HALF-YEAR FINANCIAL REPORT AS OF JUNE 30, 2020

GATEWAY
REAL ESTATE

AT A GLANCE

—

Key financial indicators

in € thousand

Financial performance indicators	01/01–06/30/2020	01/01–06/30/2019
Revenues	35,163	19,632
Gross profit	105,586	56,317
EBIT adjusted	28,379	22,661
EBT	13,265	4,870
Consolidated profit	7,749	1,761
Earnings per share	0.04	0.01
Financial position and liquidity ratios	**06/30/2020**	**12/31/2019**
Total assets	919,086	1,039,965
Equity	277,711	325,991
Equity ratio	30.2%	31.3%
Cash and cash equivalents	39,466	216,045
Net financial debt	497,710	405,774
Leverage ratio (net financial debt/EBIT adjusted LTM*)	3.0	2.6
Portfolio indicators	**06/30/2020**	**12/31/2019**
Average gross development volume (GDV) in € billion	5	5
Number of projects	24	24

* LTM = last twelve months

OVERVIEW OVER THE FIRST SIX MONTHS

Consolidated profit rises to

€7.7 million

in the first half of 2020

EBIT adjusted reaches

€28.4 million

in the first half of 2020

Gross development volume (GDV) amounts to

€5 billion

as of June 30, 2020

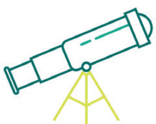
Earnings per share amounts to

€0.04

in the first six months of 2020

Dividends paid per no-par value share
for the fiscal year 2019 were

€0.30



Due to the COVID-19 pandemic, a qualified forecast for 2020 will be issued once this is reasonably possible.

ABOUT US

GATEWAY REAL ESTATE AG, TOGETHER WITH ITS SUBSIDIARIES, IS ONE OF THE LEADING LISTED REAL ESTATE DEVELOPERS WITH A FOCUS ON COMMERCIAL AND RESIDENTIAL REAL ESTATE. IT IS SPECIALIZED IN THE DEVELOPMENT AND THE SUBSEQUENT SALE OF OUR PROPERTIES, AS WELL AS THE ACQUISITION AND LONG-TERM LEASING OF RESIDENTIAL AND COMMERCIAL PROPERTIES AS YIELD INVESTMENTS. IN PARTICULAR, WE FOCUS ON THE DEVELOPMENT OF OFFICE PROPERTIES AND INNER-CITY COMMERCIAL BUILDINGS IN GERMANY'S TOP 7 CITIES AND OF RESIDENTIAL REAL ESTATE IN SELECTED HIGH-GROWTH REGIONS.

IN TERMS OF DEVELOPMENT, GATEWAY REAL ESTATE AG AND ITS SUBSIDIARIES COVER THE VALUE CHAIN FROM THE ACQUISITION OF LAND AND PROJECTS THROUGH DEVELOPMENT AND CONSTRUCTION TO THE SALE OF THE PROPERTIES. IN ADDITION, WE HAVE AN EXCELLENT NETWORK AND ESTABLISHED PARTNERSHIPS. THIS ENABLES US TO GENERATE ATTRACTIVE RETURNS FOR OUR SHAREHOLDERS.

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Dear Shareholders, dear Ladies and Gentlemen,

despite the situation surrounding the COVID-19 pandemic, Gateway Real Estate AG is satisfied with the development in the first half as the Company was able to increase earnings in the first half compared to the relevant prior-year period. We had established the foundation for this in the past year already thanks to a very successful business model as well as a strong pipeline of projects. As of June 30, 2020, our gross development volume (GDV) amounts to around €5 billion. We are very pleased that we succeeded in placing another bond tranche in the amount of €26.2 million at the beginning of July 2020 to implement our positive growth strategy.

Our dynamic growth is also reflected in the business development in the first half. EBIT adjusted, which is a key financial indicator for us, amounted to approximately €28.4 million in the first half of 2020, representing an increase by 25% compared with the first half of 2019 (€22.7 million). Earnings before taxes (EBT) amounted to €13.3 million in the first half, after €4.9 million in the prior-year period. The consolidated profit, i.e. earnings after taxes, also increased year-on-year and amounted to €7.7 million (H1 2019: €1.8 million), corresponding to earnings per share of €0.04 (H1 2019: €0.01).

The COVID-19 pandemic is a global public health crisis and has led to the most severe economic recession in almost a century, with long-lasting effects on health care, employment and quality of life. In Germany, the outbreak of the COVID-19 pandemic resulted in radical changes in social and business life from mid-March 2020 at the latest, and after a total of ten years of steady growth, the German economy is experiencing a massive slump due to the consequences of the COVID-19 pandemic. While since around mid-May, and thus following the easing of infection control measures in Germany and abroad, a visible recovery of the German economy has begun, the pandemic's long-term consequences are still not foreseeable. However, Germany has succeeded in containing the virus relatively well and quickly until today. To that extent, we are confident of the continued attractiveness of Germany as a place to invest.

Nevertheless, the effects on Germany's real estate markets vary. In terms of our standing assets, we currently do not see any negative impact, and the projects that are in the realization phase are progressing as planned. While negotiations for new rentals and disposals have slowed down in the past few months, we are currently observing a rising demand, and an increasing number of rental and sales transactions is being discussed at the moment.

As we already pointed out in our 2019 Annual Report, GATEWAY monitors the current development very closely and analyzes the circumstances, risks and opportunities within the framework of the implemented risk management system. Accordingly, we will issue a qualified forecast for 2020 once this is reasonably possible and, in this context, we refer to the scenarios set out in our forecast.

We conducted our Annual General Meeting on 12 May for the first time as a virtual meeting. Although personal contact with our shareholders is important to us, we nonetheless decided to hold the Annual General Meeting as a virtual meeting since we wanted to timely provide information about the course of the last fiscal year. In this context, we want to thank you, our shareholders, most sincerely that you approved all the resolutions proposed by the Management Board and the Supervisory Board by very large majorities, and that you, in doing so, highlighted your approval of the Company's strategic path. Based on the dividend payment of €0.30 per qualifying no-par value share on 15 May, we were able to have our shareholders participate in the Company's increased business performance. This year's dividend is 300% higher than that of the past year.

Dear shareholders, there have been many things that we have had to get used to since the outbreak of COVID-19, and it cannot be foreseen whether the new measures continue to be normality. We are aware that we can only increase the profitability of your company, Gateway Real Estate AG, through quick adjustments, a more challenging commitment within the team, and high management quality. Of course, we are confident that we are able to do so.

Therefore, we are grateful for your trust and look forward to continuing the cooperation with our very dedicated and experienced team.

Frankfurt/Main, September 2020

Manfred Hillenbrand

Tobias Meibom

THE GATEWAY SHARE

DEVELOPMENT OF THE STOCK MARKETS

In the reporting period, the shares of Gateway Real Estate AG were exposed to a volatile market environment characterized by uncertainty. In the first half of 2020, the international stock markets were dominated by the COVID-19 pandemic; in this context, the massive price losses in the first quarter were partially offset by very rapid recovery effects in the second quarter of 2020. Nevertheless, most of the indices closed the first half lower and fell short of pre-corona levels. After Germany's leading DAX index lost roughly one fourth of its value in the first quarter of 2020, it climbed back to 12,310 points by June 30, 2020, thus only declining by 7 per cent over year-end 2019. This phase also saw the inclusion of the real estate stock Deutsche Wohnen into the German blue-chip index on June 22, 2020. The fact that now two residential real estate companies are part of the DAX is expected to raise the awareness of international investors as regards the German real estate sector.

The development of listed real estate stocks between the beginning of April and the end of June 2020 showed that German real estate equities recovered more quickly than their European counterparts. The FTSE EPRA Nareit Europe Index, which lost 27 per cent in the first quarter and posted its corona-driven low on March 19, 2020 (approximately –38 per cent compared to the end of 2019), started its positive turnaround already at the end of March and gained almost another 6 per cent in the second quarter of 2020. In the same period, the FTSE EPRA Nareit Germany Index, which declined by only 14 per cent in the first quarter, increased by more than 16 per cent. Accordingly, it is only slightly below its average price level prior to the outbreak of the coronavirus pandemic in Europe. In terms of the individual stocks, it can also be observed in Germany that the stock prices of companies with a focus on residential real estate holdings recovered more rapidly in the second quarter of 2020 than those with an exposure in the areas of office, retail and hotel properties as well as in project development.

PERFORMANCE OF THE GATEWAY SHARES

The shares of Gateway Real Estate AG were also unable to escape this negative trend and closed the first half of 2020 with a loss of approximately 24 per cent compared to December 31, 2019. The XETRA closing price as of June 30, 2020 was €3.32, with the GATEWAY stock exhibiting relative stability within the sector especially after the outbreak of the coronavirus pandemic. In mid-March, when most of the German real estate stocks declined considerably, GATEWAY maintained its share price around the €4 threshold without any significant price fluctuations. The full price range for Gateway Real Estate AG in the first half of 2020 was between €3.24 and €4.40. In the first half, the Company distributed a dividend of approximately €56 million to the shareholders of GATEWAY; this corresponds to €0.30 per qualifying no-par value share (see section below). The total shareholder return (share price performance plus dividend payment), adjusted by the dividend-based price discount, was –17 per cent in the first half. GATEWAY's market capitalization amounts to approximately €620 million as of the reporting date June 30, 2020.

ANNUAL GENERAL MEETING AND DIVIDEND PAYMENT

The Annual General Meeting of Gateway Real Estate AG was held on May 12, 2020, for the first time as a virtual general meeting due to the COVID-19 pandemic. The legal basis for this measure was established by the German legislator through the introduction of the Act on Corporate, Cooperative, Association, Foundation and Residential Property Law to Combat the Effects of the COVID-19 Pandemic. While several competitors among the listed real estate companies decided to postpone their annual general meetings due to the COVID-19 pandemic, the Management Board and the Supervisory Board of Gateway Real Estate AG resolved to make use of the possibility to hold a virtual general meeting and above all to maintain, as planned, the dividend proposal for the successful year 2019 and the related resolution adopted by the General Meeting.

All resolution proposals made by the Management Board and the Supervisory Board were ultimately approved by a large majority of the Annual General Meeting. This also included the proposal to use the distributable profit for the fiscal year 2019 in the amount of €116,650,321.65 for distribution of a dividend of €0.30 per qualifying no-par value share (a total of €56,029,212.00) and to carry forward to new account the residual amount of €60,621,109.65. The dividend payment to the shareholders of Gateway Real Estate AG was made as of May 15, 2020. Based on a XETRA closing price of €3.74 as of May 12, 2020, the dividend yield amounts to approximately 8 per cent.

It is the declared objective of GATEWAY for the future to grant the Company's shareholders an appropriate participation in its business performance.

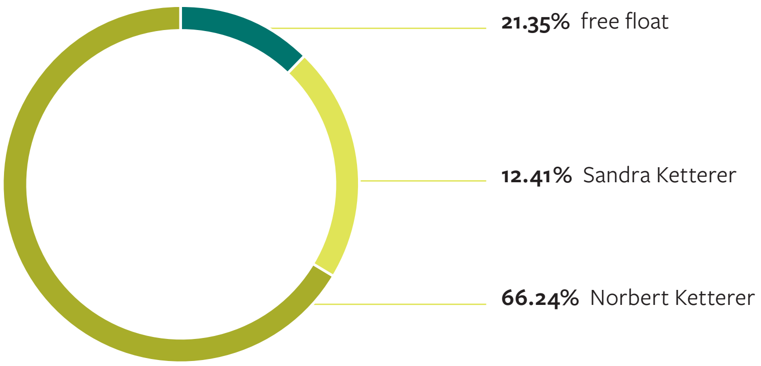
Further important resolutions adopted by the Annual General Meeting included the formal approval of the actions of the Management Board and the Supervisory Board for the fiscal year 2019, amendments to the Company's Articles of Association regarding a simplified execution of Supervisory Board meetings and general meetings as well as the election of the auditor of the consolidated financial statements for the fiscal year 2020.

