ancillary cost bills and withheld rents.

Impairment losses on trade receivables developed as follows:

in € million	
Impairment losses as of Jan. 1, 2017	27.0
Addition	22.2
Addition due to business combinations	20.0
Utilization	-27.3
Reversal	-0.1
Impairment losses as of Dec. 31, 2017	**41.8**
Impairment losses as of Jan. 1, 2016	29.6
Addition	24.4
Utilization	-26.9
Reversal	-0.1
Impairment losses as of Dec. 31, 2016	27.0

The following table shows the expenses for the full derecognition of receivables, as well as income from the receipt of derecognized receivables:

in € million	2016	2017
Expenses for the derecognition of receivables	1.0	3.4
Income from the receipt of derecognized receivables	2.1	4.7

27 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checks and deposits at banking institutions totaling € 266.2 million (Dec. 31, 2016: € 1,540.8 million).

€ 36.3 million (Dec. 31, 2016: € 51.7 million) of the bank balances are restricted with regard to their use.

28 Assets held for sale

The assets held for sale include properties totaling € 142.6 million (Dec. 31, 2016: € 61.6 million) for which notarized purchase contracts had already been signed as of the reporting date.

29 Total Equity

Subscribed Capital

The subscribed capital represents the company's share capital. As of December 31, 2017, the share capital amounted to € 485,100,826.00, split into 485,100,826 no-par-value registered shares. The shares are uncertificated.

Development of the Subscribed Capital

in €	
As of Jan. 1, 2017	466,000,624.00
Capital increase against non-cash contributions on January 10,2017 (first tender conwert)	339,135.00
Capital increase against cash contributions on March 31, 2017 (second tender conwert)	2,457,177.00
Capital increase against non-cash contributions on June 16, 2017 (scrip dividend)	7,663,312.00
Capital increase against non-cash contributions on July 12, 2017 (Gagfah S. A. merger)	8,640,578.00
As of Dec. 31, 2017	**485,100,826.00**

The non-cash capital increases in connection with the takeover of the conwert Group were made using the 2015 authorized capital. A shareholder in conwert Immobilien Invest SE received 74 shares in Vonovia in return for 149 shares. The calculation of the consideration in the form of exchange shares was based on the price as at January 10, 2017 and March 23, 2017.

For detailed information, reference is made to the note on Scope of Consolidation and Business Combinations.

For the first time, Vonovia offered its shareholders the option of choosing between being paid the dividend in cash or being granted new shares. During the subscription period, 49.86% of shareholders opted for the scrip dividend as opposed to the cash dividend. As a result, 7,663,312 new shares were issued using the company's authorized capital pursuant to Section 5b of the Articles of Association ("2016 authorized capital") at a subscription price of € 34.16 per share, i. e., a total corresponding amount of € 261,778,737.92. The premium in the amount of € 254,115,425.92 was added to the capital reserves.

At the extraordinary Annual General Meeting of Gagfah S. A. held on June 27, 2017, a resolution was passed on a cross-border merger of Gagfah S. A. with Vonovia SE. In order to implement the merger, Vonovia increased the share capital by € 8,640,578.00 by issuing 8,640,578 new no-par-value registered shares in the company, each accounting for a pro rata amount of € 1.00 of the share capital (compensatory shares). The non-cash capital increase was entered on July 12, 2017. The valuation was based on the XETRA closing price of € 34.82 per share on July 12, 2017. The compensatory shares for the merger with Gagfah S. A. were created using the 2016 authorized capital. The 2016 authorized capital was used accordingly by way of a resolution passed by the Management Board on May 16, 2017 with the consent of the company's Supervisory Board.

Authorized Capital

The 2013 and 2015 authorized capital was canceled by way of a resolution passed by the Annual General Meeting held on May 16, 2017, in Düsseldorf, and a new 2017 authorized capital was created in the amount of € 66,556,874.00, which was still unutilized as of December 31, 2017.

2017 Authorized Capital

On the basis of the resolution passed by the Annual General Meeting on May 16, 2017, the Management Board was authorized, pursuant to Section 5c of the Articles of Association and with the consent of the Supervisory Board, to increase the company's share capital by up to € 66,556,874.00 once or several times on or before May 15, 2022, by issuing new shares in return for cash contributions and/or contributions in kind (2017 authorized capital). The Management Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights for one or several capital increases as part of the authorized capital.

2016 Authorized Capital

On the basis of the resolution passed by the Annual General Meeting on May 12, 2016 in accordance with Section 5b of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital by up to € 167,841,594.00 once or several times on or before May 11, 2021, by issuing up to 167,841,594 new registered shares in return for cash contributions and/or contributions in kind (2016 authorized capital). The 2016 authorized capital still amounts to € 151,537,704.00 following its partial utilization as part of the issue of new shares as a scrip dividend and following the merger with Gagfah S. A. as of December 31, 2017. The Management Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights for one or several capital increases as part of the authorized capital.

2016 Conditional Capital

A conditional capital was resolved in order to issue shares required to satisfy conversion rights stemming from convertible bonds, bonds with warrants, participating rights and/or participating bonds (or a combination of these instruments) (hereinafter collectively "debentures") that may be issued on the basis of the authorization of issuance resolved by the Annual General Meeting held on May 12, 2016. The share capital is conditionally increased by up to € 233,000,312.00 through the issuance of up to 233,000,312 new no-par value registered shares with an entitlement to dividend (2016 conditional capital).

Based on the resolution passed by the company's Annual General Meeting on May 12, 2016, the Management Board was authorized, with the consent of the Supervisory Board, to issue bonds carrying conversion rights, bonds carrying option rights, participating rights and/or participating bonds (or combinations of these instruments) (hereinafter collectively referred to as "debentures") in bearer or registered form, once or several times, and to grant the creditors/holders of the debentures conversion or option rights for the shares of the company in a pro rata amount of the share capital of up to € 233,000,312.00 according to the detailed terms and conditions of the bonds carrying option/conversion rights and/or the terms and conditions of the participating rights.

Authorization to Purchase Own Shares

On the basis of the resolution passed by the Annual General Meeting in 2013, the Management Board was authorized to purchase shares in the company on or before June 29, 2018, of up to a total of 10% of the company's share capital at the time of the resolution.

Capital Reserves

The capital reserves increased in the 2017 fiscal year due to the premiums that arose in the context of the non-cash capital increases as part of the takeover of conwert, the Gagfah merger and the scrip dividend.

Development of Capital Reserves

in €	
As of Jan. 1, 2017	5,334,898,463.92
Premium from the first tender conwert on January 10, 2017	10,335,140.14
Premium from the second tender conwert on March 31, 2017	77,622,252.58
Premium from the capital increase scrip dividend on June 16, 2017	254,115,425.92
Premium from the capital increase Gagfah S. A. merger on July 12, 2017	292,224,347.96
Transaction costs on the issue of new shares (after allowing for deferred taxes)	-2,836,658.04
Other changes not affecting net income	-43,158.39
As of Dec. 31, 2017	**5,966,315,814.09**

Retained Earnings

Retained earnings of € 8,471.6 million (Dec. 31, 2016: € 6,665.4 million) were reported as of December 31, 2017. This figure includes actuarial gains and losses of € -64.0 million (Dec. 31, 2016: € -67.1 million), which cannot be reclassified and therefore may no longer be recognized in profit or loss in subsequent reporting periods.

Other Reserves

The other reserves contain cumulative changes in equity not affecting income. At Vonovia, the effective portion of the net change in the fair value of cash flow hedging instruments, the cumulative net change in the fair value of available-for-sale financial assets, are recognized within this reserve, as well as the balance resulting from currency translation.

The other reserves from cash flow hedges, available-for-sale financial assets and the balance resulting from currency translation can be reclassified. When the underlying hedged item of the cash flow hedge affects net income, the reserves attributable thereto are reclassified to profit or loss. The other reserves from available-for-sale financial assets are reclassified if the asset is derecognized or impaired. In the event of the disposal of a foreign business resulting in a loss of control, joint control or significant influence, the corresponding reserves are reclassified.

Dividend

The Annual General Meeting held on May 16, 2017, resolved to pay a dividend for the 2016 fiscal year in the amount of € 1.12 per share which represents a total amount of € 525,052,568.32. 49.86% of shareholders opted for the scrip dividend as opposed to the cash dividend. In connection with the corresponding capital increase, 7,663,312 new shares were issued using the company's authorized capital in a total amount of € 261,778,737.92. The total amount of the dividend distributed in cash therefore came to € 263,273,830.40.

Equity Attributable to Hybrid Capital Investors

In December 2014, Vonovia issued a hybrid bond with a nominal volume of € 1.0 billion via a subsidiary, Vonovia Finance B.V., Amsterdam/Netherlands (issuer). This subordinated hybrid bond is of unlimited duration and can only be terminated by Vonovia on certain contractually fixed dates or occasions.

Up until the first termination date in December 2021, the hybrid bond shall bear interest at a rate of 4.0% p.a. If the bond is not terminated, then the coupon for the next five-year period increases automatically (step-up clause). The bond terms and conditions do not provide for any unconditional legal obligations to pay interest. Interest that is not paid out is carried forward to the new account and accumulated. If a resolution is passed on a dividend, or if a voluntary payment is made in connection with comparable subordinated bonds, then this triggers an interest payment obligation for this bond.

Pursuant to IAS 32, the hybrid bond is to be classified as equity in full. The interest payments to be made to the bondholders are recognized directly in equity.

Non-controlling Interests

Shares of third parties in Group companies are recognized under non-controlling interests.

30 Provisions

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2017 non-current	Dec. 31, 2017 current
Provisions for pensions and similar obligations	522.6	–	513.7	–
Provisions for taxes (current income taxes excl. deferred taxes)	–	145.5	–	155.3
Other provisions				
Environmental remediation	19.1	1.2	16.7	0.2
Personnel obligations	55.0	83.4	61.7	65.8
Outstanding trade invoices	–	60.0	–	50.0
Miscellaneous other provisions	11.2	80.7	15.1	105.2
Total other provisions	85.3	225.3	93.5	221.2
Total provisions	**607.9**	**370.8**	**607.2**	**376.5**

Provisions for Pensions and Similar Obligations

Vonovia has pension obligations towards various employees which are based on the length of service. Defined benefit and defined contribution obligations – for which Vonovia guarantees a certain level of benefit – are financed through provisions for pensions. Vonovia has taken out reinsurance contracts for individual people.

Generally, they are pension benefits that depend on the final salary with percentage increases depending on the number of years of service.

The pension commitments cover 4,030 (Dec. 31, 2016: 4,002) eligible persons.

Executives currently working for companies belonging to Vonovia have the opportunity to participate in the "Pension Instead of Cash Remuneration" model in the version dated October 2003. Retirement, invalidity and surviving dependent benefits in the form of a lifelong pension are offered under this deferred compensation model. The retirement benefits can also be paid out as a one-time capital sum.

The 2002 pension scheme (VO 2002) for Vonovia employees replaces the pension systems that existed until December 31, 2001. For employees who joined the company prior to 1991, existing claims arising from the previous pension commitment as of December 31, 2001, are protected in the form of a status of possession. After this point, these employees acquire rights to future pension benefits in accordance with VO 2002. With the introduction of VO 2002, the pension regulations for employees joining the company after 1990 was updated with regard to changes in legislation and court rulings. Pension components acquired before the date VO 2002 replaced the previous pension systems remain in existence. As part of VO 2002, retirement, invalidity and surviving dependent benefits are provided in the form of lifelong pensions. The pension is calculated as the sum of annually acquired pension components that form a fixed percentage of salary. Salary components exceeding the income limit for the assessment of contributions to statutory pension insurance are weighted in a quadruple manner. For new pension commitments beginning in 2002, a pension guarantee of 1.0% p. a. is provided. For all other employees, the provisions of Section 16 of the German Occupational Pensions Improvement Act (BetrAVG) apply.

The following overview summarizes the most important basic data of the closed pension plans:

	VO 1 Veba Immobilien	VO 91 Eisenbahnges.	Bochumer Verband
Type of benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits
Pensionable remuneration	Final salary	Final salary	Not applicable
Max. pension level			
Remuneration up to state pension assessment limit	25%	27%	Depends on individual grouping
Remuneration in excess of state pension assessment limit	25%	72%	
Total pension model based on final salary	Yes	Yes	No
Net benefit limit incl. state pension	None	90%	None
Gross benefit limit	70%	None	None
Adjustment of pensions	Section 16, (1,2) BetrAVG	Section 16, (1,2) BetrAVG	Adjustment every 3 years by Bochumer Verband (Management Board resolution)
Supplementary periods	Age of 55	None	Age of 55 (half)
Legal basis	Works agreement	Works agreement	Commitment to executives in individual contracts
Number of eligible persons	330	377	482

	VO 60 Eisenbahnges.	Viterra commitment to Management Board members (with plan asset)	Deferred compensation until 1999
Type of benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits
Pensionable remuneration	Final salary	Final salary	Not applicable
Max. pension level			
Remuneration up to state pension assessment limit	48%	75%	Not applicable
Remuneration in excess of state pension assessment limit	48%	75%	Not applicable
Total pension model based on final salary	Yes	No	No
Net benefit limit incl. state pension	None	None	None
Gross benefit limit	75%	None	None
Adjustment of pensions	Section 16, (1,2) BetrAVG	Annual according to development of cost of living	Section 16, (1,2) BetrAVG, min. 8% every 3 years
Supplementary periods	None	None	Age of 55
Legal basis	Works agreement	Commitment to Management Board members in individual contracts	Commitment to executives in individual contracts
Number of eligible persons	164	6	29

	VO guideline Gagfah M
Type of benefits	Retirement, invalidity and surviving dependent benefits
Pensionable remuneration	Final salary
Max. pension level	
Remuneration up to state pension assessment limit	No
Remuneration in excess of state pension assessment limit	No
Total pension model based on final salary	Yes
Net benefit limit incl. state pension	None
Gross benefit limit	75%
Adjustment of pensions	Section 16, (1,2) BetrAVG
Supplementary periods	Age of 55
Legal basis	Works agreement
Number of eligible persons	407

The current pensions according to the classic pension benefit regulations of Bochumer Verband are adjusted in line with Section 20 of those regulations. Section 20 is a rule which is based on Section 16 (1,2) of the German Occupational Pensions Improvement Act (BetrAVG) but which, according to a ruling of the Federal Labour Court of Germany, is an independent rule. Other company pensions are reviewed and adjusted under the terms of the agreement according to Section 16 (1,2) BetrAVG. On every review date, the development of the cost of living since the individual retirement date is reviewed and compensated for. Only in the aforementioned deferred compensation model is the option, available since January 1, 1999, used to raise the current pensions every year by 1% (Section 16 (3) No. 1 BetrAVG). No further risks are seen.

The company has decided to use the internal financing effect of the provisions for pensions and only back a relatively small portion of the pension obligations with plan assets. Reinsurance policies have been taken out for former Management Board members against payment of a one-time insurance premium in order to provide additional protection against insolvency; these reinsurance policies were pledged to the eligible persons. They constitute plan assets, which are offset against the gross obligation. The fair value of the reinsurance policies for individual persons is higher than the extent of the obligations towards the respective person. This surplus of the fair values of the assets over the obligation is shown under non-current other assets. The conclusion of further reinsurance policies is not planned.

Pension plan obligations and the expenses necessary to cover these obligations are determined using the projected unit credit method prescribed by IAS 19. Both pensions known on the reporting date and vested rights, as well as expected future increases in salaries and pensions, are included in the measurement. The following actuarial assumptions were made at the reporting date – in each case related to the end of the year and with economic effect for the following year.

Actuarial Assumptions

in %	Dec. 31, 2016	Dec. 31, 2017
Actuarial interest rate	1.70	1.70
Pension trend	1.75	1.75
Salary trend	2.75	2.75

The 2005 G mortality tables of Prof. Dr. Klaus Heubeck have been taken for the biometric assumptions without any changes.

The defined benefit obligation (DBO) developed as follows:

in € million	2016	2017
Defined benefit obligation as of Jan. 1	516.7	544.0
Additions due to business combinations	0.6	2.4
Disposal due to company sale	-0.1	–
Interest expense	10.8	9.1
Current service cost	8.6	9.4
Actuarial gains and losses:		
Changes in the biometric assumptions	-1.7	-4.7
Changes in the financial assumptions	34.5	–
Transfer	0.3	0.1
Benefits paid	-25.7	-25.3
DBO as of Dec. 31	**544.0**	**535.0**

The present value of the defined benefit obligation is divided among the groups of eligible persons as follows:

in € million	Dec. 31, 2016	Dec. 31, 2017
Active employees	112.8	115.1
Former employees with vested pension rights	86.7	88.3
Pensioners	344.5	331.6
DBO as of Dec. 31	**544.0**	**535.0**

Plan assets comprise solely reinsurance contracts. The fair value of the plan assets has developed as follows:

in € million	2016	2017
Fair value of plan assets as of Jan. 1	22.5	22.5
Additions due to business combinations	0.1	0.3
Return calculated using the actuarial interest rate	0.5	0.4
Actuarial gains:		
Changes in the financial assumptions	0.5	0.4
Benefits paid	-1.1	-1.2
Fair value of plan assets as of Dec. 31	**22.5**	**22.4**

The actual return on plan assets amounted to € 0.8 million during the fiscal year (Dec. 31, 2016: € 1.0 million).

The following table shows a reconciliation of the defined benefit obligation to the pension obligation recognized in the balance sheet:

in € million	Dec. 31, 2016	Dec. 31, 2017
Present value of funded obligations*	35.2	36.1
Present value of unfunded obligations	508.8	498.9
Total present value of defined benefit obligations	544.0	535.0
Fair value of plan assets*	-22.5	-22.4
Net liability recognized in the balance sheet	521.5	512.6
Other assets to be recognized	1.1	1.1
Provisions for pensions recognized in the balance sheet	**522.6**	**513.7**

* Largely attributable to the "Viterra Management Board commitment" and "Gagfah Management Board commitment" pension plans

In 2017, actuarial gains of € 5.1 million (excluding deferred taxes) were recognized in other comprehensive income.

The weighted average term of the defined benefit obligations is 14.8 years.

The following table contains the projected, undiscounted pension payments of the coming five fiscal years and the total of those in the subsequent five fiscal years:

in € million	Projected pension payments
2018	25.2
2019	24.5
2020	24.3
2021	24.0
2022	23.6
2023–2027	116.4

Sensitivity Analyses

An increase or decrease in the material actuarial assumptions would have lead to the following DBO as of December 31, 2017, providing the other assumptions did not change:

in € million		DBO
Actuarial interest rate	Increase by 0.5%	497.0
	Decrease by 0.5%	575.8
Pension trend	Increase by 0.25%	545.7
	Decrease by 0.25%	522.3

An increase in life expectancy of 5.3% would have resulted in an increase in the DBO of € 23.0 million as of December 31, 2017. This percentage rise corresponds to a one-year increase in the life expectancy of a man who was 65 at the reporting date.

If several assumptions are changed simultaneously, the cumulative effect is not necessarily the same as if there had been a change in just one of the assumptions.

The provisions for pensions include € 5.3 million (Dec. 31, 2016: € 7.0 million) for pension obligations which were transferred to third parties as part of an assumption of debt and which relate to vested rights and the payment of current pensions. A corresponding non-current receivable is shown under miscellaneous other assets.

Development of Other Provisions

in € million	**As of Jan. 1, 2017**	Additions due to changes in scope of consolidation	Additions	Reversals	Interest accretion to provisions	Netting plan assets	Utili-zation	**As of Dec. 31, 2017**
Other provisions								
Environmental remediation	20.3	–	–	-1.0	0.2	–	-2.6	16.9
Personnel obligations	138.4	13.5	55.1	-9.9	0.2	0.4	-70.2	127.5
Outstanding trade invoices	60.0	7.7	41.7	-4.5	–	–	-54.9	50.0
Miscellaneous other provisions	91.9	29.2	32.6	-13.8	-0.1	–	-19.5	120.3
	310.6	**50.4**	**129.4**	**-29.2**	**0.3**	**0.4**	**-147.2**	**314.7**

Reversals of provisions are generally offset against the expense items for which they were originally established.

The provisions for environmental remediation primarily refer to site remediation of locations of the former Raab Karcher companies. Remediation has either already begun or an agreement has been reached with the authorities as to how the damage is to be remedied. The cost estimates are based on expert opinions detailing the anticipated duration of the remediation work and the anticipated cost.

The personnel obligations are provisions for pre-retirement part-time work arrangements, provisions for bonuses, severance payments not relating to restructuring and other personnel expenses. The other personnel expenses include a provision for the long-term incentive plan (LTIP) of € 18.3 million (Dec. 31, 2016: € 14.8 million) determined in accordance with IFRS 2 (see note [45] Related Party Transactions).

The miscellaneous other provisions include, among others, costs for onerous contracts, costs for legal disputes, costs for tax returns and costs for entering transfers of titles.

