

**Vonovia Finance B.V.,
Amsterdam**

Financial Report 2016

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1. Supervisory Board Report 2016

Given the relevance of Vonovia Finance B.V. and acting in compliance with requirements of good corporate governance practices, a Supervisory Board was established in 2015. The Supervisory Board currently comprises three members, two of which are representatives of the sole shareholder:

Dr. A. Stefan Kirsten (Chairman) (CFO of Vonovia SE)

Christoph Schauerte (Vice President Group Accounting and Accounting Officer of Vonovia SE)

Simone Schumacher (Head of Accounting BMW Finance N.V.)

Mrs. Schumacher joined the Supervisory Board on November 1, 2016, replacing Dr. Thomas Görgemanns (Legal Counsel and Compliance Officer of Vonovia SE).

The Supervisory Board held two meetings during the year in the office of the company in Amsterdam – one on April 13, 2016, and one on September 2, 2016. During these meetings the following items were discussed, amongst others:

- Operational business and performance up to December 31, 2015 and June 30, 2016
- Financial strategy of the company
- Outlook 2016 and 2016/2017
- Dutch Corporate Governance Code, and its impact on Vonovia Finance B.V.
- Recruiting processes

On April 13, 2016, the external independent auditor attended the meeting.

The Supervisory Board elected Mr. Schauerte as the vice chairman in the meeting dated September 2, 2016.

The Supervisory Board expresses with great gratitude that the work of the Board and the company employees have enabled strong growth in the current year. The Supervisory Board looks forwards to continue this path in the future.

The members of the Supervisory Board received total remuneration of € 2 k in 2016 for their work.

The Supervisory Board members do not receive any additional benefits, bonuses or incentives.

Amsterdam, March 9, 2017

Original has been signed by
Dr. A. Stefan Kirsten (Chairman)

Original has been signed by
Christoph Schauerte

Original has been signed by
Simone Schumacher

2. Management Report 2016

Vonovia Finance B.V., Amsterdam ("FINANCE B.V. or the company") was founded by Vonovia SE in 2013 as a wholly owned subsidiary following the IPO of Vonovia SE, Düsseldorf, Germany, with the intention of acting as a main contributor to the execution of the financial strategy, in particular with the debt capital markets. It was founded to act as a financing company and to arrange for debt financings on the international debt capital markets, primarily by issuing bonds, preferably through Luxembourg.

FINANCE B.V. is therefore an integral part of the Group finance strategy of Vonovia SE and consequently an important tool for executing this strategy. This strategy is to pursue various complementary objectives simultaneously, so as to ensure sufficient liquidity at all times based on a sustainable equity-funding ratio, a balanced structure and maturity of debt financing. This ensures a favorable LTV (loan-to-value) ratio while optimizing funding expenses and simultaneously ensuring the rating classification. Making use of a Dutch financing company is in line with international practice.

Based on a comfortable platform of equity and debt investors and the long-term credit rating BBB+ (investment grade rating) for Vonovia from Standard & Poor's (S&P), the company has excellent access to international capital markets at affordable conditions, which ensures sufficient liquidity at all times. The unsecured and unsubordinated bonds share the same BBB+ investment grade rating as Vonovia SE. The hybrid bonds have a regular rating two notches lower at BBB-. The short-term credit rating of A-2 has been confirmed. The most recent confirmation of the rating by S&P is from fall 2016.

In practice, it is the company's intention to on-lend the raised funds with a reasonable lending margin to Vonovia Group entities on an arm's length basis as part of Group financing. As of December 31, 2016, FINANCE B.V. has a total indebtedness of € 10.688 million, which has been on-lent to Vonovia Group entities. FINANCE B.V.'s financing depends on the conditions on the capital market, which are at the moment still very favorable due to the low interest rates. Nevertheless, the company will strive to further improve the financing costs while maintaining credit rating performance indicators and the desired financing structure.

Vonovia's broad access to the markets offers a competitive distinction in the German real estate business and represents a clear strategic advantage. This becomes clear when looking at the modernization program's realization as well as ongoing acquisitions. Without having had fast and direct access to the international debt and equity markets, Vonovia's growth in recent years would not have taken place. In sum, the funds raised through FINANCE B.V. have been used to fund the acquisitions of the past years, the remaining refinancings and the Group's modernization and reorganization programs.

As early as 2013, the company implemented what is known as a European Medium-Term Notes Program (EMTN Program), which allows the Vonovia Group to raise funds through FINANCE B.V. on a short-term basis without significant administrative efforts. The EMTN Program, updated in April 2016, based on the approval from April 11, 2016, of the oversight authorities of the Grand Duchy of Luxembourg (CSSF), has a total issuance volume of € 8,000 million as of December 31, 2016. The total utilization of the EMTN Program issuance volume is € 7,500 million at year end.