Further information and details on the voting results of the Ordinary Annual General Meeting 2020 can be found on the Company's website under: https://gateway-re.de/en/investor-relations/annual-general-meeting/annual-general-meeting-2020/

SHARE INFORMATION

ISIN / WKN	DE000A0JJTG7 / A0JJTG
Number of shares	186,764,040
Share capital	€ 186,764,040.00
Ticker symbol	GTY
Market segment	Regulated market (Prime Standard)
Subsector	Real estate
Trading venues	XETRA, Frankfurt am Main, Düsseldorf, Munich, Berlin, Hamburg, Stuttgart
Designated Sponsor	Credit Suisse
Opening price (January 2, 2020)	€4.40
Closing price (June 30, 2020)	€3.32
Highest price in the period (January 3, 2020)	€4.44
Lowest price in the period (June 26, 2020)	€3.24
Market capitalization (June 30, 2020)	€620.1 million

SHAREHOLDER STRUCTURE AS OF JUNE 30, 2020



INTERIM GROUP MANAGEMENT REPORT

1. FUNDAMENTAL INFORMATION ON THE GROUP AND STRATEGY

Gateway Real Estate AG (in the following also referred to as "GATEWAY", "Company" or "Group", in each case referring to the GATEWAY Group as a whole) is one of the leading listed real estate developers with a focus on commercial and residential real estate in Germany. It is specialized in the development and the subsequent sale of properties, as well as the acquisition and long-term leasing of commercial properties as yield investments. In the context of the development of commercial real estate, GATEWAY focuses on Germany's Top 7 cities (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart), while the focus of residential real estate development is on selected high-growth areas. The Company covers all of the important steps in the value creation chain of a development project with its own teams. These steps are:

— identification, procurement, and acquisition of properties and land,

— planning and management of the development processes and obtaining permits, licenses, and approvals,

— marketing and sale of properties to institutional investors,

— coordination of construction activities,

— providing asset and property management services after completion of a development project.

In all of its project developments, GATEWAY pursues the strategy to generate attractive margins and, at the same time, to minimize the project development risk by means of a detailed process management. GATEWAY regularly carries out sensitivity analyses in connection with the calculation and supervision of projects, in which the effects of potential increases in construction costs are examined and suitable countermeasures taken to offset them are identified. In the acquisition process, all our projects are generally evaluated and analyzed on an individual basis. When acquiring new plots of land, GATEWAY focuses on space where there are no finally approved zoning or land use plans. This enables GATEWAY to leverage potential value thanks to its long-standing expertise in the process of obtaining planning permissions and to actively determine the planning process for developments early on. GATEWAY's focus as regards land purchases is on real estate development rather than the speculative resale of undeveloped sites.

In connection with the sale of development projects, GATEWAY exclusively addresses institutional investors, operates on the basis of lean and recurring sales structures and primarily follows a forward sales model pursuant to which properties are sold to investors when the building permit is obtained. GATEWAY then completes the projects, but generates revenue already upon contract conclusion based on the progress of the construction activities. This strategy, together with contractually agreed payment schedules, enables GATEWAY to generate long-term and stable cash flows from our development projects.

Alternatively, in the case of selected commercial property development projects, GATEWAY seeks to integrate such projects into the successful standing asset business and develops properties with pre-let rates of 50–60%. GATEWAY continues the previous standing asset business of commercial real estate in order to diversify risks.

As of June 30, 2020, GATEWAY has a diversified development pipeline with a total gross development volume of approximately €4.9 billion; 52% of that amount refer to commercial real estate and 48% to residential real estate developments.

2. BUSINESS DEVELOPMENT

The first half of 2020 was a continuation of the very successful fiscal year 2019. Accordingly, one further project development in Düsseldorf could be sold as a forward sale in the first six months. In terms of acquisitions, the project development in Augsburg as well as one project development in Berlin were closed upon the payment of the purchase prices; both project developments were transferred to our portfolio. In addition, on May 12, 2020, the Company held a virtual Annual General Meeting where all of the resolutions proposed by the Management Board and the Supervisory Board were approved by very large majorities.

3. ECONOMIC ENVIRONMENT

MARKET ENVIRONMENT/ MACROECONOMIC SITUATION

CURRENT DEVELOPMENT

In the first half of 2020, the impact of the worldwide coronavirus pandemic led to a historical economic downturn in Germany, Europe and around the globe.

Since mid-March, these significant effects have left their mark on the macroeconomic indicators of the German economy. According to the German Federal Statistical Office, gross domestic product (GDP) fell by 10.1% in the second quarter of 2020 compared with the first quarter of the year after price, seasonal and calendar adjustments. Both exports and imports of goods and services as well as private consumption experienced a massive slump.

In view of the spread of the pandemic in March 2020, the impact on economic output was already evident in the first quarter when Germany's GDP plunged by 2.2% compared with the previous quarter.

In the EU, the economic downturn in the first quarter of 2020 was even more pronounced, with GDP falling by 3.3% compared with the previous quarter according to Eurostat estimates.

At the same time, sovereign governments and central banks are addressing the negative economic effects with massive fiscal and monetary stimulus measures to halt the further decline of the global economy. In this context, the German government launched a historically unique aid package consisting of budget measures amounting to €353.3 billion and guarantees totaling €819.7 billion.

FORECAST

The negative effects of the COVID-19 recession can be observed worldwide and are historically unique. According to the World Bank, there have not been so many countries with shrinking economies per head of population since 1870, and the global COVID-19 recession is the first of its kind caused solely by a pandemic. According to the World Bank forecast published at the beginning of June 2020, the global economy as a whole is set to contract by 5.2% this year. For 2021, however, the World Bank expects the global economy to rebound by a rate of 4.2%.

SOCIODEMOGRAPHIC DEVELOPMENT

According to the German Federal Statistical Office, there were around 83.2 million people living in Germany at the end of 2019. This means that Germany's population grew by 0.2% in 2019, thus climbing to a new high. While the population has been growing continuously since 2011 now, growth has slowed markedly, however, since the immigration-related record in 2015 when the population increased by 1.2%. The increase in the population in 2019 is exclusively attributable to a positive net migration. According to preliminary results of the Federal Statistical Office, the balance of inbound and outbound migration is around 300,000 people in 2019.

The development of the population varies greatly from region to region: While the territory of former West Germany (excluding Berlin) saw an overall population growth of 0.2% or approximately 144,000 people, the population in the new German federal states (excluding Berlin) decreased by 0.2% or about 21,000 people.

Growth was strongest in the federal states of Berlin (+0.7%) and Brandenburg, Bavaria and Hesse (+0.4% each). In contrast, the population declined the most in Saxony-Anhalt (–0.6%), Thuringia (–0.5%) and Saarland (–0.4%).

However, there is not only a difference between east and west but also between urban and rural areas. While Germany's population grew by around 0.2% from 2018 to 2019, the A cities recorded an average growth rate of 0.6%, thus growing at a much faster pace. Compared to the previous year's development, however, the population increase in the A cities has slowed down noticeably. The highest growth rates were achieved in Frankfurt am Main (1.4%) and Munich (1.2%).

The trends described above will continue in the years to come, albeit at a slower pace than previously. According to the forecast, Germany's population is expected to rise to 83.3 million by 2030, representing an increase of around 0.2%; in the A cities, the growth anticipated for the period until 2030 is significantly higher, averaging 6.7%.

The German B cities where GATEWAY is active are also expected to grow. According to the Office for Statistics and Elections of the City of Leipzig, the population of the East German city will increase by a further 7.1% to around 644,000 inhabitants by 2030. And in Augsburg, where GATEWAY is planning to develop a city quarter on the former Osram site, the population is also expected to increase. According to the Statistical Office of Bavaria, the independent City of Augsburg is expected to grow by 7.1% until 2038 (starting from the base year of 2018).

The above-average growth of the cities in general is due to the megatrend of urbanization. As of today, roughly 77% of the German population is currently living in cities. By 2050, this figure is anticipated to rise to above 84%, according to a forecast of the United Nations.

ECONOMIC DEVELOPMENT IN GERMANY AND IN GATEWAY'S FOCUS CITIES

The German economy was significantly affected by the coronavirus pandemic already in the first quarter of 2020. According to the German Federal Statistical Office, GDP fell by 2.2% (adjusted for price, seasonal and calendar effects) compared with the fourth quarter of 2019. This represented the sharpest decline since the financial and economic crisis of 2008/2009 and the second sharpest decline since German reunification. This means that the impact of the pandemic and the containment strategies will already be significant for the first quarter of 2020, even though the spread of the coronavirus hardly had any effect on economic performance in January and February.

Economic output also fell compared to the previous year: In the first quarter of 2020, gross domestic product was 2.3% (adjusted for price and calendar effects) below the previous year's figure.

After a total of ten years of steady growth, the German economy is experiencing a massive slump due to the consequences of the COVID-19 pandemic. The long-term consequences are still not foreseeable. The German government has therefore launched a multi-billion stimulus package to protect employees, the self-employed and companies.

The measures to contain the COVID-19 pandemic in Germany affect both the supply of services and the production of goods. Germany's infection figures are in the lower range by international standards, which has a positive effect on a further reopening of the German economy.

The (non-food) retail and hospitality sectors were hit particularly hard and immediately.

Since around mid-May, and thus following the easing of infection control measures in Germany and abroad, a visible recovery of the German economy has begun, although it is still in its infancy. Industrial production has bottomed out. However, the main risks are the merely very moderate increase in demand from the non-Eurozone.

In line with GDP development, the consequences of the coronavirus pandemic can also be seen on the German labor market. After the number of employees subject to social insurance contributions had experienced constant growth since 2009 and reached a new high of around 33.79 million people in February 2020, the number has been falling since then and stood at around 33.40 million in May 2020. Much of the decline in employment can be attributed to the hospitality and tourism sectors in connection with the corona-related closures of restaurants and hotels.

For the GATEWAY's focus cities (top 7 cities plus Augsburg and Leipzig), growth before the pandemic was even more significant. While the number of jobs across Germany grew by only 1.4% from the end of 2018 to the end of 2019, GATEWAY's focus cities recorded an increase of 3.7%.

As a result of the pandemic, the unemployment rate has risen significantly nationwide. The average for Germany as a whole was 6.3% in July 2020, 1.4 percentage points higher than in December 2020. The short-time working allowance was introduced to counteract the negative economic consequences.

In GATEWAY's focus cities, the increase was even more pronounced: from an average of 5.6% in December last year to 7.9% in July 2020. The highest levels were recorded in Berlin (10.8%) and Cologne (9.9%).