31 Trade Payables

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2017 non-current	Dec. 31, 2017 current
Liabilities				
from property letting	–	69.7	–	68.2
from other supplies and services	1.3	69.1	2.4	62.5
	1.3	**138.8**	**2.4**	**130.7**

32 Non-derivative Financial Liabilities

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2017 non-current	Dec. 31, 2017 current
Non-derivative financial liabilities				
Liabilities to banks	3,259.1	180.3	2,602.3	602.7
Liabilities to other creditors	8,384.3	1,474.7	9.857,1	921.6
Deferred interest from non-derivative financial liabilities	–	72,6	–	76.8
	11,643.4	**1,727.6**	**12,459.4**	**1,601.1**

Deferred interest is presented at this point as current in order to show the cash effectiveness of the interest payments transparently. In principle, the deferred interest is part of the non-derivative financial liability. Of the deferred interest from non-derivative financial liabilities, € 75.8 million (Dec. 31, 2016: € 68.6 million) is from bonds reported under non-derivative financial liabilities to other creditors.

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

in € million	As of Jan. 1, 2017	First-time consoli-dation	New loans	Scheduled repayments	Un-scheduled repayments	Adjusted for effective interest method	Other adjust-ments	**As of Dec. 31, 2017**
Bond	598.3					0.6		598.9
Bonds (US$)	943.7			-554.9			-184.0	204.8
Bonds (EMTN)	7,437.8		2,000.0	-750.0		0.8		8,688.6
Bond (Hybrid)	695.4					1.9		697.3
Commercial Paper			410.2					410.2
CMBS								
Taurus	1,055.9			-2.7	-1,017.7	-35.5		–
Portfolio loans								
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin)	500.5			-8.4	-3.5	0.7		489.3
Berlin-Hannoversche Hypothekenbank, Landesbank Berlin and Landesbank Baden-Württemberg	398.9			-4.2	-54.5	1.1		341.3
Corealcredit Bank AG	147.1			-1.8	-145.9	0.6		–
Deutsche Hypothekenbank	186.4			-4.8	-1.9	-2.9		176.8
HSH Nordbank	17.3			-16.4	-0.7	-0.2		–
Nordrheinische Ärzteversorgung	33.3			-0.6	-1.1			31.6
Norddeutsche Landesbank	119.9			-3.3		0.1		116.7
Mortgages	1,163.9	16.6	490.7	-33.1	-156.2	3.0		1,484.9
conwert:								
Bond		65.0		-65.0				–
Mortgages		1,152.7	19.6	-59.5	-362.5	-7.0		743.3
Other deferred interest	72.6	2.9					1.3	76.8
	13,371.0	**1,237.2**	**2,920.5**	**-1,504.7**	**-1,744.0**	**-36.8**	**-182.7**	**14,060.5**

The USD bond issued in 2013 is translated at the exchange rate at the end of the reporting period in line with applicable IFRS provisions. Allowing for the hedging rate prescribed through the interest hedging transaction entered into, this financial liability would be € 23.5 million lower than the recognized value (Dec. 31, 2016: € 209.9 million).

The maturities and average interest rates of the nominal obligations of the liabilities to banks and the liabilities to other creditors are as follows during the fiscal year:

				Repayment of the nominal obligations is as follows:					
in € million	**Nominal obligation Dec. 31, 2017**	Maturity	Average interest rate	2018	2019	2020	2021	2022	from 2023
Bond*	600.0	2019	3.13%	–	600.0	–	–	–	–
Bond (US$)*	184.9	2023	4.58%	–	–	–	–	–	184.9
Bond (EMTN)*	500.0	2021	3.63%	–	–	–	500.0	–	–
Bond (EMTN)*	500.0	2022	2.13%	–	–	–	–	500.0	–
Bond (EMTN)*	500.0	2020	0.88%	–	–	500.0	–	–	–
Bond (EMTN)*	500.0	2025	1.50%	–	–	–	–	–	500.0
Bond (EMTN)*	1,250.0	2020	1.63%	–	–	1,250.0	–	–	–
Bond (EMTN)*	1,000.0	2023	2.25%	–	–	–	–	–	1,000.0
Bond (EMTN)*	500.0	2022	0.88%	–	–	–	–	500.0	–
Bond (EMTN)*	500.0	2026	1.50%	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2018	0.14%	500.0	–	–	–	–	–
Bond (EMTN)*	1,000.0	2024	1.25%	–	–	–	–	–	1,000.0
Bond (EMTN)*	500.0	2022	0.75%	–	–	–	–	500.0	–
Bond (EMTN)*	500.0	2027	1.75%	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2025	1.13%	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2019	-0.15%	–	500.0	–	–	–	–
Bond (Hybrid)*	700.0	2019	4.63%	–	700.0	–	–	–	–
Commercial paper*	410.2	2018	-0.20%	410.2	–	–	–	–	–
Portfolio loans									
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin) (1)*	489.5	2018	3.10%	489.5	–	–	–	–	–
Berlin Hannoversche Hypothekenbank, Landesbank Berlin and Landesbank Baden-Württemberg*	342.9	2020	3.65%	4.2	4.2	334.5	–	–	–
Deutsche Hypothekenbank*	167.7	2021	3.98%	5.0	5.2	5.5	152.0	–	–
Nordrheinische Ärzteversorgung	31.6	2022	3.49%	0.7	0.7	0.7	0.8	28.7	–
Norddeutsche Landesbank (2)*	35.1	2020	3.99%	2.3	2.3	30.5	–	–	–
	82.0	2023	3.76%	1.1	1.2	1.2	1.3	1.3	75.9
Mortgages	2,266.6	2046	1.65%	164.1	164.8	149.8	253.6	172.6	1,361.7
	14,060.5			**1,577.1**	**1,978.4**	**2,272.2**	**907.7**	**1,702.6**	**5,622.5**

* Under the conditions of existing loan agreements, Vonovia is obliged to fulfil certain financial covenants.

In the previous year, the maturities and average interest rates of the nominal obligations were as follows:

				Repayment of the nominal obligations is as follows:					
in € million	**Nominal obligation Dec. 31, 2016**	Maturity	Average interest rate	2017	2018	2019	2020	2021	from 2022
Bond*	600.0	2019	3.13%	–	–	600.0	–	–	–
Bond (US$)*	554.9	2017	2.97%	554.9	–	–	–	–	–
Bond (US$)*	184.9	2023	4.58%	–	–	–	–	–	184.9
Bond (EMTN)*	500.0	2021	3.63%	–	–	–	–	500.0	–
Bond (EMTN)*	500.0	2022	2.13%	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2020	0.88%	–	–	–	500.0	–	–
Bond (EMTN)*	500.0	2025	1.50%	–	–	–	–	–	500.0
Bond (EMTN)*	750.0	2017	0.84%	750.0	–	–	–	–	–
Bond (EMTN)*	1,250.0	2020	1.63%	–	–	–	1,250.0	–	–
Bond (EMTN)*	1,000.0	2023	2.25%	–	–	–	–	–	1,000.0
Bond (EMTN)*	500.0	2022	0.88%	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2026	1.50%	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2018	0.14%	–	500.0	–	–	–	–
Bond (Hybrid)	700.0	2019	4.63%	–	–	700.0	–	–	–
Bond (EMTN)*	1,000.0	2024	1.25%	–	–	–	–	–	1,000.0
Taurus*	1,020.4	2018	2.38%	10.8	1,009.6	–	–	–	–
Portfolio loans									
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin)*	501.4	2018	3.10%	8.4	493.0	–	–	–	–
Berlin Hannoversche Hypothekenbank, Landesbank Berlin and Landesbank Baden-Württemberg*	401.5	2020	3.61%	4.2	4.2	4.2	388.9	–	–
Corealcredit Bank AG*	147.7	2018	4.22%	1.8	145.9	–	–	–	–
Deutsche Hypothekenbank*	174.5	2021	3.98%	4.9	5.0	5.3	5.5	153.8	–
HSH Nordbank*	17.1	2017	2.50%	17.1	–	–	–	–	–
Nordrheinische Ärzteversorgung	33.3	2022	3.49%	0.6	0.6	0.7	0.7	0.7	30.0
Norddeutsche Landesbank*	37.3	2020	3.99%	2.2	2.3	2.3	30.5	–	–
	83.1	2023	3.76%	1.1	1.1	1.2	1.2	1.3	77.2
Mortgages	1,238.3	2046	1.98%	141.1	94.3	87.8	71.0	100.0	744.1
	13,194.4			**1,497.1**	**2,256.0**	**1,401.5**	**2,247.8**	**755.8**	**5,036.2**

* Under the conditions of existing loan agreements, Vonovia is obliged to fulfil certain financial covenants.

The loan repayments shown for the following years contain contractually fixed minimum repayment amounts.

Of the nominal obligations to creditors, € 2,898.9 million (Dec. 31, 2016: € 3,621.9 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees). In the event of a breach of the covenants, failure to repay or insolvency, the securities provided are used to satisfy the claims of the creditors.

The nominal interest rates on the financial liabilities to banks and other creditors are between -0.2% and 8.0% (average approx. 1.9%). The financial liabilities as a whole do not contain any significant short-term interest rate risks as they relate either to loans with long-term fixed interest rates or variable-interest liabilities that are hedged using suitable derivative financial instruments (see note [38] Financial Risk Management).

Issue of Bonds Under the EMTN – Tap Issuance (European Medium-term Notes Program)

Based on the current tap issuance master agreement dated April 12, 2016, with the corresponding supplements (€ 15,000,000,000 debt issuance program), Vonovia issued two bonds of € 500 million each via its Dutch financing company in January 2017. The bonds were issued at an issue price of 99.863%, a coupon of 0.75% and with a maturity of five years for one tranche, and at an issue price of 99.266%, a coupon of 1.75% and with a maturity of ten years for the other.

Based on the current tap issuance master agreement dated April 20, 2017, with a supplement dated August 30, 2017 (€ 15,000,000,000 debt issuance program), Vonovia issued a bond of € 500 million via its Dutch financing company in September 2017. The bond was issued at an issue price of 99.386%, with a coupon of 1.125% and a maturity of eight years. In November 2017, another bond with a volume of € 500 million was issued at an issue price of 100.448%, with a coupon at three-month EURIBOR plus margin and a maturity of two years.

Commercial Paper Program

On the basis of the master commercial paper agreement of November 2017 (€ 500,000,000 Multi-Currency Commercial Paper Program), Vonovia issued bonds worth € 410 million in total in 8 tranches via its Dutch financing company in December 2017. The individual tranches were issued subject to a negative interest rate of between -0.18% and -0.22% and with a term of between two and five months.

33 Derivatives

	Dec. 31, 2016		Dec. 31, 2017	
in € million	non-current	current	non-current	current
Derivatives				
Purchase price liabilities from put options/rights to reimbursement		57.2		4.2
Cash flow hedges	19.1		8.7	
Deferred interest from cash flow hedges		0.3		0.2
	19.1	**57.5**	**8.7**	**4.4**

Regarding derivative financial liabilities please refer to notes [37] Additional Financial Instrument Disclosures and [40] Cash Flow Hedges and Stand-alone Interest Rate Swaps.

34 Liabilities from Finance Leases

The following table shows the total minimum lease payments and the reconciliation to their present value for the Spree-Bellevue property in the amount of € 94.1 million (Dec. 31, 2016: € 93.6 million) and the finance leases for heat generation plants in the amount of € 5.2 million (Dec. 31, 2016: € 5.6 million).

	Dec. 31, 2016			Dec. 31, 2017		
in € million	Total minimum lease payments	Interest portion	Present value	Total minimum lease payments	Interest portion	Present value
Due within 1 year	4.8	0.3	4.5	4.9	0.3	4.6
Due in 1 to 5 years	26.8	4.6	22.2	26.4	4.3	22.1
Due after 5 years	209.5	137.0	72.5	204.3	131.7	72.6
	241.1	**141.9**	**99.2**	**235.6**	**136.3**	**99.3**

As part of finance leases, expenses of € 5.3 million (2016: € 5.2 million) were recognized for the Spree-Bellevue property and expenses of € 0.6 million (2016: € 0.6 million) for finance leases for heat generation plants in the fiscal year under review. As of the reporting date, there were no significant non-cancellable subtenancies on the Spree-Bellevue property.

35 Liabilities to Non-controlling Interests

The liabilities to non-controlling interests relate especially to the obligations to pay a guaranteed dividend under the valid profit-and-loss transfer agreements.

36 Other Liabilities

	Dec. 31, 2016		Dec. 31, 2017	
in € million	non-current	current	non-current	current
Advance payments received	–	45.7	–	32.8
Miscellaneous other liabilities	83.3	57.0	65.3	80.4
	83.3	**102.7**	**65.3**	**113.2**

The advance payments received include on-account payments of € 24.2 million (Dec. 31, 2016: € 44.8 million) from tenants for ancillary costs after offsetting against the corresponding trade receivables.

The miscellaneous other liabilities include purchase price liabilities in the amount of € 62.6 million (Dec. 31, 2016: € 76.1 million) for the acquisition of further shares in companies that are already consolidated.

Other Notes and Dislosures

37 Additional Financial Instrument Disclosures

Measurement categories and classes: in € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2017
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	266.2
Trade receivables	LaR	
Receivables from the sale of properties	LaR	201.2
Receivables from property letting	LaR	32.2
Other receivables from trading	LaR	1.5
Financial assets		
Joint ventures measured using the equity method	n. a.	7.0
Loans to other investments	LaR	33.5
Other non-current loans	LaR	4.3
Non-current securities	AfS	3.6
Other investments	AfS	644.7
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n. a.	5.5
Liabilities		
Trade payables	FLAC	133.1
Non-derivative financial liabilities	FLAC	14,060.5
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	4.2
Other swaps	n. a.	8.9
Liabilities from finance leases	n. a.	99.3
Liabilities to non-controlling interests	FLAC	33.9
Thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	538.9
Available-for-sale financial assets	AfS	648.3
Financial liabilities held-for-trading	FLHfT	4.2
Financial liabilities measured at amortized cost	FLAC	14,227.5

	Amounts recognized in balance sheet in accordance with IAS 39							
	Face value	Amortized cost	Acquisition cost	Fair value affecting net income	Fair value recognized in equity	Amounts recognized in balance sheet in acc. with IAS 17/IAS 28	Fair value Dec. 31, 2017	Fair value hierarchy level
	266.2						266.2	1
		201.2					201.2	2
		32.2					32.2	2
		1.5					1.5	2
						7.0	7.0	n. a.
		33.5					54.0	2
		4.3					4.3	2
					3.6		3.6	1
					644.7		644.7	2
							5.5	2
		133.1					133.1	2
		14,060.5					14,713.7	2
				4.2			4.2	3
							8.9	2
						99.3	203.5	2
		33.9					33.9	2
	266.2	272.7					559.4	
					648.3		648.3	
				4.2			4.2	
		14,227.5					14,880.7	

Measurement categories and classes: in € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2016
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	1,540.8
Trade receivables		
Receivables from the sale of properties	LaR	135.4
Receivables from property letting	LaR	28.0
Other receivables from trading	LaR	1.0
Financial assets		
Joint ventures measured using the equity method	n. a.	3.9
Loans to other investments	LaR	33.5
Other non-current loans	LaR	4.0
Non-current securities	AfS	7.4
Other investments	AfS	504.5
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n. a.	184.7
Embedded derivatives	FLHfT	0.2
Liabilities		
Trade payables	FLAC	140.1
Non-derivative financial liabilities	FLAC	13,371.0
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	57.2
Other swaps	n. a.	19.4
Liabilities from finance leases	n. a.	99.2
Liabilities to non-controlling interests	FLAC	12.6
Thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	1,742.7
Available-for-sale financial assets	AfS	511.9
Financial liabilities held-for-trading	FLHfT	57.0
Financial liabilities measured at amortized cost	FLAC	13,523.7

Amounts recognized in balance sheet in accordance with IAS 39							
Face value	Amortized cost	Acquisition cost	Fair value affecting net income	Fair value recognized in equity	Amounts recognized in balance sheet in acc. with IAS 17/IAS 28	Fair value Dec. 31, 2016	Fair value hierarchy level
1,540.8						1,540.8	1
	135.4					135.4	2
	28.0					28.0	2
	1.0					1.0	2
					3.9	3.9	n. a.
	33.5					55.7	2
	4.0					4.0	2
				7.4		7.4	1
		2.6		501.9		504.5	1
						184.7	2
			0.2			0.2	2
	140.1					140.1	2
	13,371.0					14,041.0	2
			57.2			57.2	3
						19.4	2
					99.2	207.7	2
	12.6					12.6	2
1,540.8	201.9					1,764.9	
		2.6		509.3		511.9	
			57.0			57.0	
	13,523.7					14,193.7	

Financial assets and financial liabilities not covered by IAS 39 comprise:

> Employee benefits in accordance with IAS 19: Gross presentation of right to reimbursement arising from transferred pension obligations in the amount of € 5.3 million (Dec. 31, 2016: € 7.0 million).
> Amount by which the fair value of plan assets exceeds the corresponding obligation: € 1.1 million (Dec. 31, 2016: € 1.1 million).
> Provisions for pensions and similar obligations: € 513.7 million (Dec. 31, 2016: € 522.6 million).

IFRS 13 defines fair value as a price that would be received by selling an asset or paid to transfer a liability in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The fair value is to be determined using valuation parameters that are as market-based as possible as inputs. The valuation hierarchy (fair value hierarchy) categorizes the inputs for the measurement technique in three levels, giving the highest priority level to the most market-based inputs:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs: valuation parameters other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable valuation parameters for the asset or liability.

When inputs used to measure the fair value are categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is material to the entire measurement.

Should the level of the input parameters used for a financial instrument change in a period subsequent to initial recognition, the financial instrument is reclassified to the new hierarchy level as of the end of that reporting period. No financial instruments were reclassified to different hierarchy levels during the reporting period.

The following table shows the assets and liabilities that are recognized in the balance sheet at fair value and their classification according to the fair value hierarchy:

in € million	Dec. 31, 2017	Level 1	Level 2	Level 3
Assets				
Investment properties	33,182.8			33,182.8
Available-for-sale financial assets				
Non-current securities	3.6	3.6		
Other investments	644.7	613.3	31.4	
Assets held for sale				
Investment properties (contract closed)	142.6		142.6	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	5.5		5.5	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	4.2			4.2
Cash flow hedges	8.9		8.9	

in € million	Dec. 31, 2016	Level 1	Level 2	Level 3
Assets				
Investment properties	26,980.3			26,980.3
Available-for-sale financial assets				
Non-current securities	7.4	7.4		
Other investments	501.9	501.9	-	
Assets held for sale				
Investment properties (contract closed)	61.6		61.6	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	184.9		184.9	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	57.2			57.2
Cash flow hedges	19.1		19.1	

In general, Vonovia measures its investment properties on the basis of the discounted cash flow (DCF) methodology (Level 3). The material valuation parameters and valuation results can be found in note [21] Investment Properties.

The investment properties classified as assets held for sale are recognized at the time of their transfer to assets held for sale at their new fair value, the agreed purchase price (Level 2). Non-current securities are measured using the quoted prices in active markets (Level 1).

For the measurement of financial instruments, cash flows are initially calculated and then discounted. In addition to the tenor-specific EURIBOR rates (3M; 6M), the respective credit risk is taken as a basis for discounting. Depending on the expected cash flows, either Vonovia's own credit risk or the counterparty risk is taken into account in the calculation. For the consolidated financial statements, Vonovia's own credit risk was relevant for interest rate swaps. This credit risk is derived for material risks from rates observable on the capital markets and ranges of between 25 and 60 basis points, depending on the residual maturities of financial instruments. Regarding the positive market values of the cross currency swaps, a counterparty risk of 35 basis points was taken into account.

The calculated cash flows of the cross currency swap result from the forward curve for USD-EUR. The cash flows are discounted on the basis of the reference interest rate of each currency (LIBOR and EURIBOR) and translated into euros at the current exchange rate (Level 2).

Financial instruments, which are not recognized in the balance sheet at fair value but at amortized cost, but whose fair values are nonetheless disclosed in the Notes, are also classified in the three-level fair value hierarchy.

The fair values of the cash and cash equivalents, trade receivables as well as other financial receivables approximate their carrying amounts at the reporting date owing to their mainly short maturities.

The fair values of the other non-current financial receivables correspond to the present values of the payments associated with the assets, taking into account the relevant current interest parameters (Level 2).

Shares in Deutsche Wohnen are reported under other investments at the price quoted on an active market of € 613.3 million as of the reporting date. For all of the remaining other investments, the pro rata equity of the company is used as the best estimate of the fair value. The performance of shares in Deutsche Wohnen, in particular, resulted in a positive valuation effect totaling € 133.4 million in the reporting year.

Liabilities from property letting and liabilities from other goods and services usually have short maturities; the values recognized approximate the fair values.

The fair valuation of bonds listed on the capital markets is based on the quoted market prices (Level 1). The fair values of the other non-derivative financial liabilities are measured by discounting the future cash flows using the current risk-adjusted interest rate structure curve at the reporting date (Level 2).

The fair value of the purchase price liabilities from put options/rights to reimbursement granted to minority shareholders is generally based on the going concern value of the respective company; if a contractually agreed minimum purchase price is higher than this amount, this purchase price is recognized (Level 3). The unobservable valuation parameters may fluctuate depending on the going concern values of these companies. However, a major change in value is not likely, as the business model is very predictable.