In 2013, FINANCE B.V. issued unsecured and unsubordinated bonds for the first time totaling € 2,540 million; € 500 million of that was under the EMTN Program. Two USD-denominated bonds of 2013 were protected against currency and interest fluctuations through cross-currency derivatives.

During 2014, the company raised another € 500 million under the EMTN Program. Furthermore, the company raised a total of € 1,700 million by issuing two bonds known as hybrid bonds. Hybrid bonds are unsecured but subordinated and are long-term to unlimited in duration with comparably higher nominal interest rates.

On March 30, 2015, the company issued bonds of € 1,000 million from the EMTN Program, which were divided into two tranches of € 500 million each. With effect from December 9, 2015, FINANCE B.V. issued bonds from the EMTN Program totaling € 3,000 million. This amount was placed in three installments with maturities between two and seven years. The two-year tranche was the first floating-rate note. The interest rate was eliminated by euro swaps.

In July 2016, the company repaid the € 700 million tranche with the 2.125 % coupon from the 2013 bond placements.

In 2016, the company issued bonds with a total volume of € 2,500 million, split in two tranches at € 500 million, each from June 10; a private placement tranche of € 500 million from September 13 and a placement of € 1,000 million from December 6, 2016.

In 2015, Vonovia developed a refinancing plan from its financing strategy that focused on the absorbed financings from the GAGFAH acquisition, in particular. The GAGFAH Group was acquired by Vonovia as of March 6, 2015. In October 2015, Vonovia mitigated the interest risk on future funding needs by entering into five forward derivative contracts through FINANCE B.V. in the amount of € 2,700 million, which are disclosed in the financial statements as of 31. December 2015.

Following the intended takeover of Deutsche Wohnen, which finally did not go through, the refinancing plan had to be modified in 2016 again. This had the consequence that four of the five forward derivatives were dissolved on June 7 and 8, 2016, with a total amount of € 2,100 million. Of the four dissolved derivatives, two were designated to the EMTN bond placement on June 6, 2016, continuing the hedge accounting, while the other two derivatives are subject to a hedge break; the respective negative fair value had to be recognized as an expense. In keeping with the agreement of FINANCE B.V. with Vonovia, the equivalent amount of € 54.5 million has been charged to Vonovia SE.

Effectively, Vonovia repaid two of the absorbed GAGFAH CMBS Financings under the title GRF-1 and GRF-2 in the course of 2016. The drawdowns of FINANCE B.V. in 2016 under the EMTN Program were dedicated to this. Therefore the remaining derivative – trade 5 – was used as planned for the December bond placement.

Vonovia SE serves within the Vonovia Group as a management holding and the cash-pool leader. FINANCE B.V. is an integral part of the Vonovia risk and control management system and is monitored by the middle office of the Vonovia Treasury department. This department takes care of the main business risks of FINANCE B.V., which include the interest rate risk, the liquidity risk, the counterparty risk and, to a certain degree, the currency risk. Vonovia Treasury is also responsible for executing reasonable hedging of these risks.

The operational execution of tasks and day-to-day business are performed by the staff of FINANCE B.V., for which FINANCE B.V. adds a reasonable margin to the on-lending to Vonovia Group companies.

FINANCE B.V. closed the 2016 fiscal year with a net loss of € 2,124 k. The net loss stems on one hand mostly, on a pre-tax basis, from the difference between the incurred interest on borrowings and the earned interest from on-lending, which includes the administrative margin. On the other hand, it is strongly impacted by the following: the valuation of financial instruments at € 8,100 k, the amortization of first-time losses at € 2,498 k and the amortization of upfront payments at € 5,602 k. Together these have caused the negative year-end result of 2016. In general, the company applies hedge accounting for the hedged currency and interest rate risks on borrowing and lending.

The function of FINANCE B.V. as a financing vehicle of Vonovia Group is set up in such a way that it earns a margin in excess of its borrowing costs. This should leave the company with sufficient residual earnings and cash flows, less certain operational charges and charges for central services provided through Vonovia. In essence, future earnings will be determined by income items associated with the on-lending of raised funds, and profitability will be based on the margins obtained from the on-lending in excess of the interest to be paid on the notes and operational charges. Based on that, FINANCE B.V. will achieve a reasonable profit and cash flow under these circumstances. The liquidity of the company as of December 31, 2016, is ensured through the cash pool of Vonovia Group.

The bonds issued by FINANCE B.V. are supported by the unconditional and unlimited guarantee of Vonovia SE.

Profitability will be continuously ensured through a markup on on-lending. Cash, however, can be withdrawn from the Vonovia SE cash pool at any given time.

The going concern status of FINANCE B.V. is therefore ensured.

The credit and market risk of FINANCE B.V. is limited to the share premium reserve of € 100 million.

Vonovia senior management has the clearly articulated intention to raise further funds through FINANCE B.V. by issuing additional bonds to obtain debt financings to complement equity financing for more internal as well as external growth (through acquisitions). Acquisitions are an integral part of the Vonovia strategy and FINANCE B.V.; therefore they are an important execution tool for the Vonovia strategy.