The negative effects of the pandemic are also slowly diminishing in the labor market. The rise in unemployment in July 2020, with an increase of 57,000 people compared to June, is significantly weaker than in the previous months. Seasonally adjusted, the number of unemployed people has even decreased by 18,000. In order to avoid situations of economic crisis and mass redundancies in companies due to an insufficient volume of work, there is a so-called short-time working allowance in Germany. During the period of short-time working, the German Federal Employment Agency replaces part of the employees' pay and waives social security contributions (excluding unemployment insurance). According to initial estimates by the Federal Employment Agency, around 6.7 million people were on short-time working in May, after 6.1 million in April and 2.5 million in March. In 2019, 60,000 people were on short-time work on a monthly average.

According to the Federal Statistical Office, the inflation rate in Germany was –0.1% in July 2020 (compared to the same month last year). It is influenced, among other things, by the reduction in value added tax, which came into force on July 1, 2020. This means that the rate has fallen significantly and is well below the target of 2.0% set by the European Central Bank (ECB) and deemed appropriate for a sound economic development.

In the Eurozone, the annual inflation rate recently rose from 0.3% in June 2020 to 0.4% in July 2020. This slight increase is due to the fact that COVID-19 containment measures have been largely abolished in many countries. A year earlier, the inflation rate of 1.0% was significantly higher than today.

DEVELOPMENT OF REAL ESTATE MARKETS

According to JLL, a total of €42.5 billion was invested in the German real estate market in the first half of 2020. The volume exceeds the result for the same period of the previous year by 31%. The result was strongly influenced by company acquisitions and equity investments in the first quarter. Nevertheless, the consequences of the lockdown measures to contain the coronavirus have had a significant impact on transaction activities in the real estate market. While the transaction volume was €27.9 billion in the first quarter, it fell to €14.7 billion in the second quarter.

OFFICE MARKET

According to a JLL study, an amount of €9.35 billion was invested in office properties in the first half of 2020. This represents a share of 22% in the total investment volume, after 40% in 2019. On the other hand, the share increased from 24% to 35% in the residential real estate segment. Accordingly, office properties are now only the second most popular asset class after residential real estate.

Until the outbreak of the coronavirus, the growing tertiarization of the German economy, changing working habits and requirements made by employees resulted in a continued high demand for office space. The extent to which this demand will change in the future as a result of the coronavirus crisis depends on several factors and cannot yet be finally predicted. Various forecasts and surveys on the future of the office property asset class are currently being discussed, with results covering the entire forecast spectrum. Firstly, the major factor is how quickly the German economy can recover from the so-called lockdown or shutdown – i.e. whether there will be a V- or U-shaped or an L shaped trend – and how this will affect the employment situation. The extent to which demand preferences change is also important. It is possible that there will be an expansion of work from home, which would allow more flexible office solutions with less space required. According to JLL, this in turn could reduce the demand for office jobs by more than 20%. Moreover, lower space needed due to telecommuting (or home office) could be offset by the fact that distancing and hygiene rules will apply even after the current corona crisis and could lead to greater space requirements per employee. In this context, coworking space might become more attractive as a satellite office between the office at home and the office at the actual workplace and thus experience increased demand.

According to JLL, office space take-up in the seven A cities of Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart in the first half of 2020 totals 1.28 million sqm, i.e. roughly one third less than the half-year results of previous years. In the second quarter in particular, space take-up collapsed due to corona-related contact restrictions as many companies postponed or suspended planned lettings in view of the economic uncertainties. Space take-up fell in all seven office locations – most strongly in Frankfurt am Main (–60%) and least in Berlin (–19%). The highest take-up of space was recorded in the Munich region (332,000 sqm), followed by Berlin (329,000 sqm) and Düsseldorf and Hamburg (167,000 sqm each).

DEVELOPMENT OF THE VACANCY RATES ON THE A CITIES OFFICE MARKET

Despite the limited letting activity as a result of the coronavirus pandemic, vacancies have continued to decline. A total of 2.99 million sqm of office space was vacant in the A cities. However, the decline of 1% is much smaller than in previous years, and the trough of the vacancy seems to have been reached. The vacancy rate fell by 0.1 percentage points to 3.2%. The strongest decline in vacancies was recorded in Hamburg, with a decrease of 0.7 percentage points. For the first time in a long period, the vacancy rate in some cities increased again – by 0.3 percentage points in the Munich region, by 0.2 percentage points in Frankfurt am Main and by 0.1 percentage points in Berlin. This increase is not only due to the coronavirus, but also to the expansion of construction activities. At 4.15 million sqm, the volume of office space under construction in the A cities is more than twice as high as three years ago.

Prime rents in the A cities have increased by an average of 3.5% compared with the first half of 2019. The largest jump was recorded in Stuttgart with an increase of 6% to €25.50 per sqm. The largest rent level was achieved in Frankfurt am Main with an increase by 2.5% to €41.50 per sqm, closely followed by Munich (€41.00 per sqm). Overall, the office property market proves to be stable despite the coronavirus crisis.

In Augsburg, one of the B cities where GATEWAY is active with large project developments, the prime rent rose between the first quarter of 2019 and the first quarter of 2020 by 3.5% to €15.00 per sqm. The prime yield declined by 0.6 percentage points to 4.9%. With existing office space of approximately 1.4 million sqm, Augsburg has been characterized up to now by a relatively small office market for a city of almost 300,000 inhabitants. However, the high pre-let rate of 50% as regards new building projects is proof of a stable demand.

RETAIL MARKET

In 2019, driven by rising real wages, increasing purchase power and a positive consumer sentiment, retail sales in Germany rose for the tenth consecutive year. However, against the backdrop of a strengthening online trade, brick-and-mortar retail trade became increasingly under pressure. Measures to contain the spread of the coronavirus have further accelerated this development. With the exception of brick-and-mortar food retailing and a few other segments, sales declined across the board. The German Retail Association expects non-food retailers to lose €40 billion in sales in 2020, assuming no further lockdowns due to a possible second wave of infections. Many smaller stores, but also larger chains such as Tom Tailor or Esprit will have to apply for insolvency. A number of experts expects the market to further consolidate. However, it remains uncertain how strongly and sustainably consumer behavior will change even after the coronavirus crisis. After a historic drop to −23.1 points in May, the consumer climate is recovering in the wake of the German government's easing measures and economic stimulus package and, according to GfK forecasts, will reach −9.6 points in July.

In the first half of 2020, according to JLL, space take-up on the retail letting market is roughly a quarter below the previous year's figure and amounts to almost 191,000 sqm. Around 30% of space take-up is attributable to the seven A cities, 70% was generated outside of the A cities. The major sectors in terms of space take-up are food service (31%), textiles (24%) and health/beauty (18%).

According to Colliers, the lower space take-up is offset by a significant increase in the investment volume. While retail properties changed hands for €4.8 billion in the first half of 2019, the sales volume rose by 35% to €6.5 billion in the first half of 2020.

There were hardly any changes in prime rents in the first half of 2020, with only Cologne recording a decline of 3.8% to €250 per sqm. Prime rents remained unchanged in all other locations.

According to the vdp index, new contract rents in the second quarter of 2020 were 1.9 percentage points below the previous year's figure and 0.2 percentage points below the figure for the first quarter. New contract rents are thus following a trend that already commenced last year. No additional coronavirus effect is apparent in this context.

Despite the coronavirus pandemic and the increased risk of loss of rental income in the retail sector due to the lockdown, prime yields have remained largely stable so far. Prime yields were slightly higher only in Düsseldorf (0.2 percentage points), Hamburg and Cologne (0.1 percentage point each) due to price discounts.

According to COMFORT, prime retail rents in top locations in Augsburg decreased marginally despite rising take-up: from €65 to €55 per sqm in the size category of 80–120 sqm of space and from €35 to €30 per sqm in the size category of 300–500 sqm of space. Nevertheless, Augsburg is an attractive retail location. This is highlighted by the COMFORT High Streets Report, which ranks the city on place 18 among the most attractive retail locations of Germany.

RESIDENTIAL REAL ESTATE MARKET

According to the German Federal Statistical Office, building permits were issued for 141,926 apartments between January and May 2020, 3.9% more than in the previous year. Due to the capacity bottlenecks in the construction industry owing to high utilization, the number of completed construction projects did not rise at the same pace. While 293,002 apartments completed in 2019 represent the highest level achieved since 2001, the construction backlog accumulated in the past years amounts to 740,400 apartments.

Despite rising construction activities, demand for residential space remains high, above all in metropolitan areas, major cities and flourishing vibrant cities, in German known as "Schwarmstädte", and their surrounding regions. The vacancy index of CBRE-empirica reached a new low of 2.8% at the end of 2018 and has been on the decline for twelve consecutive years. The lowest rate (0.2%) was recorded for Munich. Vacancies are rising, however, in the shrinking predominantly rural regions.

The price of owner-occupied residential property rose by 60% between 2010 and the second quarter of 2020, according to the vdp index. The price increase even amounts to 95% in the seven A cities. Between 2011 and 2019, the growth momentum in the A cities was considerably higher than in Germany as a whole. This relationship has reversed since the beginning of 2019. While prices for residential property in A cities have increased by 5.6% since then, prices in Germany have risen by 9.1% overall. A price level seems to have been reached in the A cities that no longer allows large price jumps. Among the A cities, Hamburg and Cologne showed the strongest performance in the first two quarters with an increase of 4.0% and 2.9%, respectively.

The development of rents for new tenancies shows a similar picture. The strong development of the A cities is easing and has been outperformed by the development in Germany as a whole since the beginning of 2019. In the A cities, rents have risen by 2.2% since 2019, while the increase in Germany is 4.2%. The strongest development of rents in the first two quarters of 2020 was noted in Hamburg with an increase of 2.0%, followed by Munich with 1.7%.

According to the 2019 housing demand model designed by the German Economic Institute, roughly 342,000 new apartments will be needed in each of the years 2019 and 2020. Although construction activity is increasing, 293,000 new apartments were completed in 2019, representing a lack of around 50,000. Already in the period from 2016 to 2018, only 83% of the required apartments were completed, and only 71% in the A cities. Coverage is even lower in GATEWAY's other focus cities of Leipzig (45%) and Augsburg (69%).

The residential real estate market is impacted to a smaller degree by the effects of the coronavirus pandemic than other asset classes. The demand for housing is not substitutable and remains high. Initial surveys among landlords have shown that there is hardly any loss of rent and if there is, then only to a small extent. Overall, experts from the German Economic Institute in Cologne have identified good opportunities for the German residential real estate market to emerge from the current crisis relatively unscathed. Insufficient construction activity in regions of strong demand is supporting rents and purchase prices, while falling construction interest rates are stabilizing the market. However, much depends on the pace at which the economy recovers. Should there be a prolonged period of recession, it is expected that falling incomes could lead to a lack of rent increases or even to rent reductions.

Changing lifestyles are also changing the requirements for living. In combination with the megatrends of urbanization, knowledge society, new work and the short supply of one- and two-room flats, new forms of living have emerged whose business models have emerged from their niche role in recent years. These concepts include serviced apartments, student flats, co-living and micro apartments. They vary in terms of furnishings, the services offered, the usual length of stay and the target group. All of these concepts represent a commercial type of housing. According to C&W and Savills, investments in this segment have increased significantly in the past years – institutional investors are increasingly investing their capital in projects of commercial housing.

4. FINANCIAL POSITION, CASH FLOWS AND FINANCIAL PERFORMANCE

FINANCIAL POSITION

The GATEWAY Group's total assets declined from €1,040.0 million as of December 31, 2019 by 11.6% or €120.9 million to a total of around €919.1 million.