The following table shows the development of the put options recognized at fair value:

		Change in	Change			
in € million	As of Jan. 1	Scope of consolidation	affecting net income	Cash effective	not affecting net income	As of Dec. 31
2017						
Purchase price liabilities from put options/rights to reimbursement	57.2	10.1	-13.9	-1.3	-47.9	**4.2**
2016						
Purchase price liabilities from put options/rights to reimbursement	57.6	6.7	-0.4	–	-6.7	**57.2**

The addition relating to the change in the scope of consolidation relates to a put option in connection with the acquisition of the conwert Group in the amount of € 10.1 million. During the reporting year, this put option was transferred to an external third party.

The changes not affecting net income are the result of corporate restructuring measures, which are also reflected in the non-controlling interests.

The sensitivity analysis has shown that if the value of the company deviates by 10% in each case, the purchase price liability from put options granted as of the reporting date would differ by € +0.4 million or € -0.4 million (Dec. 31, 2016: € +5.2 million or € -5.2 million). The changes would be recognized in full in net interest.

Net results according to measurement category:

in € million	Measurement category in acc. with IAS 39	From interest	Income from other non-current loans	From subsequent measurement: Impairment losses	From subsequent measurement: Derecognized receivables	From subsequent measurement: Derecognized liabilities	Dividends from other investments	Net results 2017
2017								
Loans and receivables	LaR	2.5	1.6	-22.2	1.3	–	–	-16.8
Available-for-sale financial assets	AfS	–	–	–	–	–	20.1	20.1
Financial liabilities held-for-trading	FLHfT	13.9	–	–	–	–	–	13.9
Financial liabilities measured at amortized cost	FLAC	-314.5	–	–	–	0.9	–	-313.6
		-298.1	**1.6**	**-22.2**	**1.3**	**0.9**	**20.1**	**-296.4**

in € million	Measurement category in acc. with IAS 39	From interest	Income from other non-current loans	From subsequent measurement: Impairment losses	From subsequent measurement: Derecognized receivables	From subsequent measurement: Derecognized liabilities	Dividends from other investments	Net results 2016
2016								
Loans and receivables	LaR	4.5	1.9	-24.3	1.1	–	–	-16.8
Available-for-sale financial assets	AfS	0.1	–	–	–	–	11.1	11.2
Financial liabilities held-for-trading	FLHfT	0.4	–	–	–	–	–	0.4
Financial liabilities measured at amortized cost	FLAC	-381.9	–	–	–	1.4	–	-380.5
		-376.9	**1.9**	**-24.3**	**1.1**	**1.4**	**11.1**	**-385.7**

Vonovia basically recognizes the components of the net result under financial income and financial expenses.

In the reporting year, the financial result for financial assets or financial liabilities that are not measured at fair value through profit and loss (calculated using the effective interest method) adds up to € -318.8 million (2016: € -385.7 million).

Impairment losses which can be assigned to the measurement category “Loans and receivables” (LaR) as well as income and expenses in connection with derecognized receivables are shown under other operating income or other operating expenses.

The income from derecognized liabilities assigned to the measurement category “Financial liabilities measured at amortized cost” (FLAC) was recognized under other operating income

38 Financial Risk Management

In the course of its business activities, Vonovia is exposed to various financial risks. The Group-wide financial risk management system aims to identify any potentially negative impact on the financial position of the Group early on and take suitable measures to limit this impact. For the structure and organization of financial risk management, we refer to the management report (chapter “Structure and Instruments of the Risk Management System”). → p. 96 et seq. This system was implemented on the basis of Group guidelines, which were approved by the Management Board and which are continually reviewed. The risks associated with financial instruments and the corresponding risk management are described in detail as follows:

Market Risks

a) Currency Risks

The cash-effective currency risks arising in connection with the still existing USD bonds were eliminated by the simultaneous contracting of cross currency swaps. Apart from the aforementioned, Vonovia is still not exposed to any material currency risks in its normal business activities.

b) Interest Rate Risks

In the course of its business activities, Vonovia is exposed to cash-effective interest rate risks as a result of floating-rate debt as well as new and follow-on loans. Within this context, the interest markets are continually monitored by the Finance and Treasury department. Its observations are incorporated into the financing strategy.

As part of its financing strategy, Vonovia uses derivative financial instruments, in particular € interest rate swaps and caps, to limit or manage interest rate risks. Vonovia’s policies permit the use of derivatives only if they are associated with underlying assets or liabilities, contractual rights or obligations and planned, highly probable transactions.

Preceding this chapter, there is a sensitivity analysis with regard to purchase price liabilities from put options. A sensitivity analysis for cash flow hedges is provided under note [40] Cash Flow Hedges and Stand-Alone Interest Rate Swaps.

c) Deutsche Wohnen Share Price Risks

Vonovia holds 16.8 million shares in Deutsche Wohnen SE as strategic stock. This stock is subject to standard market price fluctuations. On December 31, 2017, a drop in the relevant share price of 5% would have resulted, before income taxes, in equity that was € 30.7 million lower. Developments in the price of shares in Deutsche Wohnen SE are subject to regular monitoring.

Credit Risks

Vonovia is exposed to a default risk resulting from the potential failure of a counterparty to fulfill its part of the contract. In order to minimize risks, financial transactions are only executed with banks and partners whose credit rating has been found by a rating agency to be at least equivalent to Vonovia’s. These counterparties are assigned volume limits set by the Management Board. The counterparty risks are managed and monitored centrally by the Finance and Treasury department.

Liquidity Risks

The companies of Vonovia are financed by borrowings to a notable degree. Due to their high volume, the loans are in some cases exposed to a considerable refinancing risk. The liquidity risks arising from financing transactions with high volumes (volume risks) have become apparent in the financial sector, especially in the wake of the financial crisis. In order to limit these risks, Vonovia is in constant contact with many different market players, continuously monitors all financing options available on the capital and banking markets and uses these options in a targeted manner. Moreover, Vonovia subjects its existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

Under the conditions of existing loan agreements, Vonovia is obliged to fulfill certain financial covenants such as the debt service coverage ratio or debt-equity ratio. If financial covenants are violated, the breach is not rectified within so-called cure periods and no mutually acceptable agreement can be reached with the lenders, the financing may be restructured and the cost structure changed. Should all commonly practiced solutions be unsuccessful, the lenders could call in the loan. The fulfillment of these financial covenants is continually monitored by Finance and Treasury on the basis of current actual figures and budgetary accounting.

In order to ensure its ability to pay at all times, Vonovia has put a system-supported cash management system in place. This system monitors and optimizes Vonovia's cash flows on an ongoing basis and provides the Management Board with regular reports on the Group's current liquidity situation. Liquidity management is supplemented by short-term rolling, monthly liquidity planning for the current fiscal year, of which the Management Board is also promptly notified.

The following table shows the forecast for undiscounted cash flows of the non-derivative financial liabilities and derivative financial instruments. The loan repayments shown for the following years contain only contractually fixed minimum repayment amounts:

		2018		2019		2020 to 2024	
in € million	Carrying amount as of Dec. 31, 2017	Interest	Repayment	Interest	Repayment	Interest	Repayment
Non-derivative financial liabilities							
Liabilities to banks	3,205.0	62.6	655.5	58.3	157.1	156.3	1,426.5
Liabilities to other creditors	10,778.7	102.7	921.4	178.3	1.821.3	600.3	6,018.2
Deferred interest from other non-derivative financial liabilities	76.8	76.8	–	–	–	–	–
Liabilities from finance leases	99.3	5.9	–	5.9	–	31.3	–
Derivative financial liabilities							
Purchase price liabilities from put options/ rights to reimbursement	4.2	–	–	–	–	–	4.2
Cash flow hedges (interest)	8.7	3.8	–	3.0	–	10.2	–
Cash flow hedges (cross currency swap) US$ in €	-5.0	-10.3	–	-10.0	–	-38.0	-183.0
€		8.5	–	8.5	–	33.9	184.9
Deferred interest from swaps	-0.3	-0.3	–	–	–	–	–

In April 2014, Vonovia issued a subordinated hybrid bond with terms and conditions stating that the issuer has its first special right of termination after five years. In line with the principle of prudence, the nominal value of these bonds has been recognized in the repayments from the year 2019, although the contractual term extends well beyond this period.

Credit Line

In September 2015, Vonovia entered into an agreement with Commerzbank AG, Frankfurt am Main worth € 300 million. In December 2017, the contract was prematurely superseded by a new contract with the same bank. Under the terms of the new contract, the volume has been reduced to € 250 million and the end date set as December 2020. In November, a similar contract was concluded for the same purpose with Societe Generale, Frankfurt am Main, with a volume of € 250 million and a term that is due to end in December 2019. Both unsecured credit lines are subject to interest on the basis of EURIBOR plus a mark-up and had not been drawn on as of December 31, 2017.

Furthermore, there are two guarantee credit agreements in place between Vonovia and Commerzbank, one for € 10 million, from which bills of exchange of approximately € 4 million had been drawn as of the end of the fiscal year, and one for € 50 million, from which bills of exchange had been drawn in the full amount. There are further guarantee credit lines within the conwert subgroup, namely with Raiffeisen Bank International AG in the amount of € 5 million and with Landesbank Baden-Württemberg in the amount of € 0.75 million. Approximately € 0.2 million of the latter had been drawn as of December 31, 2017.

In November 2017, Vonovia concluded a master commercial paper agreement with a total volume of € 500 million with Commerzbank AG as lead arranger and several banks as traders. A volume of € 410.2 million had been issued under this master program as of December 31, 2017.

All in all, Vonovia has cash on hand and deposits at banking institutions of € 266.2 million on the reporting date (Dec. 31, 2016: € 1,540.8 million). The master credit agreements/the commercial paper program, together with the cash on hand, guarantee Vonovia's ability to pay at all times.

We refer to the information on financial risk management in the management report.

39 Capital Management

Vonovia's management aims to achieve a long-term increase in value in the interests of customers, employees and investors. Within this context, maintaining a degree of financial flexibility in order to be able to pursue the company's growth and portfolio optimization strategy is crucial. This is why Vonovia's capital management focuses on ensuring our investment grade rating. The priority is to ensure sufficient liquidity resources and maintain an efficient ratio between secured and non-secured capital components.

As part of the opportunities and risk management of Vonovia, the members of the Management Board are given monthly reports on the development of results and their potential effects on the capital structure.

The equity situation of the subsidiaries is regularly examined.

Vonovia's equity developed as follows:

in € million	Dec. 31, 2016	Dec. 31, 2017
Total equity	13,888.4	16,691.2
Total assets	32,522.1	37,516.3
Equity ratio	42.7%	44.5%

Vonovia plans to continue funding possible acquisitions by an optimal mix of debt capital and equity.

In order to protect itself against changes in exchange rates and interest rates, Vonovia regularly contracts derivative hedging transactions in the case of liabilities with variable interest rates or liabilities in foreign currencies. The Finance and Treasury department is responsible for implementing the approved financing strategy.

40 Cash Flow Hedges and Stand-Alone Interest Rate Swaps

The nominal volume of the euro interest rate swaps has fallen due to contractual reductions and premature terminations and came to € 582.0 million on the reporting date (Dec. 31, 2016: € 1,481.0 million). Interest rates vary between 0.14% and 3.760% with original swap periods of between two and ten years.

In connection with the acquisition of conwert Immobilien Invest SE, the nominal volume of the euro interest rate swaps increased by € 260.2 million. The negative market values of the ten interest rate swaps transferred amounted to € -21.2 million at the time of first-time consolidation. All of conwert's hedging instruments were terminated for around € 18.6 million in the course of the reporting year.

In line with the early repayment of a mortgage-backed loan, another interest rate swap with a volume of € 146.5 million was terminated prematurely in the reporting year and an interest rate swap with a volume of € 750.0 million ended in December 2017.

For the three hedging instruments that are maintained within a so-called passive hedge accounting, € 9.6 million was reclassified to profit or loss in the reporting year in line with the expected cash flows from the underlying hedged items. This reduced the value recognized under OCI (other comprehensive income) to € 57.2 million.

All derivatives are included in netting agreements with the issuing banks. Whereas the cross currency swaps were all recognized with positive market values, basically the euro interest rate swaps have an inherently negative market value as of the reporting date. No economic or accounting offsetting was performed in the reporting year.

Key parameters of the interest rate swaps were as follows:

in € million	Face value	Beginning of term	End of term	Current average interest rate (incl. margin)
Bonds (EMTN)				
Hedged items	500.0	Sep. 13, 2016	Sep. 13, 2018	3M EURIBOR margin 0.38%
Interest rate swaps	500.0	Sep. 13, 2016	Sep. 13, 2018	0.140%
Portfolio loans				
Norddeutsche Landesbank				
Hedged items	82.0	Jun. 28, 2013	Jun. 30, 2023	3M EURIBOR margin 1.47%
Interest rate swaps	82.0	Jun. 28, 2013	Jun. 30, 2023	2.290%

In 2013, two cross currency swaps were contracted in equal amounts with each of J.P. Morgan Limited and Morgan Stanley Bank International Limited; these hedging instruments (cross currency swaps/CCS) became effective on the issuance of two bonds for a total amount of USD 1,000 million. The CCS, each for an amount of USD 375 million, fell due in October 2017 in line with the bonds. The hedging instruments, each for an amount of USD 125 million, originally had a term of ten years. Therefore, the EUR-USD currency risk resulting from the coupon and capital repayments is eliminated for the entire term of the bonds.

Key parameters of the cross currency swaps were as follows:

in million	Face-value US$	Face-value €	Beginning of term	End of term	Interest rate US$	Interest rate €	Hedging rate US$/€
J.P. Morgan Securities plc Morgan Stanley & Co. International plc							
Hedged items	250.0	184.9	Oct. 2, 13	Oct. 2, 23	5.00%		
CCS	250.0	184.9	Oct. 2, 13	Oct. 2, 23		4.58%	1.3517

The designation of the cash flow hedges as hedging instruments is prospectively determined on the basis of a sensitivity analysis, retrospectively on the basis of the accumulated dollar offset method. The fair value changes of the hedged items are determined on the basis of the hypothetical derivative method. In the reporting year – as in the prior year – the impact of default risk on the fair values is negligible and did not result in any adjustments of the balance sheet item.

In the reporting year, the interest rate swaps as of December 31, 2017, were shown at their negative clean fair values totaling € -8.7 million (Dec. 31, 2016: € -19.1 million), whereas a positive clean fair value of € 5.0 million (Dec. 31, 2016: € 182.3 million) was reported for the cross currency swaps for the same period.

The corresponding deferred interest was shown at € +0.3 million (Dec. 31, 2016: € +2.1 million).

As a result of the valuation, € 24.4 million was credited to other comprehensive income in the fiscal year (2016: encumbrance of € 44.9 million).

Net interest was impacted by reclassifications in the amount of € 199.8 million in 2017 (2016: € 26.9 million). The elimination of exchange rate differences in the amount of € 186.4 million played a key part in this, in particular due to the maturity of the CCS/Yankee 750.

In the reporting year, after allowing for deferred taxes, negative cumulative ineffectiveness amounts to € 4.6 million (in 2016: a positive amount of € 0.7 million), deteriorating net interest by € 5.3 million.

On the basis of the valuation as of December 31, 2017, Vonovia used a sensitivity analysis to determine the change in equity given a parallel shift in the interest rate structure of 50 basis points in each case:

	Change in equity		
in € million	Other reserves not affecting net income	Ineffective portions affecting net income	Total
2017			
+ 50 basis points	2.2	–	**2.2**
- 50 basis points	-2.2	–	**-2.2**
2016			
+ 50 basis points	5.8	0.1	**5.9**
- 50 basis points	-5.8	-0.1	**-5.9**

A further sensitivity analysis showed that a change in the foreign currency level of -5% (+5%) would lead, after allowance for deferred taxes, to a change in the other reserves not affecting net income of € -1.6 million (or € +0.6 million), while ineffectiveness affecting net income in the amount of € +1.4 million (or € -0.6 million) would result at the same time. In the previous year, a change in the other reserves not affecting net income of € -3.0 million (or € +2.6 million) was recognized in connection with ineffectiveness affecting net income in the amount of € +2.2 million (or € -2.0 million).

41 Information on the Consolidated Statement of Cash Flows

The statement of cash flows shows how Vonovia's cash has changed during the reporting year as a result of cash inflows and outflows. In accordance with IAS 7 (Statements of Cash Flows), a distinction is made between changes in cash flow from operating activities, investing activities and financing activities.

The cash flow from operating activities is determined from the profit for the period using the indirect method, the profit for the period being adjusted for effects of transactions that are not cash-effective, any deferrals or accruals of past or future operating cash receipts or payments as well as items of income or expense associated with investing or financing cash flows.

The effects of changes in the scope of consolidation are shown separately. Therefore, direct comparison with the corresponding changes in the items of the consolidated balance sheet is not possible.

The proceeds from the disposal of intangible assets, property, plant and equipment and investment properties are shown in cash flow from investing activities.

Exercising the IAS 7 option, interest received is shown under cash flow from investing activities and interest paid is shown under cash flow from financing activities.

The item "Payments for acquisition of investment properties" mainly shows expenses for modernization measures.

42 Contingent Liabilities

Contingent liabilities exist for cases in which Vonovia SE and its subsidiaries give guarantees to various contractual counterparts.

The terms are in many cases limited to an agreed time. In some cases, the term is unlimited.

Contingent liabilities of Vonovia are as follows:

in € million	Dec. 31, 2016	Dec. 31, 2017
Property transfer obligations	0.1	-
Rent surety bonds	0.4	0.9
Other	4.6	7.0
	5.1	**7.9**

The property transfer obligations are shown in the amount of the guarantees utilized.

Vonovia is involved in legal disputes resulting from normal business activities. In particular, this involves disputes under the law of tenancy and sales disputes. None of the legal disputes, taken in isolation, will have any material effects on the net assets, financial position or results of operations of Vonovia.

43 Other Financial Obligations

The future minimum lease payment obligations resulting from non-cancellable operating leases are due as follows:

in € million	End of contract term	Due within 1 year	Due in 1 to 5 years	Due after 5 years	Total
Total minimum lease payments Dec. 31, 2017					
Rents	2018-2022	3.9	7.0	–	10.9
Lease contracts	2018-2021	12.9	15.3	–	28.2
Leasehold contracts	2018-2206	9.4	37.8	399.5	446.7
		26.2	**60.1**	**399.5**	**485.8**
Dec. 31, 2016					
Rents	2016-2022	6.3	10.4	–	16.7
Lease contracts	2016-2020	13.1	17.7	–	30.8
Leasehold contracts	2017-2109	9.4	37.1	373.9	420.4
		28.8	**65.2**	**373.9**	**467.9**

Payments of € 29.1 million (2016: € 29.7 million) under rental, tenancy and lease contracts were recognized as expenses in the reporting period.

The Vonovia leasehold contracts generally have a term of 99 years. The average remaining term of these contracts was approx. 42 years as of December 31, 2017. The owners of heritable building rights are in particular the German state, federal states, municipalities, foundations and church institutions as well as commercial enterprises and private individuals.

In addition to obligations under operating leases, other financial obligations include:

in € million	Dec. 31, 2016	Dec. 31, 2017
Other financial obligations		
Cable TV service contracts	355.4	323.7
IT service contracts	21.9	14.6
Surcharges under the German Condominium Act	4.5	3.1
	381.8	**341.4**

The obligations under basic TV-service contracts are set against future income from the marketing of the basic TV-service. The caretaker service contracts were gradually terminated and assumed by Vonovia's own craftsmen's organization.

44 Segment Reporting

Vonovia is an integrated real estate company. The company's strategy remains focused on sustainably increasing the value of the company. This is aided by a value-enhancing property management strategy for the company's own properties, value-enhancing investment, active portfolio management and a property-related service business. Vonovia makes a distinction between three segments: Rental, Value-add Business (formerly known as "Extension") and Sales. These segments were still managed independently in the 2017 fiscal year.

The Rental segment pools all business activities for active management as well as investments in the company's own properties. The maintenance expenses shown include the services of the Group's own craftsmen's organization measured at the market price. Only ancillary costs that cannot be passed on to the tenants are included in the operating expenses of the Rental segment. Other income from property management that cannot be allocated to the Value-add Business segment is offset against the operating expenses of the Rental segment.

The Value-add Business segment combines all business activities relating to the expansion of the core business to include additional property-related services. These include, for example, the company's own craftsmen's organization, which performs maintenance and modernization services for the Group, the organization for the upkeep and maintenance of the residential environment, the provision of cable TV services to our tenants, condominium administration for third-party apartments and for those Vonovia apartments managed in homeowners associations, metering services for measuring the consumption of water and heating (smart metering) and insurance services for own properties and for third parties.

The Sales segment covers all business activities relating to the sale of single units as well as the sale of entire buildings or plots of land.

A Group-wide planning and controlling system ensures that resources for all three segments are efficiently allocated and their successful use is monitored.

Reporting to the chief decision-makers and thus the assessment of business performance as well as the allocation of resources are performed on the basis of this segmentation. Accordingly, segment reporting is presented in accordance with IFRS 8.22. No segmentation by region is performed. Assets and liabilities are not viewed separately by segment.

Internal reporting is generally based on the IFRS reporting standards.

The Management Board as chief decision-makers of Vonovia assess the contribution of the business segments against the company's performance on the basis of their income as well as the adjusted EBITDA. The adjusted segment EBITDA represents earnings before interest, taxes, depreciation and amortization adjusted for items that are not related to the period, recur irregularly or that are atypical for business operation and excluding effects from adjustments in value in accordance with IAS 40.

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

in € million	Rental	Value-add Business	Sales	Other*	Group
Jan. 1 – Dec. 31, 2017					
Segment income	1,667.9	1,170.5	1,206.4	-446.8	3,598.0
thereof external income	1,667.9	161.6	1,206.4	562.1	3,598.0
thereof internal income		1,008.9		-1,008.9	
Carrying amount of assets sold			-1,136.0		
Revaluation from disposal of assets held for sale			70.5		
Expenses for maintenance	-258.0				
Operating expenses	-259.9	-1,068.4	-30.1	418.9	
Adjusted EBITDA	1,150.0	102.1	110.8	-27.9	1,335.0
Non-recurring items					-86.9
Period adjustments from assets held for sale					10.7
Income from investments in other real estate companies					13.0
EBITDA IFRS					1,271.8
Net income from fair value adjustments of investment properties					3,434.1
Depreciation and amortization					-372.2
Income from other investments					-20.1
Financial income					46.8
Financial expenses					-353.0
EBT					4,007.4
Income taxes					-1,440.5
Profit for the period					**2,566.9**

* The income for the segments Rental, Value-add Business and Sales constitutes income that is regularly reported to the Management Board as the chief operating decision-maker. The income in the column "Other" results from the onward charging of ancillary costs as well as consolidation effects. These are not part of the regular reporting to the Management Board and have thus been presented in the "Other" column. The cost side is also part of the reporting to the Management Board in order to ensure efficient property management.

in € million	Rental	Value-add Business	Sales	Other*	Group
Jan. 1 – Dec. 31, 2016					
Segment income	1,538.1	851.2	1,227.9	-180.0	3,437.2
thereof external income	1,538.1	108.1	1,227.9	563.1	3,437.2
thereof internal income		743.1		-743.1	
Carrying amount of assets sold			-1,177.7		
Revaluation from disposal of assets held for sale			70.0		
Expenses for maintenance	-247.4				
Operating expenses	-244.5	-794.2	-27.7	170.8	
Adjusted EBITDA	1,046.2	57.0	92.5	-9.2	1,186.5
Non-recurring items					-94.5
Period adjustments from assets held for sale					-17.9
Income from investments in other real estate companies					9.6
EBITDA IFRS					1,083.7
Net income from fair value adjustments of investment properties					3,236.1
Depreciation and amortization					-27.0
Income from other investments					-11.1
Financial income					27.1
Financial expenses					-449.0
EBT					3,859.8
Income taxes					-1,346.9
Profit for the period					**2,512.9**

* The income for the segments Rental, Value-add Business and Sales constitutes income that is regularly reported to the Management Board as the chief operating decision-maker. The income in the column "Other" results from the onward charging of ancillary costs as well as consolidation effects. These are not part of the regular reporting to the Management Board and have thus been presented in the "Other" column. The cost side is also part of the reporting to the Management Board in order to ensure efficient property management.

To show the development of operating performance and to ensure comparability with previous periods, we calculate adjusted EBITDA for our Rental, Value-add Business and Sales segments, as mentioned above. The total of these key figures, taking consolidation effects into account (adjusted EBITDA Other), produces the adjusted EBITDA for the Group as a whole. The adjustments made include items that are not related to the period, items that recur irregularly and items that are atypical for business operation. The non-recurring items include the development of new fields of business and business processes, acquisition projects including integration costs, expenses for refinancing and equity increases (where not treated as capital procurement costs), as well as expenses for pre-retirement part-time work arrangements and severance payments.

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

in € million	Jan. 1 - Dec. 31, 2016	Jan. 1 - Dec. 31, 2017
Business model optimization/ Development of new fields of business	19.5	23.3
Acquisition costs incl. integration costs*	48.3	48.1
Refinancing and equity measures	3.2	1.6
Severance payments/ pre-retirement part-time work arrangements	23.5	13.9
Total non-recurring items	**94.5**	**86.9**

* Including takeover costs and one-time expenses in connection with acquisitions, such as HR measures relating to the integration process. Figures for the previous year shown in line with the current reporting structure for 2017.

In the 2017 fiscal year, the non-recurring items eliminated in the adjusted EBITDA as a whole came to € 86.9 million, down by 8.0% on the prior-year value of € 94.5 million, mainly due to lower expenses for severance payments/pre-retirement part-time work arrangements.

45 Related Party Transactions

At Vonovia, the individuals in key positions pursuant to IAS 24 include the members of the Management Board and the Supervisory Board of Vonovia SE.

The emoluments to key management personnel, which are subject to a disclosure requirement under IAS 24, include the remuneration paid to the active members of the Management Board and Supervisory Board.

The active members of the Management Board and Supervisory Board received the following remuneration:

in € million	2016	2017
Short-term employee benefits (without share-based payment)	6.9	7.0
Post-employment benefits	1.5	1.8
Share-based payment	6.4	10.5
	14.8	**19.3**

The service cost resulting from provisions for pensions for the active Management Board members is reported under post-employment benefits. The disclosure on share-based payments is based on the expenses in the fiscal year, which are also reported in note [46] Share-Based Payment.

The Management Board and Supervisory Board members were not granted any loans or advances.

Information on the individual remuneration of the Management Board and Supervisory Board members, as well as a description of the remuneration system, are given in the remuneration report, which is part of the combined management report, and in note [47] Remuneration.

46 Share-based Payments

Management Board

Under the long-term incentive plan (LTIP), the former Management Board members were granted a total of 931,030 notional shares (SARs = stock appreciation rights) in 2013. These are paid out in five annual tranches with a cliff vesting of 20% per calendar year of the total number of notional shares granted. In this context, the fair value corresponds to the actuarial fair value of the remuneration expected over the total five-year period. These notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement. Therefore, this LTIP qualifies as a cash-settled share-based payment plan in accordance with IFRS 2.

In connection with the conclusion of new employment contracts with Klaus Freiberg and Dr. A. Stefan Kirsten, an agreement was reached that there would be no further vesting after the vesting in the 2017 fiscal year.

The value of the total notional shares that had been granted but not paid out from the LTIP as of December 31, 2017, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche in €	End of vesting period	Rolf Buch
2017	Feb. 28, 2018	3,806,662

The LTIP program resulted in expenses pursuant to IFRS 2 totaling € 2.5 million in the 2017 reporting year (2016: € 3.9 million), with € 1.7 million attributable to Rolf Buch, € 0.4 million attributable to Klaus Freiberg and € 0.4 million attributable to Dr. A. Stefan Kirsten.

As a result of the departure of Monterey Holdings S.à r.l. (MHI) as a majority shareholder in 2014, key criteria of this LTIP were met, meaning that it once again had to be replaced by a new variable long-term incentive plan (LTIP).

As part of the new LTIP plan, the Management Board members are granted annually on a fixed number of phantom stocks (performance share units or "PSU"), which are paid out at the end of a four-year performance period based on the extent to which a pre-defined target achievement level has been reached. The level of target achievement that determines the payout amount under the new LTIP plan is calculated based on the following parameters: Relative Total Shareholder Return (RTSR), Performance of NAV per Share, Performance of FFO 1 per Share and the Customer Satisfaction Index (CSI), which are all assigned an equal weighting of 25%. As a result, this new LTIP plan constitutes a form of cash-settled share-based payment pursuant to IFRS 2; in turn, the payout claim can be lost entirely if the defined target achievement level has not been reached.

The value of the total notional shares that had been granted but not paid out from the new LTIP plan as of December 31, 2017, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Rolf Buch	Thomas Zinnöcker	Klaus Freiberg	Dr. A. Stefan Kirsten	Gerald Klinck
2015–2017	Dec. 31, 2017	–	–	610,821	610,821	447,935
2015–2018	Dec. 31, 2018	1,832,392	1,287,775	743,009	743,009	557,257
2016–2018	Dec. 31, 2018	–	–	501,083	501,083	501,083
2016–2019	Dec. 31, 2019	1,127,448	80,054	221,862	221,862	221,862
2017–2020	Dec. 31, 2020	712,512	–	300,009	300,009	300,009

The LTIP plan program resulted in expenses pursuant to IFRS 2 totaling € 8.0 million in the 2017 reporting year (2016: € 2.5 million), with € 2.5 million attributable to Rolf Buch, € 1.6 million attributable to Klaus Freiberg and Dr. A. Stefan Kirsten, € 1.4 million attributable to Gerald Klinck and € 0.9 million attributable to Thomas Zinnöcker.

For further information, please refer to the remuneration report.

Executives Below Management Board Level

In 2014, Vonovia resolved a virtual share program (LTIP) for executives at the highest level of management below the Management Board with effect from January 1, 2014. The executives receive notional shares on January 1 of each calendar year. The terms and conditions of the LTIP are basically the same as those for the Management Board LTIP. The LTIP has a term of three years.

The level of target achievement is calculated every year based on three equally weighted targets (AFFO, NAV, TSR) and is capped at 150% for each target. An amount is accumulated over the three-year period. For the notional shares granted on January 1, 2015, the waiting period is three calendar years, meaning that it ends on December 31, 2017.

The value of the total notional shares that had been granted but not paid out as of December 31, 2017, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2017
2015	Dec. 31, 2017	1,159,742

The LTIP program results, in accordance with IFRS, in expenses of € 0.5 million in the 2017 reporting year (2016: € 1.0 million).

In 2016, a new LTIP plan was launched for the first level of management, replacing the LTIP that was launched in 2014, to bring the targets for the Management Board and other employees in management positions below Management Board level even closer into line with shareholder interests.

The LTIP plan is based largely on the LTIP launched for the Management Board in 2015, also regarding the identical performance objectives and the calculation of the objective values with regard to the minimum value, the “target achievement value,” and the maximum value.

The value of the total notional shares that had been granted but not paid out from the new LTIP plan as of December 31, 2017, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2017
2016	Dec. 31. 2019	723,957
2017	Dec. 31. 2020	394,396

The LTIP plan program results, in accordance with IFRS, in expenses of € 1.0 million in the 2017 reporting year (2016: € 0.4 million).

As part of the acquisition of Gagfah, share-based remuneration programs for Gagfah managers were assumed. These are remuneration plans featuring cash compensation. The virtual stocks are granted over a period of three consecutive years, with one tranche being granted per year. The conditions for exercise are the corresponding target achievement level and an uninterrupted length of service in each vesting period.

The value of the total notional shares that had been granted but not paid out as of December 31, 2016, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2017
2015	Dec. 31, 2017	7,825

The LTIP program results, in accordance with IFRS, in total expenses of € 0.0 million in the 2017 reporting year (2016: € 0.0 million).

Employees

An employee share program was resolved on the basis of a works agreement in 2014. The program started in the first quarter of 2015 and the shares granted are subject to a vesting period of six months. The costs associated with the securities deposit account are borne by Vonovia. Shares with a value of between € 90.00 and € 360.00 at the most are granted to the eligible employees, depending on their gross annual salary, without the employees having to make any contribution of their own.

The new employee share program resulted in expenses totaling € 1.5 million in the 2017 reporting year (2016: € 1.9 million), which have been offset directly against the capital reserves.

47 Remuneration

Remuneration of the Supervisory Board

The members of the Supervisory Board received total remuneration of € 1.8 million during the 2017 fiscal year (2016: € 1.8 million) for their work.

Total Remuneration of the Management Board

The total remuneration paid to the individual members of the Management Board comprises the following:

	Rolf Buch, CEO		Thomas Zinnöcker, CRO until Jan. 31, 2016		Klaus Freiberg, COO	
Total remuneration of the Management Board in €	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Fixed remuneration	1,000,000	1,150,000	66,667	-	600,000	600,000
Cash remuneration/deferred compensation	225,000	355,000	12,500	-	160,000	160,000
Fringe benefits	39,446	24,006	2,369	-	27,627	27,603
Total	1,264,446	1,529,006	81,536	-	787,627	787,603
Annual variable remuneration (bonus)	700,000	700,000	50,000	-	440,000	440,000
Multi-year variable remuneration (LTIP plan):						
2016–2018	–	–	–	–	212,035	–
2016–2019	1,429,217	–	101,481	–	635,201	–
2017–2020	–	2,040,633	–	–	–	859,224
(Number of shares)	(47,039)	(61,469)	(3,340)	-	(27,875)	(25,882)
Total	2,129,217	2,740,633	151,481	-	1,287,236	1,299,224
Total remuneration	**3,393,663**	**4,269,639**	**233,017**	**-**	**2,074,863**	**2,086,827**

	Dr. A. Stefan Kirsten, CFO		Gerald Klinck, CCO		Total remuneration	
Total remuneration of the Management Board in €	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Fixed remuneration	600,000	600,000	600,000	600,000	2,866,667	2,950,000
Cash remuneration/deferred compensation	160,000	160,000	160,000	160,000	717,500	835,000
Fringe benefits	31,571	32,723	25,865	24,503	126,878	108,835
Total	791,571	792,723	785,865	784,503	3,711,045	3,893,835
Annual variable remuneration (bonus)	440,000	440,000	440,000	440,000	2,070,000	2,020,000
Multi-year variable remuneration (LTIP plan):						
2016–2018	212,035	–	212,035	–	636,105	–
2016–2019	635,201	–	635,201	–	3,436,301	–
2017–2020	-	859,224	–	859,224	–	4,618,305
(Number of shares)	(27,875)	(25,882)	(27,875)	(25,882)	(134,004)	(139,115)
Total	1,287,236	1,299,224	1,287,236	1,299,224	6,142,406	6,638,305
Total remuneration	**2,078,807**	**2,091,947**	**2,073,101**	**2,083,727**	**9,853,451**	**10,532,140**

The remuneration paid to the Management Board members includes the remuneration for all mandates at Vonovia Group companies, subsidiaries and participating interests.

Pension Obligations to Members of the Management Board

Rolf Buch, Dr. A. Stefan Kirsten and Gerald Klinck are paying their contractual share of € 355,000 (Rolf Buch), € 160,000 (Dr. A. Stefan Kirsten) and (Gerald Klinck) respectively, based on their fixed remuneration, into the deferred compensation scheme. Klaus Freiberg has opted for a cash payout for his entitlement of € 160,000.

The pension obligations to members of the Management Board from deferred compensation comprise the following:

€	Contribution total as of December 31		Defined benefit obligation as of December 31	
	2016	2017	2016	2017
Rolf Buch	600,398	949,253	2,105,694	3,064,938
Dr. A. Stefan Kirsten	367,388	367,388	1,782,051	2,179,047
Gerald Klinck	491,198	491,198	742,668	1,257,330

Remuneration of Former Management Board Members and Their Surviving Dependents

Total remuneration of former Management Board members and their surviving dependents amounts to € 2.0 million for the 2017 fiscal year (2016: € 1.9 million). The pension obligations (DBO) to former members of the Management Board and their surviving dependents amount to € 14.3 million (2016: € 14.4 million).

48 Auditor's Fees

In the fiscal year, the following fees (including expenses and excluding VAT) have been credited for the services rendered by the Group auditors KPMG Wirtschaftsprüfungsgesellschaft:

in € million	2016	2017
Audits	2.4	3.7
Other confirmation services	1.0	1.0
Tax consultancy services	0.1	0.3
Other services	0.1	-
	3.6	**5.0**

All of the services rendered were consistent with the activities performed as the auditor of the annual financial statements and consolidated financial statements of Vonovia SE. The fee paid for auditing services performed by KPMG AG Wirtschaftsprüfungsgesellschaft relates to the audit of the consolidated financial statements and annual financial statements of Vonovia SE, as well as to various audits of annual financial statements and a review of one set of annual financial statements. Consolidated interim financial statements were also reviewed.

Other confirmation services include services performed in connection with capital market transactions (issuing of comfort letters, reviews of profit forecasts, merger reviews, reviews of contributions in kind and valuation certificates). In addition, the other confirmation services include reviews of reconciliations on the interest threshold based on audit standard IDW PS 900, audits performed in accordance with Section 2 of the Act on the Code of Professional Practice for German Public Auditors (WPO) on compliance with the regulations governing loans granted by the German government-owned development bank KfW, business audits pursuant to ISAE 3000 relating to various housing assistance reports and the voluntary business audits of tax compliance management systems in accordance with IDW PS 980.

The tax consultancy services were performed vis-à-vis Vonovia Finance B. V. regarding transfer prices. Companies in the conwert Group were provided with tax-related advice on VAT and real estate transfer tax matters.

49 Subsequent Events

On December 18, 2017, Vonovia published notice of its intention to make a voluntary public takeover offer, in accordance with the Austrian Takeover Act (ÜbG), to the shareholders of BUWOG AG (subsequently: BUWOG), Vienna, Austria, for the acquisition of all shares in BUWOG. Vonovia and BUWOG, whose shares are listed under ISIN AT00BUWOG001 in the official trading segment (Prime Market) of Wiener Börse AG, on the regulated market (Prime Standard) of the Frankfurt Stock Exchange and on the Main Market of the Warsaw Stock Exchange, have signed what is known as a Business Combination Agreement. Based on the takeover offer, all BUWOG shareholders will be offered € 29.05 in cash for each share in BUWOG.

The corresponding offer document was submitted to the Austrian Financial Market Authority on January 18, 2018. The public takeover offer was published on February 5, 2018. This means that the offer period for the first tender phase ends on March 12, 2018.

50 Declaration of Conformity with the German Corporate Governance Codex

In February 2018, the Management Board and the Supervisory Board declared compliance with the recommendations of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) and made the declaration publicly and permanently available on the company's website. www.vonovia.de

51 Management Board's Proposal for the Appropriation of Profit

"The Management Board and the Supervisory Board propose to the Annual General Meeting that, of the profit of Vonovia SE for the 2017 fiscal year of € 676,659,054.65, an amount of € 640,333,090.32 on the 485,100,826 shares of the share capital as of December 31, 2017 be paid as a dividend (corresponding to € 1.32 per share) to the shareholders and the remaining amount of € 36,325,964.33 be carried forward to the new account."