On the assets side, the reduction was nearly exclusively attributable to current assets which decreased by €116.6 million and totaled €844.9 million (December 31, 2019: €961.4 million). The balance of cash and cash equivalents amounted to €39.5 million as of June 30, 2020, representing a reduction by a total of €176.5 million during the course of the first half as a result of the repayment of loans and the distribution of a dividend. In addition, payments of purchase price installments led to a decrease in other financial assets by €37.1 million to €33.2 million. In contrast, inventories rose significantly by €71.6 million to €653.2 million. This is primarily attributable to the intensified real estate project development activities conducted by the Group and the related new transfers of such project developments. The value of the investment properties held by the Group as of the reporting date amounted to €9.7 million, after €8.3 million as of December 31, 2019. The increase results from a fair value adjustment based on an external valuation as of March 31, 2020. The sum total of non-current assets of €74.2 million was slightly below the figure as of December 31, 2019 (€78.5 million).

On the equity and liabilities side, the Group's non-current liabilities amounted to €338.3 million as of the reporting date (December 31, 2019: €361.5 million); the major portion of that amount is attributable to non-current financial liabilities in the amount of €312.9 million (December 31, 2019: €343.4 million). The slight decline is mainly the result of a change in the maturity of a financial liability, leading to a reclassification to current liabilities. Otherwise, non-current liabilities would have increased slightly due to new project financings.

Current liabilities totaled €303.1 million as of June 30, 2020 (December 31, 2019: €352.5 million). The major portion of that amount was attributable to current financial liabilities (€214.1 million; December 31, 2019: €272.6 million); the decrease in current financial liabilities, despite the reclassification mentioned above, is primarily attributable to the repayment of loans. Trade payables that largely were incurred in connection with the Group's project developments amounted to €65.3 million as of the reporting date (December 31, 2019: €60.2 million).

The GATEWAY Group's equity as of June 30, 2020 amounted to €277.7 million (December 31, 2019: €326.0 million). The decrease is primarily the result of the dividends paid in the amount of €56.0 million. Accordingly, the Group's equity ratio slightly fell from 31.3% at the end of the prior year to now 30.2%.

CASH FLOWS

The cash inflows and outflows in the first half of 2020 overall led to a decrease in cash as of June 30, 2020, primarily caused by cash flows from financing activities due to the repayment of loans and the payment of a dividend.

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CONDENSED CASH FLOW STATEMENT

in € thousand	01/01–06/30/2020	01/01–06/30/2019
Cash flows from operating activities	–24,717	–41,459
Cash flows from investing activities	–1,031	–13,931
Cash flows from financing activities	–150,831	26,189
Net increase/decrease in cash and cash equivalents	**–176,579**	**–29,201**
Change in cash and cash equivalents due to consolidation group	0	–10,011
Cash and cash equivalents as of January 1	216,045	73,931
Cash and cash equivalents as of March 31	39,466	34,719

The negative cash flows from operating activities were reduced by €16.8 million compared to the prior-year period and amounted to €24.7 million in the first half 2020. The positive development compared to the prior-year period is the result of the inflows from payments of purchase price installments in relation to forward sales entered into in relation to three development projects in the amount of €67.9 million. This was offset by the expansion of inventories by €71.6 million (H1 2019: €34.1 million), attributable to purchase price payments for the acquisition of three development projects and to construction activities in connection with project developments.

The negative cash flows from investing activities in the amount of €1.0 million include payments for investments in properties held for sale. In the first quarter of 2020, an outflow of liquidity in the amount of €15.1 million was reported due to the granting of a short-term loan which, however, was already repaid during the remainder of the first half.

The negative cash flows from financing activities in the amount of €150.8 million are due to the repayment of loans in the amount of €149.7 million and the payment of a dividend of €56.0 million. This was offset by new borrowings in connection with the acquisition of properties and the financing of development projects in a total amount of €55.5 million.

The net decrease resulting from the cash flows in the first half of 2020 described above totaled €176.6 million, resulting in a reduction of cash and cash equivalents to €39.5 million as of June 30, 2020. As of the previous reporting date (December 31, 2019), cash and cash equivalents had amounted to €216.0 million.

FINANCIAL PERFORMANCE

In the first half of the fiscal year 2020, Gateway Real Estate AG increased its revenue by €15.6 million to a total of €35.2 million (H1 2019: €19.6 million). Revenue mainly referred to the further work towards completion in relation to two forward sale agreements in Düsseldorf and Cologne entered into in the second half of 2019 (€8.7 million) and one forward sale agreement newly concluded in connection with a development project in Düsseldorf in the amount of €20.9 million. Accordingly, both the Commercial and Residential Property Development segments contributed to this strong revenue growth. Additionally, revenue from lettings amounted to €4.8 million (H1 2019: €11.1 million). Gross profit amounted to €105.6 million (H1 2019: €56.3 million), which, in addition to the revenues mentioned above, comprises changes in inventories of finished goods and work in progress of €67.8 million (H1 2019: €34.9 million) – largely consisting of newly transferred project developments, capitalized construction work as well as the disposals in connection with the forward sales of the project developments in Cologne and Düsseldorf – and other operating income in the amount of €2.6 million (H1 2019: €1.8 million). Compared to the first half of 2019, the higher gross profit results from GATEWAY's increased sales and acquisition activities in the first half of 2020, which can be observed across all individual items of gross profit.

In the reporting period, the costs for raw materials and consumables used increased significantly by €54.9 million over the previous year to €79.8 million and mainly consist of the construction costs of the inventory properties (€27.3 million), acquisition costs for land (€50.7 million) as well as management costs for the rented properties (€1.8 million). The increased costs for raw materials and consumables used are primarily attributable to the higher acquisition volume and the intensified construction activities in the reporting period. In the first half of 2020, the employee benefits expense declined by €0.7 million to €4.9 million. The fair value changes in investment properties and valuation of properties amounted to €15.4 million and are based on an external valuation of all standing asset properties as of March 31, 2020. Other operating expenses amounted to €7.4 million (H1 2019: €12.3 million) and are primarily attributable to indemnification expenses for silent partnerships as well as legal and consulting costs and accounting and closing costs. The higher expenses in the previous year were caused by the initial public offering. In the first half of 2020, GATEWAY achieved an overall operating profit of €28.5 million (H1 2019: €22.3 million).

Net finance costs in the first half of 2020 amounted to €–15.2 million (H1 2019: €–17.4 million) and include interest expenses of €–15.8 million (H1 2019: €–18.2 million). The reduction of €2.2 million is attributable to more favorable financing terms. Interest expenses are partially offset by interest income in the amount of €1.0 million (H1 2019: €0.4 million).

Earnings before tax (EBT) amounted to €13.3 million (H1 2019: €4.9 million). After deducting income taxes of €–5.5 million (H1 2019: €–3.1 million), the consolidated profit for the first half of 2020 amounted to €7.7 million (H1 2019: €1.8 million). This corresponds to earnings per share of €0.04 (basic and diluted; H1 2019: €0.01). The EBIT adjusted amounted to €28.4 million (H1 2019: €22.7 million).

5. REPORT ON RISKS AND OPPORTUNITIES

The risks and opportunities of the Company were described in detail in the 2019 Annual Report on pages 54–58. In this context, the Group's risk management system was explained, property-specific and company-specific risks were presented, and their probability of occurrence as well as their potential financial effects were classified based on a risk classification.

The potential effects resulting from the COVID-19 pandemic, which only started to emerge gradually in Germany as of the date of publication at the end of March 2020, were already taken into account in the 2019 Annual Report. Even in view of the economic and political developments since then, in particular due to the fact that Germany's gross domestic product posted the biggest decline on record in the second quarter of 2020 and the German economy fell into recession as well as due to the various global uncertainties surrounding the COVID-19 pandemic, GATEWAY does not see any significant changes in risks or newly emerging risks and changes in the associated assessment based on the risk classification compared with the statements given in the 2019 Annual Report. More importantly, no specific risks are discernible either at the present time or for the foreseeable future that could endanger the continued existence of the Company or could have a negative impact on its development. We, therefore, refer to the discussion in the group management report for the fiscal year from January 1 to December 31, 2019.

The effects of the pandemic on Germany's real estate markets vary. In terms of standing assets, the Company currently does not see any negative impact, and the projects that are in the realization phase are progressing as planned. The general decline in investing activities on the real estate market in the first half of 2020 is also attributable to the lockdown measures imposed by the German government to address the COVID-19 pandemic and the associated reduced market activities. Negotiations for both new rentals and disposals have slowed down in the past few months, however, the Company is currently observing a rising demand, and an increasing number of rental and sales transactions is being negotiated at the moment. In terms of financing, GATEWAY successfully issued a sixth tranche of the existing bond in the amount of €26 million and entered into an agreement about the financing of building construction activities as regards a project development with the bank that provides the funds for the plot of land. No government grants and no rent or tax deferments as a result of the COVID-19 pandemic were utilized.

A potential strong second wave of the COVID-19 pandemic, with resulting negative effects on the recovery trend recently observed in the German economy, could affect the relatively stable development so far on the real estate markets and could trigger a reassessment of risks.

As regards the opportunities for the Group, GATEWAY emphasizes that a recession, as currently materializing following the COVID-19 pandemic, also offers new opportunities in the procurement market in terms of property and land acquisitions. The financial difficulties of other companies may open up opportunities to acquire properties in particularly attractive locations or subject to particularly good terms. For further details, we refer to the report on opportunities in the 2019 Annual Report on page 58.

6. REPORT ON EXPECTED DEVELOPMENTS

CHANGED ECONOMIC ENVIRONMENT DUE TO COVID-19

As a result of the current developments surrounding the coronavirus spread, there are few reliable economic forecasts for 2020. According to the German Federal Statistical Office, the gross domestic product declined by 10.1% in the second quarter of 2020 compared with the first quarter of the year, net of price, seasonal and calendar adjustments. While data as regards the development of the world economy in the first half of 2020 are currently not available, forecasts predict a recession for the year 2020. According to a forecast published by the World Bank in June 2020, the global economy as a whole is set to contract by 5.2% in 2020. Accordingly, the projected economic slump would be the worst recession since the Great Depression and much worse than the global financial crisis in 2008 and 2009.

For 2021, however, the World Bank expects the global economy to rebound by a rate of 5.4%. Against this backdrop, the European Central Bank (ECB) continues to stick to its low interest rate policy. Further measures to ease monetary policy, such as extensive bond purchases, short-time working allowances and stimulus packages, have already been initiated.

The economic consequences of the pandemic have also left their mark on the real estate markets, albeit in a differentiated form. In its publication "German property market outlook 2020" published on April 22, 2020, Deutsche Bank Research explains the very diverse consequences of the pandemic on the individual asset classes. In this context, the residential property development segment is attested a higher crisis-proof quality, while negative effects on the office property segment are, however, deemed probable. This can also be deducted from a study by JLL according to which the share of the investment volume as regards office properties has declined in the first half compared to the previous year while the share has increased for residential properties. The general decline in investing activities is also attributable to the lockdown measures imposed by the German government to address the COVID-19 pandemic and the associated reduced market activities. Subject to the condition that the COVID-19 pandemic can be brought under control and that an economic recovery will be slowly emerging in the second half of 2020, the fundamental environment in the German residential real estate market is expected to hardly change in 2020 according to Deutsche Bank Research. This is due to the fact that the nationwide imbalance between supply and demand continues to exist. The office market, however, which benefited from a strong economic output and the related growth of employment in Germany in the previous years, should be faced with a decline in demand. However, this ultimately also depends on the changes in the world of employment where an expansion of telecommuting becomes apparent, while the distancing and hygiene rules, on the other hand, lead to increased space requirements per employee.