Bochum, Germany, February 26, 2018

Rolf Buch
(CEO)

Klaus Freiberg
(COO)

Dr. A. Stefan Kirsten
(CFO)

Gerald Klinck
(CCO)

Information

List of Vonovia Shareholdings

as of December 31, 2017 according to section 313 para. 2 HGB

Company	Company domicile	Interest %
Vonovia SE	Bochum	
Consolidated Companies		
Alboingärten Bauvorhaben Bessemerstraße GmbH	Schönefeld	100.00
alt+kelber Immobilienverwaltung GmbH	Berlin	100.00
Anton Baumgartner-Straße 125, 1230 Vienna, Besitz GmbH	Vienna/AT	100.00
Barmer Wohnungsbau GmbH	Wuppertal	91.39
Barmer Wohnungsbau Grundbesitz I GmbH	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz II GmbH	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz III GmbH	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz IV GmbH	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz V GmbH	Wuppertal	100.00
Barmer Wohnungsbau Verwaltungs GmbH	Wuppertal	100.00
Bau- und Siedlungsgesellschaft Dresden mbH	Dresden	94.73
Baugesellschaft Bayern mbH	Munich	94.90
Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung	Bremen	94.90
Börsenhof A Besitz GmbH	Bremen	94.00
BOKRÉTA Management Kft.	Budapest/HU	100.00
Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung	Bremen	94.90
Brunn am Gebirge Realbesitz GmbH	Vienna/AT	100.00
Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung	Kassel	94.90
Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH	Regensburg	94.90
BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH	Frankfurt/Main	94.90
CENTUM Immobilien GmbH	Vienna/AT	100.00
Con Tessa Immobilienverwertung GmbH	Vienna/AT	100.00
Con value one Immobilien GmbH	Vienna/AT	100.00
Con Wert Handelsges. m. b. H.	Vienna/AT	100.00
conwert & kelber Besitz 10/2007 GmbH	Berlin	94.80
conwert & kelber Besitz 11/2007 GmbH	Zossen	94.80
conwert & kelber Bestand 10/2007 GmbH	Berlin	94.80
conwert Alfhild II Invest GmbH	Berlin	94.90

Company	Company domicile	Interest %
conwert Alfhild Invest GmbH	Berlin	94.90
conwert alpha Invest GmbH	Zossen	94.90
conwert Aries Invest GmbH	Zossen	100.00
conwert Berlin 2 Immobilien Invest GmbH	Zossen	94.90
conwert beta Invest GmbH	Berlin	94.90
conwert Beteiligungsgesellschaft Fonds GmbH	Berlin	100.00
conwert Capricornus Invest GmbH	Zossen	100.00
conwert Carina Invest GmbH	Berlin	100.00
conwert Cassiopeia Invest GmbH	Berlin	94.90
conwert Centaurus Invest GmbH	Zossen	94.90
conwert Corvus Invest GmbH	Berlin	94.00
conwert delta Invest GmbH	Berlin	75.00
conwert Deutschland Beteiligungsholding GmbH	Berlin	100.00
conwert Deutschland GmbH	Berlin	100.00
conwert Deutschland Holding GmbH	Berlin	94.90
conwert Deutschland Immobilien GmbH	Berlin	100.00
conwert Dienstleistung Holding GmbH	Vienna/AT	100.00
conwert Dresden Drei Invest GmbH	Berlin	51.00
conwert Dresden Fünf Invest GmbH	Berlin	51.00
conwert Dresden Invest GmbH	Berlin	51.00
conwert Dresden Vier Invest GmbH	Berlin	51.00
conwert Dresden Zwei Invest GmbH	Berlin	51.00
conwert Eisa II Invest GmbH	Berlin	100.00
conwert Eisa III Invest GmbH	Zossen	100.00
conwert Eisa Invest GmbH	Zossen	94.90
conwert Elbflorenz Invest GmbH	Berlin	51.00
conwert Epitaurus Invest GmbH	Zossen	94.00
conwert epsilon Invest GmbH	Berlin	94.90
conwert Fenja Invest GmbH	Berlin	94.90
conwert gamma Invest GmbH	Berlin	94.90
conwert Gemini Invest GmbH	Zossen	100.00
conwert Grazer Damm Development GmbH	Zossen	94.90
conwert Grundbesitz Leipzig Besitz GmbH	Berlin	94.90
conwert Grundbesitz Leipzig Bestand GmbH	Zossen	94.90
conwert Immobilien Development GmbH	Berlin	94.90
conwert Immobilien Invest GmbH	Vienna/AT	100.00
conwert Immobilienverwaltung GmbH	Berlin	100.00
conwert Invest GmbH	Vienna/AT	100.00
conwert Kirchsteigfeld 19 Invest GmbH	Zossen	100.00
conwert Kirchsteigfeld Beteiligungs GmbH	Zossen	100.00
conwert lambda Invest GmbH	Berlin	75.00
conwert Leo Invest GmbH	Berlin	100.00

Company	Company domicile	Interest %
conwert Lepus Invest GmbH	Berlin	100.00
conwert Libra Invest GmbH	Berlin	100.00
conwert Management GmbH	Vienna/AT	100.00
conwert Neubaubesitz GmbH	Vienna/AT	100.00
conwert omega Invest GmbH	Zossen	94.90
conwert Pegasus Invest GmbH	Berlin	94.90
conwert Perseus Invest GmbH	Berlin	100.00
conwert Phoenix Invest GmbH	Berlin	100.00
conwert Sachsen Invest GmbH	Zossen	100.00
conwert Scorpius Invest GmbH	Berlin	100.00
„CONWERT SECURITISATION“ Holding GmbH	Vienna/AT	100.00
conwert Seniorenzentrum Berlin Immobilien GmbH	Zossen	100.00
conwert sigma Invest GmbH	Berlin	94.90
conwert Taurus Invest GmbH	Berlin	100.00
conwert Tizian 1 Invest GmbH	Berlin	94.90
conwert Tizian 2 Invest GmbH	Berlin	94.90
conwert Treasury OG	Vienna/AT	100.00
conwert Vela Invest GmbH	Berlin	100.00
conwert Viktoria Quartier Invest GmbH	Zossen	100.00
conwert Virgo Invest GmbH	Berlin	100.00
conwert Wali II Invest GmbH	Berlin	100.00
conwert Wali III Invest GmbH	Berlin	100.00
conwert Wali Invest GmbH	Berlin	94.90
conwert Wara II Invest GmbH	Berlin	100.00
conwert Wara III Invest GmbH	Berlin	100.00
conwert Wara Invest GmbH	Berlin	94.90
conwert Wohn-Fonds GmbH	Zossen	100.00
conwert Wölva Invest GmbH	Berlin	94.90
COUNTRY INN VIC Hotelbesitz GmbH	Vienna/AT	100.00
CWG Beteiligungs GmbH	Vienna/AT	100.00
DA DMB Netherlands B. V.	Eindhoven/NL	100.00
DA EB GmbH	Nuremberg	100.00
DA Jupiter NL JV Holdings 1 B. V.	Amsterdam/NL	100.00
DA Jupiter Wohnanlage GmbH	Düsseldorf	94.00 [3)]
DAIG 1. Objektgesellschaft mbH	Düsseldorf	100.00 [3)]
DAIG 10. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 11. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 12. Objektgesellschaft mbH	Düsseldorf	94.00
DAIG 13. Objektgesellschaft mbH	Düsseldorf	94.00
DAIG 14. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 15. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 16. Objektgesellschaft B. V.	Amsterdam/NL	94.00

Company	Company domicile	Interest %
DAIG 17. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 18. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 19. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 2. Objektgesellschaft mbH	Düsseldorf	100.00 [3]
DAIG 20. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 21. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 22. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 23. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 24. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 25. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DAIG 3. Objektgesellschaft mbH	Düsseldorf	100.00 [3]
DAIG 4. Objektgesellschaft mbH	Düsseldorf	100.00 [3]
DAIG 9. Objektgesellschaft B. V.	Amsterdam/NL	94.00
DATAREAL Beteiligungsgesellschaft m. b. H. & Co. Gablenzgasse 60 KG	Vienna/AT	100.00 [2]
DATAREAL Beteiligungsgesellschaft m. b. H. & Co. Heiligenstädter Straße 9 OG	Vienna/AT	100.00 [2]
Defida Verwaltungs GmbH	Berlin	100.00
Deutsche Annington Acquisition Holding GmbH	Düsseldorf	100.00 [3]
Deutsche Annington Beteiligungsverwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington DEWG GmbH & Co. KG	Bochum	100.00 [2]
Deutsche Annington DEWG Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington DMB Eins GmbH	Bochum	100.00
Deutsche Annington Fundus Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Fünfte Beteiligungsgesellschaft mbH	Düsseldorf	100.00
Deutsche Annington Haus GmbH	Kiel	100.00
Deutsche Annington Heimbau GmbH	Kiel	100.00
Deutsche Annington Holdings Drei GmbH	Bochum	100.00
Deutsche Annington Holdings Eins GmbH	Düsseldorf	100.00
Deutsche Annington Holdings Fünf GmbH	Düsseldorf	100.00 [3]
Deutsche Annington Holdings Sechs GmbH	Bochum	100.00 [3]
Deutsche Annington Holdings Vier GmbH	Düsseldorf	100.00 [3]
Deutsche Annington Holdings Vier GmbH & Co. KG	Bochum	100.00 [2]
Deutsche Annington Holdings Zwei GmbH	Düsseldorf	100.00
Deutsche Annington Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00
Deutsche Annington Interim DAMIRA GmbH	Düsseldorf	100.00
Deutsche Annington Kundenservice GmbH	Bochum	100.00 [3]
Deutsche Annington McKinley Eins GmbH & Co. KG	Bochum	100.00 [2]
Deutsche Annington McKinley Eins Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington McKinley-Holding GmbH & Co. KG	Bochum	100.00 [2]
Deutsche Annington Rhein-Ruhr GmbH & Co. KG	Bochum	100.00 [2]
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Sechste Beteiligungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Sechs Verwaltungs GmbH	Bochum	100.00 [3]

Company	Company domicile	Interest %
Deutsche Annington WOGE Sieben Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Vier Bestands GmbH & Co. KG	Bochum	100.00 [2)]
Deutsche Annington WOGE Vier GmbH & Co. KG	Bochum	100.00 [2)]
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Düsseldorf	100.00
Deutsche Eisenbahn-Wohnungs-Gesellschaft mbH	Leipzig	100.00
Deutsche Heimstätten omega GmbH & Co. KG	Zossen	100.00 [2)]
Deutsche Multimedia Service GmbH	Düsseldorf	100.00 [3)]
Deutsche TGS GmbH	Düsseldorf	51.00 [3)]
Deutsche Wohn-Inkasso GmbH	Bochum	100.00 [3)]
Diak-Nd Pflege-Altenheime Besitz GmbH	Berlin	94.50
Dinami GmbH	Berlin	94.80
DITRA Deutsche Immobilien Treuhand und Anlage Gesellschaft mit beschränkter Haftung	Berlin	100.00
EB Immobilien Invest GmbH	Vienna/AT	100.00
EBI Beteiligungen GmbH	Vienna/AT	100.00
EBI Beteiligungen GmbH & Co, 1190 Vienna, Rampengasse 3–5, KG	Vienna/AT	100.00
ECO Anteilsverwaltungs GmbH	Vienna/AT	100.00
ECO Büroimmobilie Starnberg Petersbrunner Straße GmbH & Co. KG	Berlin	94.80 [2)]
ECO Business-Immobilie Saarbrücken GmbH & Co. KG	Zossen	94.80 [2)]
ECO Business-Immobilien-Beteiligungen GmbH	Vienna/AT	100.00
ECO Business-Immobilien Deutschland GmbH	Berlin	94.80
ECO Business-Immobilien GmbH	Vienna/AT	100.00
ECO CEE & Real Estate Besitz GmbH	Vienna/AT	100.00
ECO Eastern Europe Real Estate GmbH	Vienna/AT	100.00
ECO Einkaufszentrum Meitingen GmbH & Co. KG	Berlin	94.80 [2)]
ECO Fachmarktzentrum Geiselhöring GmbH & Co. KG	Berlin	94.80 [2)]
ECO Fachmarktzentrum Naabtalcenter GmbH & Co. KG	Berlin	94.80 [2)]
ECO Fachmarktzentrum Pocking GmbH & Co. KG	Berlin	94.80 [2)]
ECO Fachmarktzentrum Tittling GmbH	Berlin	94.80
ECO Immobilien Verwertungs GmbH	Vienna/AT	100.00
ECO KB GmbH	Vienna/AT	100.00
ECO Real Estate Deutschland GmbH	Berlin	94.80
ECO Real Estate Luxembourg S.à r.l.	Strassen/LU	100.00
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau)	Augsburg	94.90
Eisenbahn-Siedlungsgesellschaft Stuttgart gGmbH	Stuttgart	94.87
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94.90
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94.90
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremberg	94.90
„Epssilon“ Altbau GmbH	Vienna/AT	100.00
„Epssilon“ Meidlinger Hauptstr. 27 Liegenschaftsverwaltungs GmbH	Vienna/AT	100.00
Franconia Invest 1 GmbH	Düsseldorf	94.90
Franconia Wohnen GmbH	Düsseldorf	94.90

Company	Company domicile	Interest %
Frankfurter Siedlungsgesellschaft mbH	Düsseldorf	100.00 [3)]
FSG-Holding GmbH	Düsseldorf	94.80
„G1“ Immobilienbesitz GmbH	Vienna/AT	100.00
GAG ACQ. IRELAND DESIGNATED ACTIVITY COMPANY (in Liquidation)	Clonee/IRL	100.00
GAG Grundstücksverwaltungs-GmbH	Berlin	94.90
GAGFAH Acquisition 1 GmbH	Bochum	94.80
GAGFAH Acquisition 2 GmbH	Bochum	94.80
GAGFAH Asset Management GmbH	Bochum	100.00
GAGFAH Dritte Grundbesitz GmbH	Bochum	94.80
GAGFAH Erste Grundbesitz GmbH	Bochum	94.80
GAGFAH GmbH	Bochum	94.90
GAGFAH Griffin GmbH	Bochum	94.90
GAGFAH Griffin Holding GmbH	Bochum	100.00
GAGFAH Hausservice GmbH	Essen	94.90
GAGFAH Holding GmbH	Bochum	100.00
GAGFAH M Immobilien-Management GmbH	Bochum	94.90
GAGFAH Zweite Grundbesitz GmbH	Bochum	94.80
GBH Acquisition GmbH	Bochum	94.80
GBH Service GmbH	Heidenheim an der Brenz	100.00
Gewerbepark Urstein Besitz GmbH	Vienna/AT	100.00
Gewerbepark Urstein Projekterrichtungs GmbH & Co.KG	Vienna/AT	100.00 [2)]
GGJ Beteiligungs GmbH	Vienna/AT	100.00
GGJ Beteiligungs GmbH & Co Projekt Drei OG	Vienna/AT	100.00
GGJ Beteiligungs GmbH & Co Projekt Eins OG	Vienna/AT	100.00
GGJ Beteiligungs GmbH & Co Projekt Fünf OG	Vienna/AT	100.00
GGJ Beteiligungs GmbH & Co Projekt Zehn OG	Vienna/AT	100.00
GGJ Beteiligungs GmbH & Co Projekt Zwei OG	Vienna/AT	100.00
GGJ Beteiligungs GmbH & Co Projekt Sieben OG	Vienna/AT	100.00
GJ-Beteiligungs GmbH & Co Projekt Fünf OG	Vienna/AT	100.00
GJ-Beteiligungs GmbH	Vienna/AT	100.00
„GK“ Immobilienbesitz GmbH	Vienna/AT	100.00
„GKHK“ Handelsgesellschaft m. b. H.	Vienna/AT	100.00
Grundwert Living GmbH	Berlin	100.00
Guess Club GmbH	Vienna/AT	100.00
G-Unternehmensbeteiligung GmbH	Vienna/AT	100.00
Haus- und Boden-Fonds 38	Essen	54.15
Hertha-Firnberg-Straße 10, 1100 Vienna, Immobilienbesitz GmbH	Vienna/AT	100.00
HPE Hausbau Beteiligungs GmbH	Zossen	100.00
HPE Hausbau GmbH	Zossen	94.90
HPE Sechste Hausbau Portfolio GmbH	Zossen	100.00
HPE Siebte Hausbau Portfolio GmbH	Berlin	100.00

Company	Company domicile	Interest %
HPE Zweite Hausbau Beteiligungsgesellschaft mbH	Berlin	100.00
HvD I Grundbesitzgesellschaft mbH	Berlin	100.00
IESA Immobilien Entwicklung Sachsen GmbH	Berlin	51.00
Immo Service Dresden GmbH	Dresden	100.00
Immobilienfonds Koblenz-Karthause Wolfgang Hober KG	Düsseldorf	92.71
IMMO-ROHR PLUSZ Kft.	Budapest/HU	100.00
JANANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
KADURA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.91
Kapital & Wert Immobilienbesitz GmbH	Vienna/AT	100.00
Kieler Stadtentwicklungs- und Sanierungsgesellschaft mbH	Kiel	94.95
Kieler Wohnungsbaugesellschaft mit beschränkter Haftung	Kiel	94.90 [3)]
KKS Projektentwicklung GmbH	Berlin	94.80
KWG Grundbesitz CI GmbH & Co. KG	Berlin	99.90 [2)]
KWG Grundbesitz CIII GmbH & Co. KG	Berlin	95.41 [2)]
KWG Grundbesitz I Verwaltungs GmbH	Berlin	100.00
KWG Grundbesitz III GmbH	Berlin	100.00
KWG Grundbesitz IX GmbH	Berlin	100.00
KWG Grundbesitz VI GmbH	Berlin	100.00
KWG Grundbesitz VII GmbH	Berlin	100.00
KWG Grundbesitz VIII GmbH	Berlin	100.00
KWG Grundbesitz X GmbH	Berlin	100.00
KWG Immobilien GmbH	Berlin	100.00
KWG Kommunale Wohnen GmbH	Berlin	92.97
KWG Wohnwert GmbH	Glauchau	100.00
LEMONDAS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
LEVON Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
Liegenschaften Weißig GmbH	Dresden	94.75
Lithinos Immobilien Invest GmbH	Vienna/AT	100.00
MAKANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
MANGANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
Mariahilferstraße 156 Invest GmbH	Vienna/AT	100.00
MELCART Grundstücks-Verwaltungsgesellschaft mbH	Grünwald	94.80
„MEZ“ – Vermögensverwaltungs Gesellschaft m.b.H.	Vienna/AT	100.00
MIRA Grundstücksgesellschaft mbH	Düsseldorf	94.90
MIRIS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
My-Box Debrecen Inglatian-Fejlesztö Kft Cg.	Budapest/HU	100.00
Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG	Berlin	94.99
NILEG Immobilien Holding GmbH	Hanover	100.00
NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover	94.86
Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung	Osnabrück	94.09
PI Immobilien GmbH	Vienna/AT	100.00
Prima Wohnbauten Privatisierungs-Management GmbH	Berlin	100.00 [3)]
Projektgesellschaft Kreiller Str. 215 mbH	Berlin	94.80
Projektgesellschaft Nymphe 82 mbH	Berlin	100.00

Company	Company domicile	Interest %
Radetzkystraße 15+17, 1030 Vienna, WEG Besitz GmbH	Vienna/AT	100.00
RESAG Property Management GmbH	Vienna/AT	100.00
RG Immobilien GmbH	Vienna/AT	100.00
Roßauer Lände 47–49 Liegenschaftsverwaltungs GmbH	Vienna/AT	100.00
RSTE Objektgesellschaft Wohnanlagen für Chemnitz mbH	Wuppertal	94.73
RVG Rheinauhafen Verwaltungsgesellschaft mbH	Cologne	74.00
Schweizer Viertel Grundstücks GmbH	Berlin	94.74
„SHG" 6 Besitz GmbH	Vienna/AT	100.00
„Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.90
Stubenbastei 10 und 12 Immobilien GmbH	Vienna/AT	100.00
Süddeutsche Wohnen Gebäude GmbH	Stuttgart	100.00 3)
Süddeutsche Wohnen GmbH	Stuttgart	94.33 3)
Süddeutsche Wohnen Grundstücksgesellschaft mbH	Stuttgart	100.00 3)
Süddeutsche Wohnen Management Holding GmbH	Stuttgart	100.00 3)
SÜDOST WOBA DRESDEN GMBH	Dresden	94.90
SWG Siedlungs- und Wohnhausgesellschaft Sachsen GmbH	Berlin	100.00
Themelios Immobilien Invest GmbH	Vienna/AT	100.00
TP Besitz GmbH	Vienna/AT	100.00
TPI Immobilien Holding GmbH	Vienna/AT	100.00
TPI Tourism Properties Invest GmbH	Vienna/AT	96.00
„TPW" Immobilien GmbH	Vienna/AT	100.00
T-Unternehmensbeteiligung GmbH	Vienna/AT	100.00
UC ACQ. IRELAND DESIGNATED ACTIVITY COMPANY (in Liquidation)	Clonee/IRL	100.00
Ukrainskaia Comertsiina Nerukhomist LLC	Zaporizhzhia/UA	100.00
Verein „Social City"	Vienna/AT	100.00
Verimmo2 GmbH	Bochum	100.00 3)
Viterra Holdings Eins GmbH	Düsseldorf	100.00 3)
Viterra Holdings Zwei GmbH	Düsseldorf	100.00
Vonovia Eigentumsverwaltungs GmbH	Bochum	100.00 3)
Vonovia Elbe Berlin II GmbH	Nuremberg	94.90
Vonovia Elbe Berlin III GmbH	Nuremberg	94.90
Vonovia Elbe Berlin IV GmbH	Nuremberg	94.90
Vonovia Elbe Berlin VI GmbH	Nuremberg	94.90
Vonovia Elbe Dresden I GmbH	Nuremberg	94.90
Vonovia Elbe GmbH	Nuremberg	94.90
Vonovia Elbe Ost GmbH	Nuremberg	94.90
Vonovia Elbe Wannsee I GmbH	Nuremberg	94.90
Vonovia Elbe Wohnen GmbH	Bochum	100.00
Vonovia Energie Service GmbH	Bochum	100.00 3)
Vonovia Finance B. V.	Amsterdam/NL	100.00
Vonovia Immobilien Treuhand GmbH	Bochum	100.00 3)
Vonovia Immobilienmanagement GmbH	Bochum	100.00 3)
Vonovia Immobilienmanagement one GmbH	Frankfurt/Main	94.90 3)
Vonovia Immobilienmanagement two GmbH	Frankfurt/Main	94.90 3)

Company	Company domicile	Interest %
Vonovia Immobilienservice GmbH	Munich	100.00 [3]
Vonovia Kundenservice GmbH	Bochum	100.00
Vonovia Managementverwaltung GmbH	Nuremberg	100.00 [3]
Vonovia Mess Service GmbH	Essen	100.00 [3]
Vonovia Modernisierungs GmbH	Düsseldorf	100.00 [3]
Vonovia Operations GmbH	Bochum	100.00 [3]
Vonovia Pro Bestand Nord AG	Hamburg	100.00
Vonovia Pro Bestand Nord Invest GmbH	Hamburg	94.90
Vonovia Pro Bestand Nord Management GmbH	Hamburg	100.00
Vonovia Pro Bestand Nord Properties GmbH	Hamburg	94.90
Vonovia Pro Bestand Nord Real Estate GmbH	Berlin	94.90
Vonovia Pro Bestand Nord Realty GmbH & Co. KG	Hamburg	100.00 [2]
Vonovia Technischer Service Nord GmbH	Essen	100.00
Vonovia Technischer Service Süd GmbH	Dresden	100.00
Vonovia Wohnumfeld Service GmbH	Düsseldorf	100.00 [3]
Waldvilla Velden GmbH	Vienna/AT	100.00
WOBA DRESDEN GMBH	Dresden	100.00
WOBA HOLDING GMBH	Dresden	100.00
WOHNBAU NORDWEST GmbH	Dresden	94.90
Wohnungsbau Niedersachsen GmbH (WBN)	Hanover	94.85
Wohnungsgesellschaft Norden mit beschränkter Haftung	Hanover	94.88
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94.90
WZH WEG Besitz GmbH	Vienna/AT	100.00
12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG	Leipzig	0.02 [1]
At equity consolidated joint ventures		
Goudsmitplein Beheer B. V.	Baarn/NL	20.00
Möser GbR	Essen	50.00
Schaeffler-Areal 1. Liegenschaften GmbH	Bad Heilbrunn	30.00
Schaeffler-Areal 2. Liegenschaften GmbH	Bad Heilbrunn	30.00
Wolmirstedt GbR	Essen	50.00

Company	Company domicile	Interest %	Equity € k Dec. 31, 2016	Net income for the year € k Dec. 31, 2016
Hellerhof GmbH	Frankfurt/Main	13.17	74,669	6,787
VBW Bauen und Wohnen GmbH	Bochum	19.60	97,234	7,504

1) control on the basis of contractual and factual circumstances in accordance with IFRS 10
2) the unlimited liable Shareholder of this company is a company which is integrated in the financial consolidated statement
3) exemption according to Section 264 (3) HGB

Further Information about the Bodies

Management Board

The Management Board of Vonovia SE consisted of four members as of December 31, 2017.