OUTLOOK FOR THE GATEWAY GROUP

A qualified forecast for the adjusted EBIT and the consolidated profit for the full fiscal year 2020 is possible only to a limited degree in light of the COVID-19 pandemic and, above all, in view of a potential second wave of infections.

Therefore, we continue to refer to the related statements in the 2019 Annual Report (see page 60) where the Management Board made an initial assessment of the potential effects of the coronavirus pandemic on the Company's further business development already in March this year. These statements described that the effects on the operating results would depend on the length of the pandemic based on various scenarios (1. economic life expected to normalize largely over the next three months; 2. continuation of the crisis until year-end 2020; 3. sustained crisis beyond 2021). Since more than three months have passed since then without economic life having largely normalized, publicly available data therefore suggest, in the opinion of the Management Board, that the second of the abovementioned scenarios will occur. As before, a sustained crisis beyond 2021 is deemed unlikely.

The Management Board continues to believe that the Group is well positioned and, on the basis of the risks analyzed and assessed, still does not see any risks that could endanger its continued existence.

A qualified forecast will be issued once this is reasonably possible.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2020

IFRS CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2020

ASSETS

in € thousand	Note	06/30/2020	12/31/2019
Non-current assets			
Intangible assets and goodwill	6.1	39,950	39,891
Property, plant and equipment		3,697	2,518
Investment properties	6.2	9,720	8,270
Investments accounted for using the equity method	6.3	7,055	8,832
Other non-current financial assets		8,908	15,415
Deferred tax assets		4,897	3,615
		74,227	**78,541**
Current assets			
Inventories	6.4	653,215	581,602
Trade receivables		9,099	1,823
Income tax receivables		2,488	2,687
Other financial assets		33,224	70,283
Other non-financial assets		54,417	50,234
Cash and cash equivalents	6.5	39,466	216,045
Assets held for sale	6.6	52,950	38,750
		844,859	**961,424**
		919,086	**1,039,965**

EQUITY AND LIABILITIES

in € thousand	Note	06/30/2020	12/31/2019
Equity			
Subscribed capital	6.7	186,764	186,764
Reserves	6.7	–22,804	–22,804
Retained earnings	6.7	108,277	156,778
Non-controlling interests	6.7	5,474	5,253
		277,711	**325,991**
Non-current liabilities			
Other non-current provisions		637	629
Non-current financial liabilities	6.8	312,880	343,389
Deferred tax liabilities		21,830	15,118
Other non-current financial liabilities		2,969	2,345
		338,316	**361,481**
Current liabilities			
Other current provisions		577	1,448
Current financial liabilities	6.8	214,085	272,620
Income tax liabilities		5,712	9,220
Trade payables		65,335	60,215
Other financial liabilities		7,242	3,465
Other non-financial liabilities		10,108	5,525
		303,059	**352,493**
		919,086	**1,039,965**

IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2020

in € thousand	Note	01/01–06/30/2020	01/01–06/30/2019	04/01–06/30/2020	04/01–06/30/2019
Revenue	6.9	35,163	19,632	7,939	8,021
Changes in inventories of finished goods and work in progress	6.10	67,794	34,894	16,488	26,628
Other operating income	6.12	2,629	1,791	1,334	835
Gross profit		**105,586**	**56,317**	**25,761**	**35,484**
Raw materials and consumables used	6.11	–79,769	–24,949	–14,110	–16,704
Employee benefits expense		–4,923	–5,637	–2,560	–3,137
Fair value changes in investment properties and valuation of properties		15,410	9,147	–490	7,377
Depreciation and amortization expense		–387	–287	–184	–137
Other operating expenses	6.12	–7,437	–12,296	–2,681	–7,585
Operating profit		**28,480**	**22,295**	**5,736**	**15,298**
Profit or loss from investments accounted for using the equity method, after taxes		–101	366	–25	342
Finance income		1,025	446	568	234
Finance costs		–15,809	–18,237	–5,721	–8,671
Other finance costs, net		–330	0	–330	0
Net finance costs	6.13	**–15,215**	**–17,425**	**–5,508**	**–8,095**
Profit before tax		**13,265**	**4,870**	**228**	**7,203**
Income tax expense	6.14	–5,516	–3,109	–776	–2,611
Profit for the period		**7,749**	**1,761**	**–548**	**4,592**
Other comprehensive income		0	0	0	0
Total comprehensive income for the period		**7,749**	**1,761**	**–548**	**4,592**
Attributable to equity holders of the parent company		7,528	1,787	–244	4,623
Attributable to non-controlling interests		221	–26	–304	–31
Earnings per share (basic)	6.15	0.04	0.01	0.00	0.03
Earnings per share (diluted)	6.15	0.04	0.01	0.00	0.03

IFRS CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2020

in € thousand	Note	01/01–06/30/2020	01/01–06/30/2019
Cash flows from operating activities			
Total comprehensive income for the period		7,749	1,761
Adjustments for:			
Depreciation of property, plant and equipment		373	280
Amortization of intangible assets		14	7
Impairment on trade receivables		–190	41
Changes in fair value of investment properties and valuation of properties	6.2	–2,277	120
Changes in fair value of non-current assets held for sale (properties)	6.6	–13,133	–9,267
Profit or loss from investments in companies accounted for using the equity method, after taxes	6.3	101	–366
Distributions received from investments accounted for using the equity method		1,693	0
Other finance costs, net		330	0
Other non-cash expenses/income		514	366
Net finance costs	6.13	14,784	17,791
Profit or loss from the sale of investments accounted for using the equity method		0	–465
Profit or loss from the sale of subsidiaries		0	–832
Tax expenses	6.14	5,516	3,109
Changes in:			
Inventories		–71,613	–34,098
Trade receivables and other receivables		–6,973	3,990
Other financial assets		42,765	0
Non-financial assets		–3,850	–14,960
Trade payables and other payables		8,528	677
Non-financial liabilities		4,212	–8,759
Other provisions as well as assets and provisions for employee benefits		–863	5,846
Interest paid		–9,001	–6,360
Income taxes received		8	333
Income taxes paid		–3,404	–673
Cash flows from operating activities		**–24,717**	**–41,459**
Cash flows from investing activities			
Interest received		163	736
Cash inflows from the sale of non-current assets held for sale (properties)		0	12,420
Cash inflows from the sale of investments accounted for using the equity method		0	400
Cash inflows from the sale of other financial assets		15,050	0
Cash outflows for investments in properties held for sale (IFRS 5)		–1,068	0
Purchase of property, plant and equipment		–59	–241
Purchase of intangible assets		–67	–2
Purchase of other financial assets		–15,050	–15,741
Purchase of investments accounted for using the equity method		0	–11,503
Cash flows from investing activities		**–1,031**	**–13,931**
Cash flows from financing activities			
Cash inflows from capital increase		0	67,914
Transaction costs in connection with the capital increase		0	–563
Cash inflows from new (financial) loans		55,506	38,941
Transaction costs for loans and borrowings		–20	0
Dividends paid to shareholders of the parent company		–56,029	0
Repayments of bonds and (financial) loans		–149,689	–79,896
Payments for lease liabilities		–290	–143
Fees for financial liabilities not utilized		–310	–64
Cash flows from financing activities		**–150,831**	**26,189**
Net increase/decrease in cash and cash equivalents		**–176.579**	**–29,201**
Change in cash and cash equivalents due to consolidation group		0	–10,011
Cash and cash equivalents as of January 1	6.5	216,045	73,931
Cash and cash equivalents as of June 30	6.5	**39,466**	**34,719**

IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2020

		Equity attributable to equity holders of the parent company					
in € thousand	Note	Subscribed capital	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of December 31, 2018		**169,785**	**–73,266**	**49,313**	**145,832**	**2,593**	**148,425**
Profit/loss		0	0	1,787	1,787	–26	1,761
Capital increase		16,979	50,935	0	67,914	0	67,914
Issue costs		0	–563	0	–563	0	–563
Changes in the scope of consolidation		0	0	–947	–947	0	–947
Other		0	0	–231	–231	162	–69
Balance as of June 30, 2019		**186,764**	**–22,894**	**49,922**	**213,792**	**2,729**	**216,521**
Balance as of December 31, 2019		**186,764**	**–22,804**	**156,778**	**320,738**	**5,253**	**325,991**
Profit/loss	6.7	0	0	7,528	7,528	221	7,749
Capital increase		0	0	0	0	0	0
Issue costs		0	0	0	0	0	0
Dividend payment	6.7	0	0	–56,029	–56,029	0	–56,029
Changes in the scope of consolidation		0	0	0	0	0	0
Other		0	0	0	0	0	0
Balance as of June 30, 2020		**186,764**	**–22,804**	**108,277**	**272,237**	**5,474**	**277,711**

IFRS NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2020

1. REPORTING ENTITY

Gateway Real Estate AG (also referred to hereinafter as "GATEWAY", the "Company" or the "Enterprise") and its subsidiaries specialize in the acquisition and long-term rental of commercial properties as investment properties as well as the development of commercial and residential properties for sale.

GATEWAY, which is registered in the commercial register of the Frankfurt am Main local court under the number HRB 93304, has its registered head office and business address at The Squaire, Zugang 15, Am Flughafen, 60549 Frankfurt am Main.

The GATEWAY shares have been listed on the Prime Standard of the Frankfurt Stock Exchange since they were admitted to trading on April 12, 2019. Therefore, GATEWAY is a publicly-traded company within the meaning of stock corporation and commercial law.

The interim consolidated financial statements as of June 30, 2020 were prepared by the Management Board on September 15, 2020 and released for publication.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparing the present financial statements are described in the following.

2.1 GENERAL INFORMATION

The interim consolidated financial statements were prepared based on International Financial Reporting Standards (IFRS), as adopted by the European Union for interim financial statements in accordance with IAS 34.

The interim consolidated financial statements do not comprise all disclosures required for consolidated financial statements in accordance with IFRS and should therefore be read in conjunction with the consolidated financial statements as of December 31, 2019. These consolidated financial statements represent the basis for the present interim financial statements.

The statement of comprehensive income is structured on the basis of the cost of sales method. In accordance with the accrual principle, expenses and income are attributed to the respective periods regardless of when they were paid or received.

The financial statements were generally prepared on the basis of historical cost, except for investment properties, non-current assets held for sale as well as equity investments and derivatives which are measured at fair value.

The estimates and assumptions applied in the preparation of the financial statements according to IFRS influence the measurement of assets and liabilities and the disclosure of contingent assets and liabilities as of the respective reporting dates, as well as the amount of income and expenses in the reporting period. Although these assumptions and estimates were based on the best knowledge of the Company's management, based on current events and measures, actual results could ultimately differ from these estimates.

GATEWAY prepares its interim consolidated financial statements in euro (€). Since the euro is the currency of the primary economic environment in which GATEWAY and its subsidiaries operate, the euro is their functional currency. Amounts are generally stated in thousands of euros (€ thousand). The presentation in thousands of euros may result in rounding differences, both in the tables presented in the notes to the financial statements and in the comparison of values in the notes to the financial statements with other elements of the financial statements.

The interim consolidated financial statements are to be read in conjunction with the audited and published IFRS consolidated financial statements as of December 31, 2019 and the notes included therein. The accounting policies used by the Group for the present interim consolidated financial statements generally correspond to the policies applied in the 2019 consolidated financial statements.