Rolf Buch, Chairman of the Management Board

Function: Chief Executive Officer
Responsible for transactions, general counsel, HR management, auditing, corporate communications, sustainability and land management.

Appointments:
> GSB Gesellschaft zur Sicherung von Bergmannswohnungen mbH (Member of the Supervisory Board)
> D. Carnegie & Co AB (publ) (Non-executive Director)

Klaus Freiberg, Member of the Management Board

Function: Chief Operating Officer
Responsible for product management, IT, customer service, residential environment, technical caretaking services and the local rental business in the various regions (North, South, Southeast, East, Central, West).

Appointment:
> VBW Bauen und Wohnen GmbH (Deputy Chairman of the Supervisory Board)

Dr. A. Stefan Kirsten, Member of the Management Board

Function: Chief Financial Officer
Responsible for finance, investor relations, accounting, tax affairs and insurance

Appointments:
> AVW Versicherungsmakler GmbH (Member of the Supervisory Board)
> Jerónimo Martins SGPS S. A. (Non-executive Director)
> MOVENDO CAPITAL B. V. (Non-executive Director)
> SOCIEDADE Francisco Manuel dos Santos B. V. (Non-executive Director)

Gerald Klinck, Member of the Management Board

Function: Chief Controlling Officer
Responsible for controlling, property evaluation, central purchasing and Immobilien Treuhand.

Supervisory Board

The Supervisory Board currently consists of eleven members. In accordance with the Articles of Association, the election to be held at the Annual General Meeting on May 9, 2018 is to appoint a replacement for the twelfth mandate performed by Dr. Wulf H. Bernotat up until August 26, 2017.

Prof. Dr. Edgar Ernst

Chairman (since September 7, 2017)
President of the German Financial Reporting Enforcement Panel

Appointments:
> Deutsche Postbank AG (Member of the Supervisory Board)
> TUI AG (Member of the Supervisory Board)
> METRO AG (Member of the Supervisory Board)

Burkhard Ulrich Drescher

Managing Director of InnovationCity Management GmbH

Appointment:
> STEAG Fernwärme GmbH (member of the Advisory Board)

Dr. Florian Funck

Member of the Management Board of Franz Haniel & Cie. GmbH

Appointments:
> METRO AG (Member of the Supervisory Board)
> TAKKT AG (Member of the Supervisory Board)
> CECONOMY AG (Member of the Supervisory Board

Dr. Ute Geipel-Faber

Self-employed management consultant

Appointment:
> Bayerische Landesbank (Member of the Supervisory Board)

Hendrik Jellema

Chairman of Stiftung Berliner Leben

Appointment:
> Wohnraumversorgung Berlin – AöR (Member of the Specialist Advisory Board)

Daniel Just

Chairman of Bayerische Versorgungskammer

Appointments:
> RREEF Investment GmbH (Deputy Chairman of the Supervisory Board)
> Universal Investment GmbH (Member of the Supervisory Board)
> GLL Real Estate Partners GmbH (Member of the Supervisory Board

Hildegard Müller

Member of the Management Board of innogy SE

Appointments:
> Dortmunder Energie- und Wasserversorgung GmbH (Member of the Supervisory Board)
> envia Mitteldeutsche Energie AG (Member of the Supervisory Board)
> NEW AG (1st Deputy Chair of the Supervisory Board)
> rhenag Rheinische Energie AG (Deputy Chair of the Supervisory Board)
> Süwag Energie AG (Member of the Supervisory Board)
> Stadtwerke Essen AG (2nd Deputy Chair of the Supervisory Board)
> EWG – Essener Wirtschaftsförderungsgesellschaft mbH (Deputy Chair of the Supervisory Board)

Prof. Dr. Klaus Rauscher

Self-employed management consultant

Appointments:
> Drägerwerk AG & Co. KGaA
(Member of the Supervisory Board)
> Dräger Safety GmbH
(Member of the Supervisory Board)
> Drägerwerk Verwaltungs AG
(Member of the Supervisory Board)

Dr. Ariane Reinhart

Member of the Management Board of Continental AG

Clara-Christina Streit

Self-employed management consultant

Appointments:
> NN Group N. V. (Member of the Supervisory Board since June 1, 2017)
> Jerónimo Martins SGPS, S. A.
(Member of the Administrative Board)
> UniCredit S. p. A. (Member of the Administrative Board)
> Vontobel Holding AG (Member of the Administrative Board)

Christian Ulbrich

Global CEO & President Jones Lang LaSalle Incorporated
Member of the Board of Directors of Jones Lang LaSalle Incorporated

Members Who Left the Supervisory Board

Dr. Wulf H. Bernotat

Chairman (until August 26, 2017)
Former CEO of E.ON AG

Independent Auditor's Report

To Vonovia SE, Bochum (until October 10, 2017: Düsseldorf)

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Vonovia SE, Bochum (until October 10, 2017: Düsseldorf) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined group management report of Vonovia SE for the financial year from January to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the non-financial statement which is included in a separate section of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

> the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the non-financial statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as „EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the „Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of investment properties located in Germany

Please refer to notes 5, 8 and 21 to the consolidated financial statements as well as the chapter on opportunities and risks in the combined management report.

Financial Statement Risk

Investment properties in the amount of € 33.2 billion are reported in the consolidated financial statements of Vonovia as of December 31, 2017. Of this amount, € 32.4 billion is attributable to properties located in Germany (hereinafter referred to as: German portfolios). Vonovia measures investment properties at fair value in accordance with IAS 40 in conjunction with IFRS 13. In the year under review, increases in fair value of € 3.4 billion were recognized in the consolidated statement of profit or loss and other comprehensive income.

Vonovia determines the fair values of German portfolios by using an internal valuation model. The fair values are determined by means of a discounted cash flow (DCF) method based on homogeneous valuation units of commercially related and comparable land and buildings. In addition, an independent valuer provides an appraisal, which is used to verify the internal measurements.

Numerous assumptions and parameters relevant to measurement are used for the measurement of investment properties, which is complex and subject to considerable estimation uncertainties and judgments. Even minor changes in the assumptions and parameters relevant to measurement may have a material effect on the resulting fair value. The most significant assumptions and parameters in the year under review were market rents, including the expected trend in rental rates, and discount/capitalization rates. When determining the trend of discount/capitalization rates, Vonovia also takes into account the difference in dynamic of movements in real estate prices compared to rental rates (yield compression).

Due to existing estimation uncertainties and judgments, there is the risk for the consolidated financial statements that the fair values of properties located in Germany are not within a reasonable range.

Moreover, there is the risk for the consolidated financial statements that the disclosures on investment properties in the notes required pursuant to IAS 40 and IFRS 13 are incomplete and inadequate.

Our Audit Approach

Through involvement of our own property valuation expert, we assessed the accuracy and completeness of the German property portfolio data used by applying a control-based audit approach. In addition, we particularly assessed the internal measurement method with a view to compliance with IAS 40 in conjunction with IFRS 13, the homogeneity of defined valuation units and the appropriateness of the assumptions and parameters used for measurement. We also used external market data to assess the assumptions and parameters used for measurement, such as the discount/capitalization rates applied, market rents and expected trend in rental prices per square meter as well as planned maintenance per square meter.

Based on partially representative and partially selective sampling of German portfolio valuation units in accordance with risk, we conducted on-site visits to assess the condition of the various properties. We verified the valuations conducted by Vonovia by comparing them with our own calculations based on the standardized capitalization model pursuant to the German Real Estate Appraisal Regulation [ImmoWertV].

We were satisfied with the qualification and objectivity of the external valuer commissioned by Vonovia, audited the valuation method used for the appraisal with regard to compliance with IAS 40 in conjunction with IFRS 13, assessed the material assumptions and parameters for measurement, and compared the external appraisal with the internal measurements (valuation).

We also assessed the completeness and adequacy of disclosures on investment properties required in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13.

Our Observations
The valuation method implemented by Vonovia is appropriate and suitable for measuring fair value in compliance with IFRS. The assumptions and parameters used for valuation of the investment properties are appropriate. The disclosures on investment properties in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13 are complete and appropriate.

Impairment testing of goodwill

Please refer to notes 5 and 19 to the consolidated financial statements as well as the chapter on opportunities and risks in the combined management report.

Financial Statement Risk
Goodwill in the amount of € 2.6 billion is reported in the consolidated financial statements of Vonovia as of December 31, 2017. Goodwill is allocated pursuant to IAS 36 to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. At Vonovia, these are the regional business divisions in the Rental segment and Value-add Business segment.

Vonovia conducts impairment testing of the goodwill recognized annually during the fourth quarter of the financial year. For each group of cash-generating units, the carrying amount of the unit (including the goodwill) is compared with the recoverable amount of the unit. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Vonovia determines value in use by applying a complex calculation model based on a DCF method. In this regard, determination of the discount rate (WACC) is the primary source of judgment apart from cash flow forecasts. As even minor changes in WACC may have a material effect on the recoverable amount, the measurement of goodwill is associated with considerable estimation uncertainties.

In the Rental segment, yield compression (i. e. the difference in dynamic of real estate prices compared to rental rates) had a material effect on the value of goodwill, as the carrying amounts of investment properties (which rose faster relative to the projected cash flows) reduced the headroom between value in use and the carrying amounts of the groups of cash-generating units. In financial year 2017, the appreciation in value of investment properties and associated increase in the carrying amounts of all groups of cash-generating units resulted in a reduction in headroom. In Region East, this leads to an impairment loss on goodwill in the amount of € 337.3 million.

There is the risk for the consolidated financial statements that the impairment loss as of the reporting date is not recognized in the amount required. There is also the risk that the related disclosures in the notes are not appropriate.

Our Audit Approach
Through involvement of our own valuation experts, we also assessed the adequacy of Vonovia's calculation model and reconciled the expected future cash flows assigned to the model to the detailed plan derived from the five-year plan adopted by the Executive Board and Supervisory Board and assessed the plausibility of these assumptions based on industry-specific market assessments. We also assessed the quality of forecasts used for planning in the past by comparing the target figures with actual figures and analyzing the deviations.

As value in use for the regional business divisions of the Rental segment is based to a considerable degree on cash flow forecasts beyond the five-year planning horizon (period of perpetuity), we particularly evaluated capitalized maintenance per square meter of living space as well as the sustainable growth rate used for the period of perpetuity with a view to regional differences in the various business divisions based on external market assessments.

With regard to the WACCs determined by Vonovia, we assessed the individual assumptions and parameters used in detail on the basis of available market data and also critically evaluated them as a whole compared to similar companies in the real estate sector. Due to the material effect of even minor changes in WACC, we focused in particular on the sensitivity analyses conducted by Vonovia as another key audit matter and verified whether impairment losses would arise with the change of individual WACC assumptions and parameters within an expected range.

We verified (recalculated) the value in use determined by Vonovia using Region East as an example and compared it with the carrying amount.

Finally, we assessed whether the disclosures in the notes regarding impairment of goodwill are appropriate. This also included an assessment of the appropriateness of disclosures in the notes on sensitivity in the event of a reasonably possible changes in key assumptions and parameters used for measurement.

Our Observations

The calculation model used for impairment testing of goodwill is appropriate and in line with the accounting policies to be applied. The Company's assumptions and parameters used for measurement are within an acceptable range and are balanced as a whole. The disclosures in the notes on impairment-testing of goodwill are appropriate.

Identification and measurement of assets and liabilities acquired in the course of acquisition of the conwert Group

See notes 2, 3 and 5 to the consolidated financial statements.

Financial Statement Risk

In financial year 2017, Vonovia SE acquired all shares in conwert Immobilien Invest SE (since December 22, 2017: conwert Immobilien Invest GmbH; hereinafter referred to as ‚conwert'), Vienna, Austria, as part of a public tender offer followed by a squeeze-out. The consideration transferred on the date of acquisition was € 1,532.8 million. Taking into account the acquired net assets of € 1.300,9 million, goodwill amounts to € 231.9 million.

The acquired identifiable assets and assumed liabilities are usually recognized at fair value pursuant to IFRS 3 on the date of acquisition. Vonovia consulted an independent expert for determining and measuring the identifiable assets acquired and liabilities assumed.

The identification and measurement of assets acquired and liabilities assumed is complex and based on assumptions of the Executive Board that require judgment. When determining fair value, there is considerable scope for judgment with regard to the measurement of investment properties, which requires judgments and estimates by management.

There is the risk for the financial statements that the assets acquired and liabilities assumed are identified improperly or measured inaccurately. There is also the risk that the disclosures in the notes to the consolidated financial statements are not complete and accurate.

Our Audit Approach

By involving our valuation experts, we have also assessed the appropriateness of key assumptions and parameters as well as the identification and calculation methods used. To that end, we first gained an understanding of the acquisition by consulting the Executive Board and relevant members of staff, both of Vonovia and conwert, and by assessing the public tender offer. To gain further insights into the business activities as well as economic and legal environment of conwert, we had a discussion with the previous year's auditor. In addition, we assessed the process of identification of assets acquired and liabilities assumed in view of our sector knowledge for compliance with the requirements of IFRS 3.

We assessed the competence, professional skills and impartiality of the independent expert engaged by Vonovia. Our other audit procedures focused in particular on the identification of value determinants for the investment properties to be determined, mainly market rents and the expected trend in rental rates, the maintenance costs used and discount/capitalization rates, and also the complete recognition and measurement of non-derivative and derivative financial liabilities. We investigated the measurement methods used for their compliance with the accounting policies.

Finally, we assessed whether the disclosures in the notes regarding the acquisition of conwert are complete and accurate.

Our Observations

The approach used for identifying and measuring the assets acquired and liabilities assumed is appropriate and in line with the accounting policies to be applied. The key assumptions and parameters are appropriate and they are completely and properly presented in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

> the non-financial statement and
> the remaining parts of the annual report, with the exception of the audited consolidated finan-cial statements and combined management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

> is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
> otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [and supplementary compliance with the ISAs] will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

> Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

> Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

> Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

> Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

> Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on May 16, 2017. We were engaged by the supervisory board on October 4, 2017. We have been the group auditor of Vonovia SE without interruption since the Company's IPO in financial year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Martin C. Bornhofen.

Düsseldorf, Germany, March 2, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer	Bornhofen
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

"To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the combined Group management report includes a fair view of the business development including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remainder of the fiscal year."

Bochum, Germany, February 26, 2018

Rolf Buch
(CEO)

Klaus Freiberg
(COO)

Dr. A. Stefan Kirsten
(CFO)

Gerald Klinck
(CCO)

EPRA Reporting

Vonovia SE has been a member of EPRA since 2013. The eponymous 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. Its mission is to raise awareness of European listed real estate companies as a potential investment destination that offers an alternative to conventional investments.

In order to make it easier to compare real estate companies and to reflect special features that apply to the real estate sector, EPRA has developed a framework for standardized reporting that goes beyond the scope of the IFRS.

Vonovia reports the EPRA key figures based on the EPRA Best Practice Recommendations (BPRs). Vonovia only uses some of the EPRA key figures as performance indicators, which is why they are reported outside of the report on economic position. They are non-GAAP measures.

We would like to point out that the EPRA BPRs refers generally to both residential and commercial real estate companies. Vonovia's business model is based primarily on renting out homes and offering housing-related services. Unlike companies with a commercial portfolio and, as a result, a relatively small number of properties, Vonovia's portfolio features a large number of fairly similar units. This means that it does not make sense for a company specializing in residential real estate to report much of the information recommended in the EPRA BPRs, which focuses in particular on significant individual properties.

This is why, with regard to the current real estate portfolio, we have opted not to report an analysis of lease expiration profile (the lease agreements tend to be concluded for an indefinite period), the estimated market rent upon the expiry of the lease or the ten biggest tenants in terms of rental income.

When it comes to real estate development, too, an area that can be taken to include Vonovia's new apartment construction area, the resulting properties tend, as in the existing portfolio, to be fairly similar residential units on the whole. As a result, we do not publish separate information on individual large properties. In general, the development projects are executed on the company's own land and do not involve third-party owners.

EPRA Key Figures

in € million			2016	2017	Change in %
EPRA Performance Measure	Definition	Target			
EPRA Earnings	Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	450.0	573.1	27.4
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and exclude certain items not expected to crystallize in a long-term investment property business model.	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.	17,047.1	21,284.6	24.9
EPRA NNNAV	EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	12,034.4	14,657.5	21.8
EPRA Net Initial Yield in %	Annualized rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	4.1	3.7	-0.4 pp
EPRA Topped-up Net Initial Yield in %	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).		4.1	3.7	-0.4 pp
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, based on ERV.	2.2	2.3	+0.1 pp
EPRA Cost Ratio Incl. Direct Vacancy Costs in %	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	28.4	26.2	-2.2 pp
EPRA Cost Ratio Excl. Direct Vacancy Costs in %	Administrative & operating costs (excluding costs of direct vacancy) divided by gross rental income.		27.0	24.7	-2.3 pp

EPRA Earnings

The EPRA Earnings is a measure of the operating result. It indicates the extent to which current dividend payments are supported by the operating result. Based on the profit for the period, adjustments are made to reflect changes in the value of assets and liabilities affecting net income, and to reflect sale effects and costs for acquisition/integration.

As far as company-specific adjustments are concerned, prior-year and non-recurring interest expenses, depreciation and amortization, other non-recurring items and taxes that do not correspond to current income taxes are eliminated. The adjusted earnings correspond to FFO 1. This was up by 21.0% in a year-on-year comparison. The Rental and Value-add Business segments contributed to this development.

As there were no diluting financial instruments on the reporting dates, the undiluted EPRA earnings equals the diluted figure.

in € million	2016	2017	Change in %
Earnings per IFRS income statement	2,512.9	2,566.9	2.1
Changes in value of investment properties, development properties held for investment and other interests	-3,236.1	-3,434.1	6.1
Profits or losses on disposal of investment properties, development properties held for investment and other interests	-102.2	-151.5	48.2
Selling costs	27.7	30.1	8.7
Tax on profits or losses on disposals	29.5	19.2	-34.9
Goodwill impairment	–	337.3	–
Changes in fair value of financial instruments and associated close-out costs	98.8	20.4	-79.4
Acquisition costs*	48.3	48.1	-0.4
Deferred tax in relation to EPRA adjustments	1,071.1	1,136.7	6.1
EPRA earnings	450.0	573.1	27.4
EPRA earnings per share in €**	0.97	1.18	22.3
Adjustments other non-recurring items	46.2	38.8	-16.0
Adjustment depreciation and amortization	27.0	34.9	29.3
Adjustments of prior-year/one time interest expense	1.9	5.4	184.2
Adjustments for other deferred/prior-year taxes	235.7	268.6	14.0
Adjusted earnings (FFO 1)	760.8	920.8	21.0
Adjusted earnings (FFO 1) per share in €*	1.63	1.90	16.3

* Figures for the previous year shown in line with the current reporting standards for 2017
** Based on the shares carrying dividend rights on the reporting date: Dec. 31, 2016: 466,000,624, Dec. 31, 2017: 485,100,826

NAV/NNNAV

The presentation of the NAV based on the EPRA definition aims to show the net asset value in a long-term business model. The total equity attributable to Vonovia's shareholders is adjusted to reflect the deferred taxes on investment properties/assets held for sale, the fair value of derivative financial instruments and the deferred taxes on derivative financial instruments. In order to boost transparency, an adjusted NAV, which involves eliminating goodwill in full, is also reported.