2.2 FINANCIAL REPORTING STANDARDS

a) Standards and interpretations required to be applied for the first time in the reporting year

—

Standard	Content	Mandatory first-time application for fiscal years beginning on or after
Amendments to IFRS 3	Definition of Business	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020
Amendments to IAS 1 and IAS 8	Definition of Material	January 1, 2020
Conceptual Framework	Revision of the Conceptual Framework and Amendments to References to the Conceptual Framework in various IFRS Standards.	January 1, 2020

The application of these newly applied financial reporting standards will have no material effects on the consolidated financial statements, except for additional disclosures in the notes.

b) Standards and amendments to standards issued, but not yet applied

At the moment, there are no issued standards or amendments to standards applicable for fiscal years beginning on or after January 1, 2021, that already have been endorsed by the EU.

The following standards that will become effective in the coming years have not yet been endorsed by the EU.

—

Standard amendment	Content	Mandatory first-time application for fiscal years beginning on or after
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IFRS 16	covid-19-Related Rent Concessions	June 1, 2020
Amendments to IFRS 4	Postponement of IFRS 9	January 1, 2021
Various	Annual Improvements to IFRS Standards, 2018–2020 Cycle	January 1, 2022

It is intended to apply these standards when they are required to be applied for the first time. The effects of the amendments or new rules not yet adopted by the EU on the Company's consolidated financial statements are currently being reviewed.

2.3 SIGNIFICANT CHANGES IN THE SCOPE OF CONSOLIDATION

With effect from March 30, 2020, 94.5% and, thus, all of the shares in ABK Wohnraum GmbH & Co. KG were sold for a purchase price of €1.

There were no material additions to the scope of consolidation in the first half of 2020.

3. ADDITIONAL DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

3.1 PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The Group's risk management is managed by a central Finance Department on the basis of guidelines approved by the management. This Finance Department identifies, assesses and manages financial risks in close cooperation with the Group's operating companies. The management issues written guidelines for overall risk management and for certain areas such as interest rate risks, default risks and liquidity management.

Financial risk management involves the management and limitation of financial risks arising from operating activities. It involves continuous, rolling liquidity controlling that is particularly focused on the avoidance of significant receivables defaults and assuring the financing needs of ongoing operations.

To limit the receivables default risk, ownership of sold properties is generally transferred to the buyer only after payment of the purchase price. Interest rate risks are not significant due to the predominantly short-term nature of borrowings.

3.2 CAPITAL RISK MANAGEMENT

The Group regularly reviews its capital structure in connection with the preparation of its annual and interim financial statements. The equity ratio for the first half is presented in the table below:

—

EQUITY RATIO

in € thousand	June 30, 2020	December 31, 2019
Equity	277,711	325,991
Total assets	919,086	1,039,965
Equity ratio (in %)	30.2	31.3

3.3 CLASSES OF FINANCIAL INSTRUMENTS IN ACCORDANCE WITH IFRS 7

In the following tables, the carrying amounts of the financial instruments are reconciled to the IFRS 9 measurement categories and the fair values of the financial instruments are disclosed.

—

June 30, 2020

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
	Financial assets – FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Other financial liabilities – AmC		
Financial assets measured at fair value						
Equity investments	3,027	0	0	0	3,027	3
Embedded derivatives	367	0	0	0	367	3
Total	**3,394**	**0**	**0**	**0**	**3,394**	
Financial assets not measured at fair value						
Trade receivables	0	0	9,099	0	9,099	
Other receivables	0	0	20,170	0	20,170	
Contract assets	0	0	5,673	0	5,673	
Loans	0	0	10,128	0	10,128	
Security deposits for leased office space	0	0	103	0	103	
Miscellaneous other financial assets	0	0	2,664	0	2,664	
Cash and cash equivalents	0	0	39,466	0	39,466	
Total	**0**	**0**	**87,303**	**0**	**87,303**	
Total financial assets	**3,394**	**0**	**87,303**	**0**	**90,697**	

—

June 30, 2020

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
	Financial assets – FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Other financial liabilities – AmC		
Financial liabilities measured at fair value						
Limited partners' share, non-controlling interests	122	0	0	0	122	3
Total	**122**	**0**	**0**	**0**	**122**	
Financial liabilities not measured at fair value						
Liabilities to banks	0	0	0	348,333	355,426	2
Liabilities to related companies	0	0	0	68	68	2
Liabilities under corporate bonds to related parties	0	0	0	35,565	30,515	2
Liabilities to third parties from corporate bonds	0	0	0	75,636	73,811	1
Loan liabilities to third parties	0	0	0	67,241	70,165	2
Trade payables	0	0	0	65,335	65,335	
Other financial liabilities	0	0	0	3,852	3,852	
Contract liabilities	0	0	0	3,413	3,413	
Lease liabilities	0	0	0	2,945	n/a	
Total	**0**	**0**	**0**	**602,390**	**602,585**	
Total financial liabilities	**122**	**0**	**0**	**602,390***	**602,707**	

* With the exception of lease liabilities that are separate from the classification in accordance with IFRS 9, the total of the category "other financial liabilities – AmC" amounts to €599,445 thousand.

—

December 31, 2019

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
	Financial assets – FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Other financial liabilities – AmC		
Financial assets measured at fair value						
Equity investments	2,996	0	0	0	2,996	3
Embedded derivatives	2,002	0	0	0	2,002	3
Total	**4,998**	**0**	**0**	**0**	**4,998**	
Financial assets not measured at fair value						
Trade receivables	0	0	1,823	0	1,823	
Other receivables	0	0	57,446	0	57,446	
Contract assets	0	0	10,830	0	10,830	
Loans	0	0	12,094	0	12,094	
Security deposits for leased office space	0	0	330	0	330	
Cash and cash equivalents	0	0	216,045	0	216,045	
Total	**0**	**0**	**298,568**	**0**	**298,568**	
Total financial assets	**4,998**	**0**	**298,568**	**0**	**303,566**	

—

December 31, 2019

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
	Financial assets – FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Other financial liabilities – AmC		
Financial liabilities measured at fair value						
Limited partners' share, non-controlling interests	123	0	0	0	123	3
Total	**123**	**0**	**0**	**0**	**123**	
Financial liabilities not measured at fair value						
Liabilities to banks	0	0	0	330,235	344,740	2
Liabilities to related companies	0	0	0	69,704	64,149	2
Liabilities under corporate bonds to related parties	0	0	0	63,737	63,737	2
Liabilities to third parties from exchange-listed corporate bonds	0	0	0	73,148	75,286	1
Loan liabilities to third parties	0	0	0	79,062	84,088	2
Trade payables	0	0	0	60,215	60,215	
Other financial liabilities	0	0	0	3,276	3,276	
Contract liabilities	0	0	0	0	0	
Lease liabilities	0	0	0	2,534	n/a	
Total	**0**	**0**	**0**	**681,911**	**695,491**	
Total financial liabilities	**123**	**0**	**0**	**681,911***	**695,614**	

* With the exception of lease liabilities that are separate from the classification in accordance with IFRS 9, the total of the category "other financial liabilities – AmC" amounts to € 679,377 thousand.

Financial instruments measured at fair value are assigned to (measurement) levels depending on the importance of the factors and information considered for measuring them.

The assignment of a financial instrument to a level depends on the importance of the input factors considered for its overall measurement; the lowest level for which the measurement as a whole is significant or determining is chosen. The measurement levels are sub-divided to the following hierarchy levels according to their input factors:

Level 1: Quoted prices in active markets for identical assets or liabilities (unadjusted)

Level 2: Inputs other than the quoted prices applied in Level 1, which are, however, observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Factors considered for measuring the asset or liability that are not based on observable market data (unobservable inputs)

The derivative financial instruments recognized in the consolidated statement of financial position are embedded derivatives that are separated from the bonds and are measured on the basis of the Level 3 information and inputs described above.

Interest rates and default intensities are simulated in order to assess the advantages of exercising the termination options. The inputs of the valuation model are interest and credit spread volatilities as well as the yield curve and the CDS rates as of the respective valuation date. Since credit spreads are not directly observable in the market, the embedded termination options have to be allocated to Level 3 of the fair value hierarchy.

Financial liabilities are measured on the basis of the discounted cash flow method (Level 2). For this purpose, the future cash flows are discounted using risk-adjusted interest rates with matching maturities.

For the limited partners' capital of non-controlling interests as well as for unlisted equity investments in the Group, the measurement method is chosen which is deemed appropriate and practical in the respective case. This includes information gathered from financing rounds carried out recently or multiplier methods. The acquisition costs are considered the best estimate of fair value only when there is no sufficient information for fair value measurement. Moreover, the Group is not aware of any evidence indicating that the fair value is lower than (amortized) cost.

The Group recognizes transfers between various levels of the fair value hierarchy as of the end of the reporting period in which the change has occurred. There were no transfers between the levels in the reporting period and the comparative period.

The reconciliation of the opening balances to the closing balances of Level 3 fair values is presented in the table below.

—

in € thousand	Derivative financial instruments	Equity investments FVtPL
Balance as of January 1, 2019	**4,071**	**433**
Gains (losses) recognized in finance costs	–2,069	0
Additions	0	2,563
Balance as of December 31, 2019	**2,002**	**2,996**
Gains (losses) recognized in interest expenses	–1,635	0
Additions	0	31
Balance as of June 30, 2020	**367**	**3,027**

Any change considered possible in one of the principal, unobservable input factors, while retaining the other input factors, would have the following effects on the fair values of derivative financial instruments:

—

DERIVATIVE FINANCIAL INSTRUMENTS

	Profit or loss	
in € thousand	Increase	Decrease
Balance as of December 31, 2019		
Anticipated fair market refinancing rate (1% change)	–457	529
Balance as of June 30, 2020		
Anticipated fair market refinancing rate (1% change)	–183	213

4. ESTIMATES, DISCRETIONARY JUDGMENTS AND ASSUMPTIONS APPLIED FOR ACCOUNTING PURPOSES

For accounting purposes, the Company makes estimates and assumptions regarding expected future developments. All assumptions and estimates are made on the basis of the circumstances and assessments at the reporting date and influence the presentation of the Group's financial position, cash flows and financial performance, as well as the understanding of the underlying risks of financial reporting. The estimates derived from these factors may differ from actual later events. Critical estimates and assumptions are applied for accounting purposes particularly in the following areas:

— With respect to the properties held by the Group, the Management Board must decide at every reporting date whether they should be held on a long-term basis to earn rentals or for capital appreciation or both or for sale. Depending on this decision, the properties are accounted for as land with unfinished and finished buildings intended for sale (inventories) or as non-current assets intended for sale, in accordance with the principles for investment properties, and measured at (amortized) cost or fair value, depending on the classification. We refer to Notes 6.2 and 6.6.

— The market values of investment properties are based on the results of independent experts engaged for this purpose. The appraisals are conducted in accordance with the discounted cash flow method based on expected future revenue surpluses (procedure of Measurement Level 3). Accordingly, factors such as future rental income and the valuation interest rate to be applied, which have a direct effect on the fair values of the investment properties, are estimated by GATEWAY in collaboration with the appraiser. We refer to Note 6.2.