The EPRA NNNAV is designed to show the net asset value of a real estate company, taking the current market values of assets and liabilities into account.

in € million	Dec. 31, 2016	Dec. 31, 2017	Change in %
Equity attributable to Vonovia`s shareholders	12,467.8	15,080.8	21.0
Deferred taxes on investment properties/assets held for sale	4,550.3	6,185.7	35.9
Fair value of derivative financial instruments*	44.4	26.9	-39.4
Deferred taxes on derivative financial instruments	-15.4	-8.8	-42.9
EPRA NAV	17,047.1	21,284.6	24.9
Goodwill	-2,718.9	-2,613.5	-3.9
Adjusted NAV	14,328.2	18,671.1	30.3
EPRA NAV per share in €**	36.58	43.88	19.9
Adjusted NAV per share in €**	30.75	38.49	25.2

in € million	Dec. 31, 2016	Dec. 31, 2017	Change in %
EPRA NAV	17,047.1	21,284.6	24.9
Fair value of derivative financial instruments*	-44.4	-26.9	-39.4
Fair value of financial liabilities	-647.8	-632.7	-2.3
Deferred taxes on derivative financial instruments	15.4	8.8	-42.9
Deferred taxes on fair value of financial liabilities	214.4	209.4	-2.3
Deferred taxes on investment properties/assets held for sale	-4,550.3	-6,185.7	35.9
EPRA NNNAV	12,034.4	14,657.5	21.8
EPRA NNNAV per share in €**	25.82	30.22	17.0

* Adjusted for effects from cross currency swaps
** Based on the shares carrying dividend rights on the reporting date: Dec. 31, 2016: 466,000,624, Dec. 31, 2017: 485,100,826

EPRA Net Initial Yield

The EPRA net initial yield shows the ratio of annualized rental income minus property outgoings (annualized net rent) to the gross fair values of the properties. The fair values are increased by the estimated purchasers’ costs.

The topped-up net initial yield eliminates the rental incentives in the annualized net rent. Rental incentives are of only minor importance to a company specializing in residential properties.

in € million	2016	2017	Change in %
Investment properties	26,980.3	33,182.8	23.0
Assets held for sale	61.6	142.6	131.5
Fair value of the real estate portfolio (net)	27,041.9	33,325.4	23.2
Allowance for estimated purchasers' costs	2,229.8	2,712.0	21.6
Fair value of the real estate portfolio (gross)	29,271.7	36,037.4	23.1
Annualized cash passing rental income	1,535.0	1,655.9	7.9
Property outgoings	-332.3	-314.9	-5.2
Annualized net rents	1,202.7	1,341.0	11.5
Adjustments for rental incentives	2.8	2.6	-7.1
Topped-up net annualized rent	1,205.5	1,343.6	11.5
EPRA net initial yield in %	4.1	3.7	-0.4 pp
EPRA topped-up net initial yield in %	4.1	3.7	-0.4 pp

ERPRA Vacancy Rate

The calculation of the EPRA vacancy rate is based on the ratio of the estimated market rent for the vacant residential properties to the estimated market rent of the residential property portfolio, i. e., the vacancy rate shown in the Rental chapter is valued based on the market rent for the residential properties.

The EPRA vacancy rate came to 2.3% at the end of 2017, virtually level with the prior-year value of 2.2%, with around 1 percentage point attributable to construction-related vacancies due to our extensive investment program.

in € million	2016	2017	Change in %
Market rent of vacant apartments	36.9	41.5	12.5
Market rent of residential property portfolio	1,658.1	1,805.3	8.9
EPRA vacancy rate in %	2.2	2.3	+0.1 pp

EPRA Cost Ratio

The EPRA cost ratio (EPRA costs to gross rental income) provides information on the cost efficiency of a real estate company. Adjustments are made to reflect ground rent and direct vacancy costs. This means that, in principle, the EPRA cost ratio expresses the same information as the EBITDA margin.

in € million	2016	2017	Change in %
Operating expenses	244.5	259.9	6.3
Maintenance expenses	247.4	258.0	4.3
Adjusted EBITDA Value-add Business	-57.0	-102.1	79.1
Adjusted EBITDA Other	9.2	27.9	203.3
Ground rent costs	-9.3	-9.3	-
EPRA Costs (including direct vacancy costs)	434.8	434.4	-0.1
Direct vacancy costs	-22.4	-24.4	8.9
EPRA Costs (excluding direct vacancy costs)	412.4	410.0	-0.6
Rental Income	1,538.1	1,667.9	8.4
Ground rent costs	-9.3	-9.3	-
Gross rental income	1,528.8	1,658.6	8.5
EPRA Cost ratio (including direct vacancy costs) in %	28.4	26.2	-2.2 pp
EPRA Cost ratio (excluding direct vacancy costs) in %	27.0	24.7	-2.3 pp

Property-related Capital Expenditures

The table below provides an overview of the property-related capital expenditures made by the company throughout the fiscal year.

In the "acquisitions" category, the previous year was largely characterized by the addition of the GRAINGER portfolio. In 2017, the main impact came from the conwert acquisition.

The increase in investments in the like-for-like portfolio from € 518.8 million in 2016 to € 771.8 million in 2017 reflects our move to step up our modernization program.

in € million	2016	2017	Change in %
Acquisitions	290.9	2.711.1	832.0
Development	13.9	65.7	372.7
Like-for-like portfolio	518.8	771.8	48.8
Other	–	–	–
Property-related capital expenditures	823.6	3,548.6	330.9

Like-for-like Rent Increases

The following tables provide an overview of the like-for-like rent increases in the company's residential property portfolio.

Dec. 31, 2017	Residential units	Living area (in thou. m²)	Residential in-place rent (p. a. in € million)	Residential in-place rent like-for-like*		
				Dec. 31, 2016 (in €/m²)	Dec. 31, 2017 (in €/m²)	Change (in %)
Strategic	319,014	19,817	1,470	6.08	6.34	4.2
Operate	101,697	6,311	484	6.29	6.55	4.2
Invest	217,317	13,507	986	5.99	6.24	4.2
Privatize	14,099	976	69	6.00	6.12	2.0
Sell	11,473	737	40	4.83	4.91	1.8
Total	**344,586**	**21,530**	**1,580**	**6.04**	**6.29**	**4.1**

* The underlying portfolio has a fair value of € 29,240.8 million.

Regional Market	Residential units	Living area (in thou. m²)	Residential in-place rent (p. a. in € million)	Residential in-place rent like-for-like*		
				Dec. 31, 2016 (in €/m²)	Dec. 31, 2017 (in €/m²)	Change (in %)
Berlin	38,664	2,449	184	6.02	6.26	3.9
Rhine Main Area	27,921	1,781	162	7.42	7.71	3.8
Rhineland	29,753	1,992	159	6.65	6.90	3.8
Southern Ruhr Area	43,900	2,682	176	5.43	5.65	4.1
Dresden	38,563	2,193	148	5.47	5.78	5.7
Hamburg	16,534	1,048	85	6.55	6.85	4.6
Munich	9,708	639	59	7.50	7.70	2.6
Stuttgart	14,152	891	79	7.36	7.53	2.4
Northern Ruhr Area	26,532	1,640	102	5.19	5.38	3.6
Hanover	14,592	926	67	5.88	6.18	5.2
Kiel	13,801	802	55	5.49	5.81	5.7
Bremen	11,905	722	45	5.27	5.44	3.2
Leipzig	9,174	588	39	5.61	5.75	2.6
Westphalia	9,471	613	41	5.41	5.63	4.1
Freiburg	4,048	277	23	6.73	6.98	3.8
Other Strategic Locations	23,172	1,464	110	6.12	6.39	4.5
Total strategic locations	**331,890**	**20,705**	**1,534**	**6.08**	**6.33**	**4.1**

* The underlying portfolio has a fair value of € 28,683.1 million.

EPRA Best Practices Recommendations on Sustainability Reporting (sBPR)

In the area of sustainability, EPRA has also developed a standard that makes the environmental performance of real estate companies measurable and comparable and takes real estate-specific features into account.

In June 2017, Vonovia published its second Sustainability Report on the 2016 fiscal year. As in the previous year, Vonovia reports its key consumption and emissions figures in accordance with the Best Practice Recommendations on Sustainability Reporting (sBPR). In our last Sustainability Report, we were able to considerably expand the reporting on our key environmental figures – the Report received a Silver Award from EPRA. The key energy consumption and CO_2 figures for our portfolio are based on the consumption of resources in rented areas which is, in turn, calculated on the basis of statements prepared by the utilities companies. In some cases, the billing periods are very long and depend on numerous suppliers, meaning that the required statements are not yet available at the time the 2017 Annual Report is published and can only be published in the next Sustainability Report. This is why we refer to the key figures for 2016 in this chapter.

The 2017 Sustainability Report will be published in June 2018.

Environmental Performance Measures

Energy Consumption in Business Operations

The environmental key figures for Vonovia's business operations include the vehicle fleet (fuel consumption) and the head office in Bochum (electricity consumption and heating). We are planning to also include the energy consumption of our two customer service centers in Duisburg and Dresden in the next reporting period. This will enable us to expand the underlying data for our business operations even further. We do not have any figures on energy consumption at the customer service centers at the moment.

Energy Consumption in Business Operations

Key Figures	Unit	2015	2016	EPRA	GRI Standards
Energy Consumption for Vonovia's Business Operations					
Total energy consumption*	MWh	50,603.4	59,977.1	–	302-1
Fuel consumption					
Total fuel consumption**	MWh	44,975.2	54,284.6		
Gasoline	MWh	2,156.2	2,465.8		
Diesel	MWh	42,819.0	51,818.8	Fuels-Abs	302-1
Indirect energy					
Total indirect energy***	MWh	5,628.3	5,692.5	–	
Total electricity consumption	MWh	2,523.0	2,424.1	Elec-Abs	
Total heating systems****	MWh	3,105.3	3,268.4	DH&C-Abs	302-1
Energy intensity***	MWh/m²	0.27	0.27	Energy-Int	302-3 CRE1

* The electricity produced by the cogeneration units and PV installations is fed into the grid. Vonovia does not sell any electricity.
** Fuel consumption relates exclusively to the Vonovia vehicle fleet. No fuels from renewable sources were used.
*** The consumption of indirect energy and energy intensity relates exclusively to the company headquarters in Bochum (21,200 m² net floor space).
**** The heating boiler facility of the main administration building is operated by ENGIE Deutschland GmbH. Vonovia purchases this heat (from natural gas) using a contracting model.

Key Figures	Unit	2015	2016	EPRA	GRI Standards
CO_2 Emissions from Vonovia's Business Operations					
Direct CO_2-emissions (Scope 1)					

Total direct CO_2 emissions*	t CO_2	11,974.4	14,453.4		
Gasoline	t CO_2	567.4	648.9		
Diesel	t CO_2	11,407.0	13,804.5	GHG-Dir-Abs	305-1
Indirect CO_2 emissions (Scope 2)					
Total indirect CO_2 emissions**	t CO_2	1,974.7	1,954.6		
from electricity consumption	t CO_2	1,349.8	1,296.9		
from heating systems	t CO_2	624.9	657.7	GHG-Indir-Abs	305-2
CO_2 emissions per square meter	t CO_2/m^2	0.09	0.09	GHG-Int	305-4 CRE3

* Direct CO2 emissions relate exclusively to the vehicle fleet. The increase in CO2 emissions from the vehicle fleet is attributable to the 25 % increase in the size of the vehicle fleet. Source of the GHG emission factors: German Federal Environment Agency (UBA) 2016; greenhouse gases included: CO2

** Indirect CO2 emissions and the intensity of emissions relate exclusively to the company headquarters in Bochum (21,200 m² net floor space). Source of the GHG emission factors: German Federal Environment Agency (UBA) 2016; greenhouse gases included: CO2

Key Figures	Unit	2015	2016	EPRA	GRI Standards
Water and Wastewater from Vonovia's Business Operations					
Total water usage*	m^3	11,598	11,098	Water-Abs	303-1
Water intensity of buildings	m^3/m^2	0.55	0.52	Water-Int	CRE2
Total wastewater discharges*	m^3	9,996.0	11,089	–	306-1

* Water consumption relates exclusively to the company headquarters in Bochum, billing period Feb. 17, 2016 to Feb. 23, 2017. Vonovia obtains water for its headquarters exclusively from the municipal supply. All wastewater is drained into the public sewage system. Consumption acc. to annual real property tax assessment notice issued by the city of Bochum.

Key Figures	Unit	2015	2016	EPRA	GRI Standards
Waste and Recycling within the Scope of Vonovia's Business Operations					
Non-hazardous waste	t	74.2	71.5		
Recycling	t	36.8	36.8		
Residual waste	t	37.4	34.7	Waste-Abs	306-2

The waste key figures relate exclusively to the company headquarters in Bochum. Hazardous waste is generated during our renovation work. The precise amount is not recorded, however.

Energy Consumption of Our Portfolio

Unless otherwise indicated, the key figures relate to 100 % of the rented units (ru), comprising 360,513 residential and commercial units (2015) and 333,381 residential and 3,405 commercial units (2016). The relative key figures (intensity figures) are provided for each rented unit. This unit has been selected since the square meter figures for the communal areas are not available and it is not possible to divide up consumption between the living and communal areas. Since Vonovia's apartments are very similar in terms of their size and fittings, this reference value enables comparability over a multiple-year period.

						Like-for-like (LfL)			
Key Figures	Unit	2015	2016	EPRA	GRI Standards	2015	2016	Scope	EPRA
Energy Consumption of Our Portfolio									
Total energy consumption*	MWh	1,807,785.0	1,963,606.1	–	302-1	–	–	–	–
Total energy intensity	MWh/rented unit	5.01	5.83			–	–	–	–
Intensity of common areas (electricity)	MWh/rented unit	0.13	0.15			–	–	–	–
Intensity in the rented units (natural gas, heating oil, disctrict heating)*	MWh/rented unit	4.88	5.68	Energy-Int	302-3	–	–	–	–
Energy Consumption in Common Areas									
Total electricity consumption	MWh	47,100.0	51,600.0**			28,049.3	27,321.5**	161.780 ru	
of which from non-renewable resources***	MWh	32,557.4	28,806.7			–	–	–	
	%	69,1	55,8			–	–	–	
of which renewable resources***	MWh	14,542.6	22,793.3			–	–	–	
	%	30,9	44,2			–	–	–	
Middle region	MWh	–	7,298.3			5,171.7	5,141.2	34,117 ru	
North region	MWh	–	9,243.7			7,091.4	6,568.8	34,605 ru	
East region	MWh	–	5,707.5			2,364.3	2,344.8	11,024 ru	
South region	MWh	–	7,720.9			4,379.9	4,258.8	20,954 ru	
Southeast region	MWh	–	606.4			553.9	533.3	4,242 ru	
West region	MWh	–	13,068.1			8,487.2	8,292.1	56,837 ru	
Central region	MWh	–	43.8	Elec-Abs	302-1	1.0	1.0	1 ru	Elec-LfL

For the year 2015, the absolute electricity consumption figures relate to the communal areas for 360,513 rented units (100 %, residential and commercial) and for 2016 to the communal areas comprising 333,381 residential units (100 %) and 3,405 commercial units (100 %).

* The absolute figures for 2015 and 2016 are not directly comparable due to the inexact consumption figures for 2015, particularly due to the merger with GAGFAH. Even after the complete consolidation of the old GAGFAH, retrospective recalculation was not possible due to the lack of data. Accordingly, the figures will only be comparable from the next reporting year onward.

** In 2016, Vonovia purchased 51,600.0 MWh of electricity. Of this amount, 85 % was regionally allocated. This corresponds to approx. 243,583 rented properties. 100 % allocation is not possible, since a single electricity meter may supply two different buildings. The remaining 15 % is currently undergoing registration (mainly Southeast) and cannot therefore be regionally allocated at the present time.

A total of 161,780 rented units were included in the like-for-like assessment. This corresponds to approx. 48 % of the residential and commercial units in 2016.

*** For 67 % of electricity consumption, the figures were calculated on the basis of the energy mix of our largest electricity supplier. The remaining 33 % was calculated on the basis of the average figures for Germany in 2015 and 2016 provided by the German Working Group on Energy Balances (Arbeitsgemeinschaft Energiebilanzen e. V.).

Key Figures	Unit	2015	2016	EPRA	GRI Standards	Like-for-like (LfL) 2015	Like-for-like (LfL) 2016	Scope	EPRA
Energy Consumption in Rented Units									
Total energy consumption in rented units*	MWh	1,760,685.0	1,912,006.2	–		1,552,011.7	1,597,999.3	see natural gas, heating oil and district heating	–
Total fuels	MWh	1,220,685.0	1,205,006.1			1,117,706.4	1,145,598.0	see natural gas and heating oil	
of which from non-renewable sources	MWh	1,217,685.0	1,205,006.2			1,117,706.4	1,145,598.0	see natural gas and heating oil	
	%	99.75	100			100	100		
Natural gas	MWh	1,104,000.0	1,090,000.0			1,021,652.5	1,045,596.6	121,407 ru	
Middle region	MWh	–	206,382.1			197,821.3	202,457.6	22,776 ru	
North region	MWh	–	236,902.7			229,939.5	235,328.5	25,263 ru	
East region	MWh	–	70,633.8			68,234.1	69,833.2	9,459 ru	
South region	MWh	–	162,058.8			152,124.6	155,689.9	16,760 ru	
Southeast region	MWh	–	37,134.2			35,995.7	36,839.3	5,084 ru	
West region	MWh	–	349,861.2			337,537.2	345,448.0	42,065 ru	
Central region	MWh	–	1,654.2			–	–	–	
Heating oil	MWh	113,685.0	115,006.1			96,054.0	100,001.4	9,904 ru	
Middle region	MWh	–	15,324.1			14,719.2	15,324.1	1,497 ru	
North region	MWh	–	18,328.4			17,604.9	18,328.4	1,847 ru	
East region	MWh	–	27,063.7			25,995.4	27,063.7	2,787 ru	
South region	MWh	–	9,638.7			9,120.2	9,495.0	813 ru	
Southeast region	MWh	–	242.7			233.2	242.7	22 ru	
West region	MWh	–	29,613.3			28,381.1	29,547.5	2,938 ru	
Central region	MWh	–	–			–	–	–	
of which renewable sources (biogas)	MWh	3,000.0	–	Fuels-Abs		–	–	–	Fuels-LfL
	%	0.25	–			–	–	–	
of which disctrict heating*/**	MWh	540,000.0***	707,000.0			434,305.3	452,401.3	59,102 ru	
Middle region	MWh	–	46,644.5			44,778.7	46,644.5	5,625 ru	
North region	MWh	–	84,910.5			81,451.9	84,845.7	10,759 ru	
East region	MWh	–	64,481.7			61,902.4	64,481.7	8,455 ru	
South region	MWh	–	36,948.0			35,179.4	36,645.2	4,550 ru	
Southeast region	MWh	–	125,666.1			120,639.4	125,666.1	17,803 ru	
West region	MWh	–	96,530.9			90,353.4	94,118.1	11,910 ru	
Central region	MWh	–	–	DH&C-Abs	302-2	–	–	–	DH&C-LfL

The consumption figures for natural gas, heating oil and district heating relate to residential and commercial units. 2015: 360,513 rented units (100 %, residential and commercial); 2016: 333,381 residential units (100 %) and 3,405 commercial units (100 %).

Natural gas consumption (absolute) in 2015 and 2016 relates to consolidated consumption for all heating centers. 97 % of the total volume of natural gas consumption in MWh has been regionally allocated. The remaining 3 % is currently undergoing registration and cannot be regionally allocated at the present time. Overall, 122,814 rented units are supplied.

A total of 121,407 rented properties were included in the like-for-like assessment. This corresponds to 99 % of the rented units supplied with natural gas.

Heating oil consumption (absolute) in 2015 and 2016 relates to consolidated consumption for all heating centers. 87 % of the total volume of heating oil consumption in MWh has been regionally allocated. The remaining 13 % is currently undergoing registration and cannot be regionally allocated at the present time. Overall, 11,303 rented units are supplied with heating oil.

A total of 9,904 rented properties were included in the like-for-like assessment. This corresponds to 88 % of the rented units supplied with heating oil.

* The absolute figures for 2015 and 2016 are not directly comparable due to the inexact consumption figures for 2015, particularly due to the merger with GAGFAH. Even after the complete consolidation of the old GAGFAH, retrospective recalculation was not possible due to the lack of data. Accordingly, the figures will only be comparable from the next reporting year onward. The regional distribution of the district heating consumption (2016) was based on only on actual, not estimated, consumption.

** Extrapolation to total portfolio and district heating stations not yet registered, according to consumption figures available for registered stations per m² of living area. For 2015, an actual consumption figure of 270 GWh was extrapolated to the overall portfolio. The same procedure was followed for 2016, and an actual consumption figure of 455 GWh was extrapolated to the overall portfolio.