— In accordance with IAS 34 in conjunction with IAS 12, the income tax expense is determined as of the end of the quarter on the basis of the best estimate of the weighted average income tax rate expected for the full fiscal year 2020. The tax rate projected for the full year is determined on the basis of the currently applicable corporate planning, taking into account various assumptions and estimates. Accordingly, there are uncertainties related to the interpretation of tax regulations. In addition, the utilization of deferred tax assets requires future tax results, unless deferred tax liabilities of at least the same amount are also attributable to a tax unit. Therefore, differences between the actual results and our assumptions as well as future changes in our estimates can occur, which may lead to changes of the taxable profit in future periods. We refer to Note 6.14.

— Various assumptions need to be made with respect to other provisions, including for example with respect to occurrence probabilities and the utilization amounts of provisions for litigation risks. All information available at the time of preparing the financial statements was considered for this purpose. As of the reporting date, other current provisions amounted to €0.6 million (previous year: €1.4 million) and refer to current litigation risk, among other things. The measurement of the provisions takes into account knowledge of the current state of the litigation as well as the assessment of the Management Board.

— There is scope for discretion in determining the time and amount of revenue recognition in accordance with the principles of IFRS 15. If a binding sales contract already exists for a property under development, revenue recognition based on a time period in accordance with the estimated stage of completion can also be considered in addition to revenue recognition based on a specific point in time. This applies accordingly to revenue recognition for undertakings included in the financial statements using the equity method. We refer to Notes 6.3 and 6.9.

— The fair value of derivative financial instruments is estimated on the basis of an option price model recognized for this type of transaction, in the form of a binomial model. We refer to Note 3.

5. SEGMENT REPORT

The segment report is prepared in accordance with IFRS 8 based on the management approach. This means that the segment report is linked to the reporting to the chief operating decision makers and reflects the information regularly presented to the chief operating decision makers with respect to decisions on the allocation of resources to the segments and the assessment of profitability. Profitability is assessed and managed on the basis of adjusted EBIT. The adjusted EBIT is defined by the Group as the operating profit plus the result from investments accounted for using the equity method.

There is no reporting of results on the basis of geographical regions because all of the Group's activities are conducted in Germany. The individual segments are described in the following:

— **Standing Assets:** This segment covers a profitable and diverse portfolio of existing properties. This portfolio comprises properties acquired prior to the acquisition of Development Partner AG in October 2018. The segment revenues consist primarily of rental income from the investment properties.

— **Commercial Properties Development:** The development activities for commercial properties are combined in the Commercial Properties segment. The objective of this segment is to develop attractive and high-quality office buildings with modern architecture and flexible usage formats. Geographically, these activities are concentrated on the top 7 cities in Germany (i.e. Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart) and on selected metropolitan areas such as Nuremberg.

— **Residential Properties Development:** In the Residential Development segment, the Group concentrates on development activities in selected metropolitan regions in Germany, normally cities with a population of at least 100,000, such as Dresden, Berlin, Erfurt, Frankfurt am Main, Leipzig and Munich. The focus here is on the new construction of medium-sized apartment buildings for modern living and mixed-use properties and real estate.

The segment information is determined on the basis of the accounting policies used in the consolidated financial statements. Segment assets as well as revenues and expenses resulting from intersegmental transactions are eliminated in the column "consolidation".

The major effects shown in this column result from the elimination of intra-group balances as well as of expenses and income. The elimination of intra-group balances regarding segment assets mainly results in the consolidation of receivables (€248,935 thousand) of the Standing Assets segment from the Commercial Property Development and the Residential Property Development segments. The consolidation of the liabilities (€248,935 thousand) matching the receivables is the main effect as regards segment liabilities. The elimination of expenses and income results in the consolidation of income from a distribution (€17,116 thousand) of the Residential Property Development segment to the Standing Assets segment; this income is reported in net finance costs.

Revenue from third parties (external revenue) is generated exclusively in Germany; 86% of this revenue is attributable to the Commercial Property Development segment, 4% to the Standing Asset segment and 10% to the Residential Property Development segment. Revenue from third parties in the Commercial Property Development segment largely includes revenue from two customers in the amount of approximately €26.0 million in connection with the forward sale of a construction project. Of that amount, €20.9 million is attributable to a construction project newly started in the first half. Revenue from third parties in the Standing Assets segment mainly refers to rental revenue from investment properties held as financial investments and held for sale. The major portion of revenue from third parties in the Residential Property Development segment is attributable to revenue from a customer in the amount of approximately €3.6 million in connection with the forward sale of a construction project already commenced in the previous year.

The operating profit as reported in the statement of comprehensive income is specified as the segment result.

Segment assets include all the Group's assets, and segment liabilities include all the Group's provisions and liabilities.

The subsidiary SKE Immo Sulzbach GmbH (S.à r.l.), which was reported under the Commercial Properties Development segment in the previous year, is now reported under the Residential Properties Development segment due to its current intended use.

Approximately 10% of revenue from third parties (external revenue) originates from rental revenue from investment properties (Standing Assets segment) and rental revenue from inventory properties (Commercial Properties Development segment).

—

June 30, 2020

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
Revenue from third parties (external revenue)	1,404	30,174	3,585	0	35,163
Intersegment revenue (internal revenue)	148	91	0	–239	0
Revenue	**1,552**	**30,265**	**3,585**	**–239**	**35,163**
Segment result (operating profit)	11,495	16,579	406	0	28,480
Net finance costs	17,024	–15,424	–859	–15,956	–15,215
Profit before tax	28,519	1,155	–453	–15,956	13,265

—

June 30, 2019

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
Revenue from third parties (external revenue)	15,365	4,267	0	0	19,632
Intersegment revenue (internal revenue)	0	0	0	0	0
Revenue	**15,365**	**4,267**	**0**	**0**	**19,632**
Segment result (operating profit)	9,771	10,348	2,112	64	22,295
Net finance costs	–3,453	–12,117	–1,855	0	–17,425
Profit before tax	6,318	–1,769	257	64	4,870

The goodwill acquired under the reverse acquisition of GATEWAY by Development Partner AG in the amount of €39,881 thousand could be allocated to the cash-generating unit in the previous year and is therefore no longer reported in the column "Assets not allocated", but is instead allocated to the individual segments.

—

June 30, 2020

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
Segment assets	351,224	699,762	129,528	–261,427	919,086
Segment liabilities	158,696	628,555	110,553	–256,429	641,375

—

June 30, 2019

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
Segment assets	326,919	680,034	132,897	–99,885	1,039,965
Segment liabilities	151,802	561,322	95,736	–94,885	713,974

6. ADDITIONAL NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 INTANGIBLE ASSETS AND GOODWILL

Intangible assets can be broken down as follows:

—

in € thousand	06/30/2020	12/31/2019
Goodwill	39,881	39,881
Other intangible assets	69	10
Total	**39,950**	**39,891**

By way of an agreement dated July 9, 2018 and taking effect as of October 5, 2018, SN Beteiligungen Holding AG contributed the shares held in Development Partner AG into GATEWAY and, as consideration, received 148,610,491 shares in the Company. This reverse acquisition resulted in the goodwill reported under intangible assets.

The allocation of the goodwill acquired within the scope of the reverse acquisition of GATEWAY by Development Partner (€39,881 thousand) was completed as of September 30, 2019. The goodwill was allocated to the following CGUs and was unchanged as of the reporting date, as detailed below:

— €6.124 thousand to the CGU “Standing”;
— €9.789 thousand to the CGU “Residential”; and
— €23.968 thousand to the CGU “Commercial”.

6.2 INVESTMENT PROPERTIES

The development of investment properties is presented in the following table:

—

in € thousand	
Balance as of 12/31/2019	**8,270**
Reclassifications from investment properties to property, plant and equipment	–827
Changes in market value	2,277
Balance as of 06/30/2020	**9,720**

This includes the standing asset of Gateway Zweite GmbH & Co. KG. The standing asset is partially used by the Group. Accordingly, this owner-occupied portion has been reclassified to property, plant and equipment. The cost was measured at fair value as of the reclassification date and depreciated on a straight-line basis.

In order to better estimate the effects from investment properties on income and expenses arising from operating activities, significant amounts recognized in the statement of profit or loss are shown here only for the investment properties:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Rental revenues	311	1,534
Revenues from operating costs	66	460
Administration costs (operating costs, maintenance, administration, etc.)	–169	–813
Total	**208**	**1,181**

The operating expenses were incurred primarily for leased properties. The expenses allocable to vacant properties are of subordinate importance.

The fair value of the property is measured on the basis of an appraisal as of March 31, 2020. This resulted in a fair value adjustment of €2,277 thousand recognized through profit or loss. Accordingly, the determination of the fair value was generally based on Level 3 input factors, i. e., factors not based on observable market data (unobservable input factors).

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The composition of the investments accounted for using the equity method is presented in the following table.

—

in € thousand	Associates	Joint ventures	Total
Balance as of 12/31/2019	**4,721**	**4,111**	**8,832**
Additions	0	0	0
Disposals	0	0	0
Result from investments accounted for using the equity method (Q2)	34	–135	–101
Other effects	–1,694	18	–1,676
Balance as of 06/30/2020	**3,061**	**3,994**	**7,055**

In the first half, there was a payout from PE Venloer Straße in Köln S.à r.l. to PE Venloer Straße in Köln Beteiligungsgesellschaft mbH in the amount of €1,693 thousand. The distribution was charged outside profit or loss against investments in associates.

6.4 INVENTORIES

The Group's inventories as of the reporting date consisted of the capitalized construction costs (including construction period interest) of inventory properties, which are measured at the lower of amortized cost or net realizable value in accordance with IAS 2. Construction period interest in the amount of €9,779 thousand was capitalized as part of the construction costs in the first half of 2020.

The total carrying amount of all inventory properties as of June 30, 2020 was €653,215 thousand. Due to its focus on developing properties and the related sale of multiple inventory properties, the Group has further expanded its inventories. The inventory properties mainly consist of Projektentwicklung Breite Gasse GmbH (€91,900 thousand), Immobilienbeteiligungsgesellschaft am Kennedydamm mbH (€78,664 thousand), PE Revaler Str. 32 (€70,008 thousand) and Projektentwicklung Michaelkirchstraße GmbH (€58,668 thousand).

The development of inventories is presented in the table below:

—

in € thousand	06/30/2020	12/31/2019
PE Revaler Str. 32	70,008	66,512
PE Storkower Str. 140	14,993	1,078
PE Storkower Str. 142–146	39,290	33,824
Augskor 1	8,111	783
Augskor 2	19,933	1,912
Augskor 3	14,744	1,435
PE Kennedydamm	78,664	75,454
PE Breite Gasse	91,900	89,670
PE Brotstraße	4,240	4,259
PE Uerdinger Str. Office	0	16,074
PE Uerdinger Str. Residential	4,404	4,120
PE Michaelkirchstr.	58,668	56,259
PE Himmelgeister Straße	786	786
MUC Airport Living	19,050	18,824
PE Neufahrn*	25,687	25,381
Bet.Ges. Berlin-Heinersdorf 18	32,491	31,888
PE Campus Park München	64,873	62,113
PE Tech Campus Stuttgart	18,906	14,070
PE Mediaspree	73,525	72,160
SKE Immo Sulzbach	12,922	5,000
Other	20	0
Total	**653,215**	**581,602**

* In the first half, the projects Gewerbepark Neufahrn GmbH and Movingstairs GmbH were combined in this line item.

6.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly consisted of overnight bank deposits and amounted to €39,466 thousand as of June 30, 2020 (December 31, 2019: €216,045 thousand).