*** This figure has been adjusted by comparison with the previous year.

Key Figures	Unit	2015	2016	EPRA	GRI Standards	Like-for-like (LfL) 2015	Like-for-like (LfL) 2016	Scope	EPRA
CO_2 Emissions Resulting from the Portfolio									
Total CO_2 emissions	**t CO_2**	408,734.8	437,436.3	–	–	–	–	–	–
Total CO_2 intensity	**t CO_2/ rented unit**	1.13	1.30			–	–	–	–
CO_2 emissions common areas only (electricity)	t CO_2/ rented unit	0.07	0.07			–	–	–	–
CO_2 intensity in rented units (heating oil, natural gas, district heating)	t CO_2/ rented unit	1.07	1.23	GHG-Int	305-4	–	–	–	–
CO_2 Emissions In Communal Areas Only									
Total CO_2 emissions	**t CO_2**	**24,283.3**	**22,178.2**			135,157.3	114,238.1	see electricity	
from total electricity consumption	t CO_2	24,283.3	22,178.2	GHG-Indir-Abs	305-2	14,737.9	13,201.5	161,780 ru	GHG-Indir-LfL
CO_2 Emissions in rented units									
Total CO_2 emissions	t CO_2	384,451.4	415,258.1			235,422.0	241,391.4	see heating oil and natural gas	
of which from non-renewable sources	t CO_2	252,454.6	249,989.2			235,422.0	241,391.4	see heating oil and natural gas	
Natural gas	t CO_2	222,169.0	219,351.6			209,833.2	214,751.0	121,407 ru	
Heating oil	t CO_2	30,285.7	30,637.6			25,588.8	26,640.4	9,904 ru	
of which from renewable sources	t CO_2	978.3	–	GHG-Dir-Abs		–	–	–	GHG-Dir-LfL
Biogas	t CO_2	978.3	–			–	–	–	
of which from total district heating*	t CO_2	131,018.5	165,268.9	GHG-Indir-Abs	305-3	120,419.3	101,036.6	59,102 ru	GHG-Indir-LfL

Greenhouse gases included in calculation: CO2

Sources of emission factors: Heating oil, natural gas, biogas: German Federal Environment Agency, carbon dioxide emission factors for reporting of atmospheric emissions, 1990–2014

District heating: Bavarian Environment Agency, 2016 average for Germany (for 63.35 % of consumption) and data supplied by the energy utilities, according to proportion of consumption (32 %, 2015: 44.4 gCO2/kwh, 2016; 28.9 gCO2/kwh; 4.65 %, 2015: 262 gCO2/kwh, 2016: 178 gCO2/kwh)
Electricity: German electricity mix 2015, 335 gCO2/kWh (33 % of consumption), data provided by the largest energy utility, 2015: 506 gCO2/kwh, 2016: 378 gCO2/kwh).

* The figures for 2015 have been revised by comparison with the 2015 Sustainability Report, in line with current calculations, since the energy utilities' data was available this year. The figure for district heating was also corrected.

Key Figures	Unit	2015	2016	EPRA	GRI Standards	Like-for-like (LfL) 2015	Like-for-like (LfL) 2016	Scope	EPRA
Water Consumption for the Portfolio									
Total water used by rented units	m^3	19,038,074.4	20,586,447.6			14,916,773.7	15,137,395.5	141,691 ru	
Middle region	m^3	4,108,330.0	4,734,580.9			3,547,321.5	3,502,920.0	31,583 ru	
North region	m^3	3,243,625.9	2,535,374.5			1,670,166.0	1,737,979.5	21,331 ru	
East region	m^3	824,777.5	732,964.2			112,762.0	111,749.3	1,221 ru	
South region	m^3	1,820,074.4	2,164,516.8			1,617,364.4	1,651,500.8	21,962 ru	
Southeast region	m^3	394,943.4	728,242.6			92,153.3	90,963.9	1,471 ru	
West region	m^3	8,646,323.1	9,680,100.9			7,877,006.6	8,042,282.0	64,123 ru	
Central region	m^3	–	10,648.3	Water-Abs	303-1	–	–	–	Water-LfL
Water intensity	m^3/ rented unit	112,00	102,21	Water-Int	CRE2	–	–	–	–

For the calculation of the absolute key figures, 169,983 rented units were included for 2015 and 201,412 rented units for 2016 for which the water position and the wastewater position have been apportioned separately from one another on the basis of the ancillary costs bill. Consumption relates to the rentable and communal areas. Only consumption per delivery point can be registered. It is not possible to present rentable and communal areas separately.

Consumption in m^3 has been calculated on the basis of regional average prices per m^3. For this purpose, the average figures of the three largest utilities in each region were determined.

For the like-for-like assessment, 141,691 rented units were included for which the water position and the wastewater position are apportioned separately from one another on the basis of the ancillary costs bill. Consumption has been calculated analogously to the absolute figures. This corresponds to 42 % of the residential and commercial units in 2016.

Key Figures	Unit	2015	2016	EPRA	GRI Standards	Like-for-like (LfL) 2015	Like-for-like (LfL) 2016	Scope	EPRA
Wasterwater Volume for the Portfolio									
Total wastewater used by rented units	m^3	15,134,412.6	17,869,241.7			–	–	–	–
Middle region	m^3	3,460,747.3	3,975,200.1			–	–	–	–
North region	m^3	2,352,553.6	2,750,591.2			–	–	–	–
East region	m^3	159,247.0	538,408.4			–	–	–	–
South region	m^3	2,070,293.7	2,343,064.0			–	–	–	–
Southeast region	m^3	185,746.6	671,608.9			–	–	–	–
West region	m^3	6,905,824.4	7,577,962.5			–	–	–	–
Central region	m^3	–	12,406.6		306-1	–	–	–	–

170,064 rented units were included for 2015 and 200,998 rented units for 2016 for which the water position and the wastewater position have been apportioned separately from one another on the basis of the ancillary costs bill. The wastewater volume relates to the rentable and communal areas. Only the volume per delivery point can be registered. It is not possible to present rentable and communal areas separately.

The volume in m^3 has been calculated on the basis of regional average prices per m^3. For this purpose, the average figures of the three largest utilities in each region were determined.

Key Figures	Unit	2015	2016	Unit	2015	2016	EPRA	GRI Standards
Waste Volume for the Portfolio								
Total waste volume produced by rented units	t	515,245.9	480,999.7	m^3	4,636,654.0	4,328,476.0		
Total residual waste	t	130,347.7	121,684.1	m^3	1,303,477.1	1,216,840.7		
Total waste paper	t	221,591.1	206,862.9	m^3	1,303,477.1	1,216,840.7		
Green Dot (Grüner Punkt) (recycling)	t	46,925.5	43,806.3	m^3	1,564,172.5	1,460,208.8		
Total organic waste	t	116,381.9	108,646.5	m^3	465,527.5	434,585.9		306-2
Recycling quota	%	74.7	74.7	%	71.9	71.9	Waste-Abs	–

The waste volume, which is for 357,117 apartments (2015) and 333,381 apartments (2016), is based on estimated figures. The estimate is based on weekly average figures per rented unit and type of waste. These average figures are based on the waste containers provided and their volume, not the actual quantity filled. These figures are only available by volume, not on the basis of weight, as is common practice in Germany. The metric ton figures are therefore based on conversion factors for each type of waste (residual waste: 0.1 kg/l, waste paper: 0.17 kg/l, Green Dot: 0.03; organic waste: 0.25).

These figures do not represent households' actual waste volumes, since not all of the rented units' waste is disposed of via the containers provided by Vonovia; waste paper is also disposed of via public recycling containers, recycled waste is also disposed of in yellow bags, and tenants can also use their organic waste for composting.

A like-for-like calculation has been omitted. The figures for 2015 and 2016 are both based on estimates, and the basis for estimates in terms of like-for-like calculations are identical to the absolute figures.

Key Figures	Unit	2015	2016	EPRA
Buildings with sustainability certificates				
According to living area*	m^2	22,055,779	20,626,016	
	m^2	20,456,704	20,219,331	
of which with energy certificates	%	93	98	Cert-Tot
According to figures for buildings				
Buildings with sustainability certificates**	Number	48,193	46,407	
	Number	99	91	
of which energy level A+	%	0.21	0.20	
	Number	140	195	
of which energy level A	%	0.29	0.42	
	Number	1,918	2.397	
of which energy level B	%	3.98	5.17	
	Number	5,584	6,225	
of which energy level C	%	11.59	13.41	
	Number	8,852	9,404	
of which energy level D	%	18.37	20.26	
	Number	8,959	8,932	
of which energy level E	%	18.59	19.25	
	Number	8,230	7,768	
of which energy level F	%	17.08	16.74	
	Number	5,071	4,450	
of which energy level G	%	10.52	9.59	
	Number	6,777	5,984	
of which energy level H	%	14.06	12.89	
	Number	2,563	961	
Not attributable***	%	5.32	2.07	Cert-Tot

* Only includes single-family homes, twin homes and multifamily residences. Commercial properties, retirement homes, dormitories and other specialized property are not included.

** 48,193 buildings (2015), comprising a living area of 20,456,704 m^2 (93 % of the total living area of 22,055,779 m^2) or 46,407 buildings (2016), comprising a total living area of 20,219,331 m^2 (98 % of the total living area of 20,626,016 m^2).

*** For 2,563 buildings (2015) or 961 buildings (2016), there are no available figures clearly attributable to energy levels.

Glossary

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
Adjusted EBITDA is the result before interest, taxes, depreciation and amortization (including income from other operational investments) adjusted for effects that do not relate to the period, recur irregularly or that are atypical for business operation, and for net income from fair value adjustments to investment properties. These non-recurring items include the development of new fields of business and business processes, acquisition projects, expenses for refinancing and equity increases (where not treated as capital procurement costs), IPO preparation costs and expenses for pre-retirement part-time work arrangements and severance payments.

Adjusted EBITDA Rental
The adjusted EBITDA Rental is calculated by subtracting the operating expenses of the Rental segment and the expenses for maintenance in the Rental segment from the Group's rental income.

Adjusted EBITDA Value-add Business
The adjusted EBITDA Value-add Business (formerly adjusted EBITDA Extension) is calculated by deducting operating expenses from the segment's income. Note: The name of this segment was changed without any content-related changes to the segment definition.

Adjusted EBITDA Operations
The adjusted EBITDA Operations is calculated by subtracting the adjusted EBITDA Sales from the adjusted EBITDA of the Group.

Adjusted EBITDA Sales
The adjusted EBITDA Sales is calculated by subtracting all operating expenses (excl. overheads) incurred in connection with sales activities from the profit on the disposal of properties generated by the Group and by adjusting the profit on the disposal of properties to reflect certain reclassification and time effects.

Cash-generating Unit (CGU)
The cash-generating unit refers, in connection with the impairment testing of goodwill, to the smallest group of assets that generates cash inflows and outflows independently of the use of other assets or other cash-generating units (CGUs).

Covenants
Requirements specified in loan agreements or bond conditions containing future obligations of the borrower or the bond obligor to meet specific requirements or to refrain from undertaking certain activities.

CSI (Customer Satisfaction Index)
The CSI is determined at regular intervals by means of systematic customer surveys and reflects how our services are perceived and accepted by our customers. The CSI is determined on the basis of points given by the customers for our properties and their neighborhood, customer service and commercial and technical support as well as maintenance and modernization management.

EPRA (European Public Real Estate Association)
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. Its mission is to raise awareness of European listed real estate companies as a potential investment destination that offers an alternative to conventional investments. EPRA is a registered trademark of the European Public Real Estate Association.

EPRA Key Figures
For information on the EPRA key figures, we refer to the chapter on segment reporting according to EPRA.
→ p. 229 et seq.

EPRA NAV/Adjusted NAV
The presentation of the NAV based on the EPRA definition aims to show the net asset value in a long-term business model. The equity attributable to Vonovia's shareholders is adjusted to reflect deferred taxes on investment properties/assets held for sale, the fair value of derivative financial instruments and the deferred taxes on derivative financial instruments. In order to boost transparency, an adjusted NAV, which involves eliminating goodwill in full, is also reported.

Fair Value
Valuation pursuant to IAS 40 in conjunction with IFRS 13. The estimated value of an asset. The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Fair Value Step-up
Fair value step-up is the difference between the income from selling a unit and its current fair value in relation to its fair value. It shows the percentage increase in value for the company on the sale of a unit before further costs of sale.

FFO (Funds From Operations)
FFO reflects the recurring earnings from the operating business. In addition to adjusted EBITDA, FFO allow for recurring cash-effective net interest expenses from non-derivative financial instruments as well as income taxes. This key figure is not determined on the basis of any specific international reporting standard but is to be regarded as a supplement to other performance indicators determined in accordance with IFRS.

FFO 1/FFO 2/AFFO
Vonovia differentiates between

FFO 1: The profit or loss for the period to reflect the adjusted profit or loss from sales; period adjustments from assets held for sale; specific effects that do not relate to the period, are non-recurring or do not relate to the objective of the company; the net income from fair value adjustments of investment properties; depreciation and amortization; deferred and prior-year current taxes (tax expenses/income); transaction costs; prepayment penalties and commitment interest; valuation effects on financial instruments; the unwinding of discounting for provisions, particularly provisions for pensions, and other prior-year interest expenses and income that are not of a long-term nature.

In order to calculate FFO 2, the adjusted EBITDA Sales is added to FFO 1 for the periods in question and adjusted to reflect the FFO taxes attributable to sales.

AFFO refers to capex-adjusted FFO 1 in which FFO 1 is adjusted for capitalized maintenance.

LTV Ratio (Loan-to-Value Ratio)
The LTV ratio shows the extent to which financial liabilities are covered. It shows the ratio of non-derivative financial liabilities pursuant to IFRS, less foreign exchange rate effects, cash and cash equivalents, receivables from disposals, plus purchase prices for outstanding acquisitions, to the total fair values of the real estate portfolio, plus the fair values of outstanding acquisitions and investments in other real estate companies.

Maintenance
Maintenance covers the measures that are necessary to ensure that the property can continue to be used as intended over its useful life and that eliminate structural and other defects caused by wear and tear, age and weathering effects.

Modernization Measures
Modernization measures are long-term and sustainable value-enhancing investments in housing and building stocks. Energy-efficient refurbishments generally involve improvements to the building shell and communal areas as well as the heat and electricity supply systems. Typical examples are the installation of heating systems, the renovation of balconies and the retrofitting of prefabricated balconies as well as the implementation of energy-saving projects, such as the installation of double-glazed windows and heat insulation, e. g., facade insulation, insulation of the top story ceilings and basement ceilings. In addition to modernization of the apartment electrics, the refurbishment work upgrades the apartments, typically through the installation of modern and/or accessible bathrooms, the installation of new doors and the laying of high-quality and non-slip flooring. Where required, the floor plans are altered to meet changed housing needs.

Monthly In-place Rent
The monthly in-place rent is measured in euro per square meter and is the current gross rental income per month for rented units as agreed in the corresponding rent agreements at the end of the relevant month before deduction of non-transferable ancillary costs divided by the living area of the rented units. The in-place rent is often referred to as the so-called "Nettokaltmiete" (rent excl. ancilliary costs such as heating etc.). The monthly in-place rent (in €/m²) on a like-for-like basis refers to the monthly in-place rent for the residential portfolio that was already held by Vonovia 12 months previously, i. e., portfolio changes during this period are not included in the calculation of the in-place rent on a like-for-like basis. If we also include the increase in rent due to new construction measures and measures to add extra stories, then we arrive at the organic increase in rent.

Privatize portfolio
In the "Privatize" portfolio, our focus is on generating additional added value by privatizing owner-occupied apartments and single-family houses at a premium compared with their fair value.

Rating
Classification of debtors or securities with regard to their creditworthiness or credit quality according to credit ratings. The classification is generally performed by rating agencies.

Rental Income
Rental income refers to the current gross income for rented units as agreed in the corresponding rent agreements before the deduction of non-transferable ancillary costs.

Sell portfolio
In the "Sell" portfolio, our focus is on selling properties in locations that offer below-average development potential in the medium to long term to private and institutional investors. Limited potential is defined, in particular, by below-average property condition combined with a location that is of similarly below-average quality. It contains locations and properties that were identified in the latest extensive review of the overall portfolio as not being absolutely essential for further strategic development.

Vacancy Rate
The vacancy rate is the number of empty units as a percentage of the total units owned by the company. The vacant units are counted at the end of each month.

Financial Calendar

March 6, 2018
Publication of 2017 Annual Report

May 3, 2018
Publication of the key figures
for the first three months of 2018

May 9, 2018
Annual General Meeting

August 2, 2018
Publication of the key figures
for the first half of 2018

November 6, 2018
Publication of the key figures
for the first nine months of 2018

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Note
This Annual Report is published in German and English. The German version is always the authoritative text. The Annual Report can be found on the website at www.vonovia.de.

Disclaimer
This report contains forward-looking statements. These statements are based on current experience, assumptions and forecasts of the Management Board as well as information currently available to the Management Board. The forward-looking statements are not guarantees of the future developments and results mentioned therein. The future developments and results depend on a large number of factors. They involve certain risks and uncertainties and are based on assumptions that may prove to be inaccurate. These risk factors include but are not limited to those discussed in the risk report of the 2017 Annual Report. We do not assume any obligation to update the forward-looking statements contained in this report. This financial report does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any securities of Vonovia SE.

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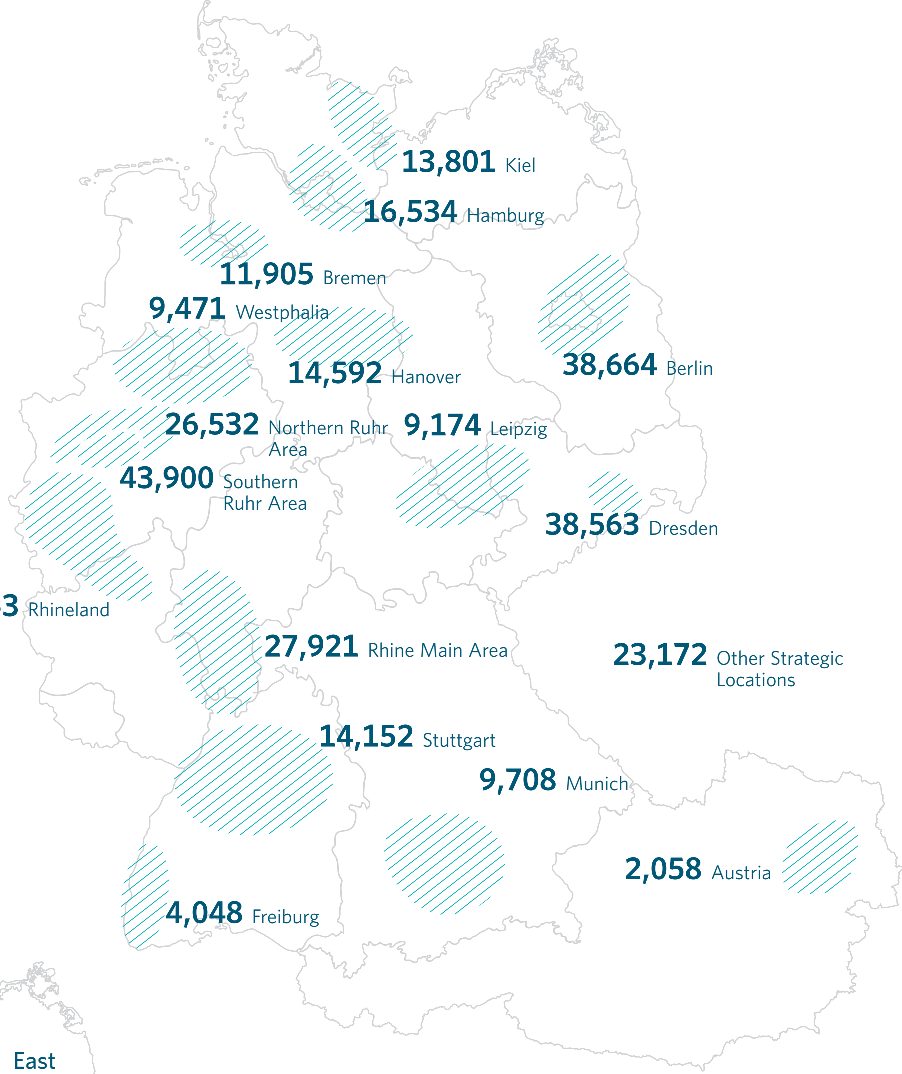
As of: March 2018

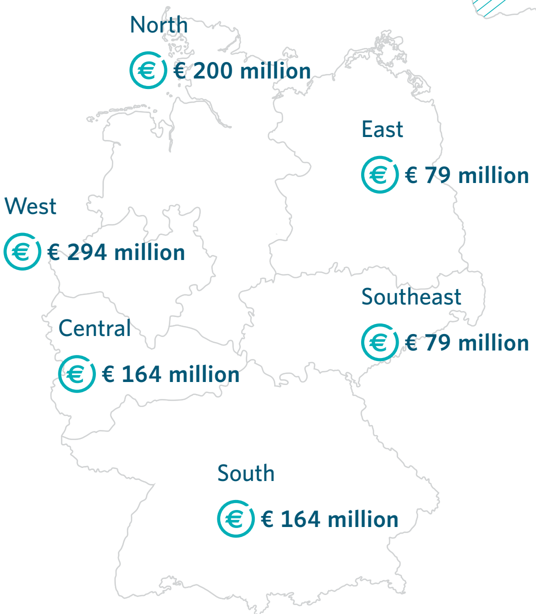
Housing Stock by Regional Market

Number of Units

346,644

Units (including units at other locations)





Planned Portfolio Investments in 2018*

~€ 1 billion

* including € 70 million for other projects at preparation stage

www.vonovia.de