6.6 ASSETS HELD FOR SALE

The assets held for sale changed as follows:

—

in € thousand	
Balance as of 12/31/2019	**38,750**
Additions	1,067
Changes in market value	13,133
Balance as of 06/30/2020	**52,950**

The measurement of the properties reported here was based on the procedure used for investment properties. The selling price was used for properties where the transaction and the selling price already are reasonably certain. The fair value determined in the context of the appraisal was used for the remaining properties. Overall, this procedure led to a fair value adjustment of €13,133 thousand recognized through profit or loss in the reporting period.

As of June 30, 2020, only the following stand-alone sales were included in this item:

Stand-alone sale

— Gateway Vierte GmbH, Frankfurt am Main
— Gateway Fünfte GmbH, Frankfurt am Main

In order to better estimate the effects from the future disposal of held-for-sale assets on income and expenses arising from operating activities, significant amounts recognized in the statement of profit or loss are shown here only for the properties reported as held-for-sale assets:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Rental revenues	441	6,727
Revenues from operating costs	105	1,410
Revenues from cost charges to others and building cost subsidies	94	0
Administration costs (operating costs, maintenance, administration, etc.)	–466	–3,281
Total	**174**	**4,856**

The operating expenses were incurred primarily for leased properties. The expenses allocable to vacant properties are of subordinate importance.

The determination of the fair value was generally based on Level 3 input factors, i.e., factors not based on observable market data (unobservable input factors). Accordingly, the agreed selling prices are used for properties where the transaction and the selling price already are reasonably certain. In such cases, the fair value is calculated on the basis of Level 2 input factors that can be observed for the asset directly (i.e. as the price).

6.7 EQUITY

As of June 30, 2020, the share capital is unchanged at €186,764,040 and is divided into 186,764,040 no-par-value bearer shares with a notional value in the share capital of €1 per share.

The dividend of €0.30 per qualifying no-par value share resolved at the Annual General Meeting on May 12, 2020, with a total amount of €56.0 million, was paid out on May 15, 2020.

Please refer to the statement of changes in equity for a presentation of the development of the individual components of equity.

6.8 FINANCIAL LIABILITIES

Financial liabilities break down as follows:

—

in € thousand	06/30/2020	12/31/2019
Current financial liabilities		
Liabilities to banks	145,084	179,596
Liabilities to related companies	68	69,394
Liabilities to third parties from corporate bonds	1,692	0
Loans from third parties	67,241	23,631
	214,085	**272,620**
Non-current financial liabilities		
Liabilities to banks	203,248	150,640
Liabilities to related companies	0	311
Liabilities to third parties from corporate bonds	73,944	73,148
Liabilities to related companies from corporate bonds	35,566	63,737
Loans from third parties	0	55,431
Limited partners' share, non-controlling interests	122	123
	312,880	**343,389**
Total	**526,965**	**616,009**

The current financial liabilities have a remaining term of up to 12 months. They primarily include the current portion of the liabilities in connection with the acquisition of properties or the financing of development projects. The terms of the non-current financial liabilities in the amount of €312,880 thousand are longer than one year.

No payment delays or breaches of contract occurred with respect to financial liabilities in the reporting period.

There were no financial liabilities denominated in foreign currencies as of the reporting date, and neither were there any interest rate swaps or other stand-alone derivative financial instruments as of the reporting date.

6.9 REVENUE

The Group generated revenues of €35,163 thousand in the period from January 1 to June 30, 2020. GATEWAY mainly generates revenues from the rental of investment properties and inventory properties, the sale of inventory properties, and the provision of services. Operating cost settlements and building subsidies received are other income sources. Specifically, revenues break down as follows:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Rental revenues in accordance with IFRS 16		
Rental revenues on investment properties	311	1,534
Rental revenues on IFRS 5 properties	441	6,727
Rental revenues sub-letting DP AG	12	34
Rental revenues on inventory properties	3,120	2,642
	3,884	**10,937**
Rental revenues in accordance with IFRS 15		
Revenues from the sale of inventory properties	29,582	4,900
Revenues from operating costs (flat charges, settlements)	741	748
Revenues from operating costs (flat charges, settlements) in accordance with IFRS 5	105	1,410
Revenues from cost charges to others and building cost subsidies in accordance with IFRS 5	95	15
Revenues from services	389	1,570
Other	367	52
thereof over time	15,307	1,570
thereof at a point in time	15,972	7,125
	31,279	**8,695**
Total	**35,163**	**19,632**

Of the overall revenues, €31,279 thousand fall under the scope of IFRS 15 and €3,884 thousand fall under the scope of IFRS 16. With respect to revenues under the scope of IFRS 15, the Group distinguishes between revenue recognition at a point in time and over time, depending on the type of the underlying legal transaction. The increase in revenues compared to the prior-year period is mainly attributable to the sale of the inventory property of Projektentwicklung Uerdinger Straße Office GmbH, Düsseldorf.

In contrast, revenues related to associates and joint ventures are mainly recognized over time.

6.10 CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS

The changes in inventory relate to the capitalized production costs for the inventory properties, which include €9,779 thousand in capitalized interest on borrowed capital (June 30, 2019: €11,531 thousand). The major changes in inventories result from the projects Augskor 1–3 (€37,210 thousand) and PE Storkower Str. 140 (€13,915 thousand). The changes in inventories of finished goods and work in progress is reduced as a result of the sale of the inventory property of Projektentwicklung Uerdinger Straße Office GmbH, Düsseldorf. The specific breakdown of changes in inventory is presented in the table below:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Increase in inventory due to construction activity and capitalization of interest on borrowed capital	83,865	38,962
Sale of inventory properties	–16,071	–4,068
Total	**67,794**	**34,894**

6.11 RAW MATERIALS AND CONSUMABLES USED

The reported raw materials and consumables used primarily comprise the production costs of the inventory properties, the acquisition costs for land, and the administration costs for the rented properties. This item breaks down as follows:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Land	50,690	7,354
Construction costs	12,003	6,813
Professional fees/project costs	13,719	2,976
Administration costs	1,755	4,553
Other construction costs	1,602	3,253
Total	**79,769**	**24,949**

6.12 OTHER OPERATING INCOME AND EXPENSES

Other operating income includes the following amounts:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Proceeds from sale of investments accounted for using the equity method	0	465
Result from deconsolidation	431	0
Income from purchase price adjustments	678	0
Income from the reversal of provisions	599	838
Income from the reduction of specific loss allowances	190	0
Insurance compensation, indemnity	332	180
Costs charged to others	8	12
Other in-kind benefits charged, motor vehicles	51	66
Reimbursements relating to Expenditure Compensation Act	165	19
Income from the reduction of liabilities	2	132
Other	173	79
Total	**2,629**	**1,791**

Other operating expenses include the following amounts:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Indemnification expenses for silent partnerships	1,923	0
Legal and consulting expenses	1,272	1,239
Advertising, travel and motor vehicle expenses	454	740
Accounting, financial statements and auditing expenses	1,087	2,434
Occupancy expenses	165	418
IT, office and communication expenses	215	147
Insurance, premiums and dues	130	155
Costs for termination of a purchase contract	0	600
Advertising expenses property	0	94
Selling expenses property	561	0
Leasing expenses	68	0
Replacement space for a let property	0	75
Other project development expenses	372	104
Purchased services	727	188
Tenant brokerage commission	8	3,334
Continuing education expenses	33	48
Other financing expenses	74	1,610
Other tax expenses	90	13
Prior-period expenses	47	75
Other	211	1,022
Total	**7,437**	**12,296**

6.13 NET FINANCE COSTS

Net finance costs can be broken down as follows:

—

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Finance income	1,025	446
Finance costs	–15,809	–18,237
Profit and loss from companies accounted for using the equity method	–101	366
Third party profit or loss shares	–330	0
Total	**–15,215**	**–17,425**

The finance costs predominantly result from borrowings to finance the development projects as well as standing assets. An amount of €9,779 thousand of these finance costs was capitalized (see Note 6.10). The profit and loss shares in companies accounted for using the equity method are explained in Note 6.3.

6.14 INCOME TAX EXPENSE

The income tax expense for the first half of 2020 amounted to €5,516 thousand (H1 2019: €3,109 thousand). The effective tax rate of 41.58% was mainly influenced by changes in valuation adjustments of deferred tax assets on loss carryforwards as well as local trade tax corrections (particularly interest expenses). The tax rate for the first half of 2019 was 63.84%.

6.15 EARNINGS PER SHARE

Basic and diluted earnings per share are as follows:

—

in €	Q1–Q2 2020	Q1–Q2 2019
Earnings per share	**0.04**	**0.01**

The basic earnings per share are calculated as the quotient of earnings attributable to the shareholders of the parent company and the average number of shares outstanding during the financial year.

The calculation basis for earnings per share is summarized in the following table. Basic earnings per share correspond to diluted earnings per share since there are no dilution effects.

—

ATTRIBUTION OF PROFIT TO COMMON SHAREHOLDERS

in € thousand	Q1–Q2 2020	Q1–Q2 2019
Profit attributable to owners of the parent company	7,528	1,787
Profit attributable to holders of common shares	7,528	1,787

—

B. WEIGHTED AVERAGE OF COMMON SHARES

in thousands of shares	Q1–Q2 2020	Q1–Q2 2019
	186,764	178,274

6.16 RELATED PARTY TRANSACTIONS

A. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

Development Partner AG was acquired by SN Beteiligungen Holding AG by way of a contract dated July 28, 2017. By way of an agreement dated July 9, 2018 and taking effect as of October 5, 2018, SN Beteiligungen Holding AG contributed the shares held in Development Partner AG into GATEWAY and, as consideration, received 148,610,491 shares in the Company.

The majority stake held by SN Beteiligungen Holding AG in GATEWAY in the previous year amounted to 65.75%. On May 12, 2020, SN Beteiligungen Holding AG sold 121,319,602 shares to Norbert Ketterer. SN Beteiligungen Holding AG is controlled by Norbert Ketterer. GATEWAY is therefore also controlled by Norbert Ketterer.

B. RELATED PARTY TRANSACTIONS

All material loan amounts with the related companies Helvetic Financial Services AG, Switzerland, Helvetic Private Investments AG, Switzerland, MUC 14. Vermögensverwaltungs GmbH & Co. KG, SN Beteiligungen Holding AG, Switzerland, and Ketom AG, Switzerland, as presented in the 2019 Annual Report on pages 132 and 133, were redeemed in the first half, except for the loan of Immobilienbeteiligungsgesellschaft am Kennedydamm in Düsseldorf mbH, Düsseldorf, dated December 15, 2017.

On May 12, 2020, the related company Helvetic Private Investments AG sold 2,262,200 shares to Norbert Ketterer.

6.17 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On July 3, 2020, Gateway Real Estate AG issued a further bond tranche in the amount of €26.2 million. Accordingly, the outstanding bond volume amounts to a total of €100.0 million.

Frankfurt am Main, September 15, 2020

Manfred Hillenbrand

Tobias Meibom

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Frankfurt am Main, September 15, 2020

Manfred Hillenbrand

Tobias Meibom

INFORMATION ON THE REVIEW

The interim consolidated financial statements and the interim management report of the Group have been neither reviewed nor audited pursuant to Section 317 of the German Commercial Code (*Handelsgesetzbuch*; HGB).

FINANCIAL CALENDAR

November 16–18, 2020	Eigenkapitalforum
November 30, 2020	Publication Q3

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