Leaving the impact from the evaluation of derivatives and financial instruments aside, for 2017, management expects a result alongside the intended profit margin.

Consequently FINANCE B.V. is and will be an integral part of the Vonovia Group. In particular, it plays a role in its execution of the financing strategy with regard to raising funds on the international debt capital markets. As such, it serves as a financing company for the parent as well as for individual Group entities.

Further positive development of Vonovia Group is expected from internal as well as external growth. Plus, in light of the debt structure optimization, further funds may be raised at any given time, provided the international capital markets are prepared to absorb the issuance volumes.

As the company's business volume continues to expand, the organizational structure of the company will be developed accordingly. FINANCE B.V. does not engage in any research and development activities. The company employs five employees; three of them are male and two female. The Management Board of three people comprises only men.

On July 1, 2015, FINANCE B.V. reached an agreement with the Dutch tax authorities regarding an advance pricing agreement for the period of establishment (starting June 21, 2013), which will last until December 31, 2017. In 2016, the company applied for a new APA with a period of validity from January 1, 2016, to December 31, 2020. Currently, the Dutch tax authorities have approved the application, and it was signed on January 17, 2017.

Given the relevance of FINANCE B.V., a Supervisory Board was established in order to comply with good corporate governance practices and to monitor the operational business activities of the entity. It also ensures a seamless formal interface with the parent and a qualified monitoring of the financing activities. The formal registration of the Supervisory Board at the Chamber of Commerce of Amsterdam took place on July 3, 2015. As of December 31, 2016, the Supervisory Board comprises the following three members, two of them are representatives of the sole shareholder, and one member is a finance expert dedicated to such finance structures in the Netherlands:

Dr. A. Stefan Kirsten (Chairman; CFO of Vonovia SE)

Christoph Schauerte (Vice Chairman; Vice President Group Accounting and Accounting Officer of Vonovia SE)

Dr. Thomas Görgemanns (Legal Counsel and Compliance Officer of Vonovia SE) **Resignation: September 30, 2016**

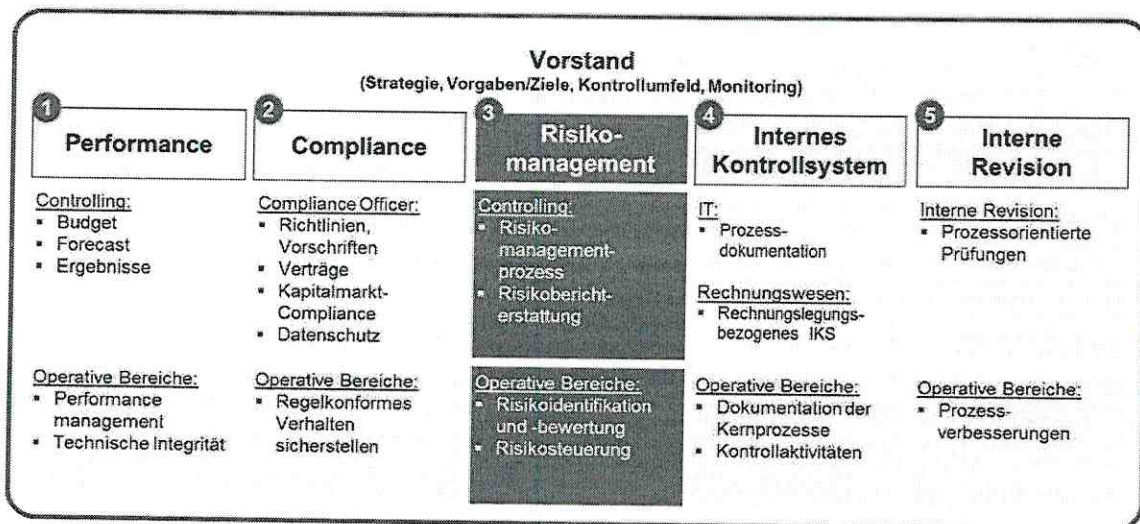
Simone Schumacher (Head of Accounting of BMW Finance NV). **Appointment: November 1, 2016.**

A Supervisory Board meeting took place on April 13, 2016, and on September 2, 2016, at the company premises at Apollolaan 133, Amsterdam. The topics covered in addition to operational review items were the 2015 financial statements and the 2016 half-year figures, the independent auditor report on 2015 and the updated outlook for 2016/17.

FINANCE B.V.'s financing depends on the conditions of the capital market, which are very favorable at the moment due to the low interest rates. Nevertheless, the company will strive to further improve the financing costs while maintaining the credit rating performance indicators and the desired financing structure. Furthermore the Vonovia-Group and Finance B.V. will both increase at their size.

FINANCE B.V. is included in the risk management and internal control system of Vonovia Group. The shareholder Vonovia SE has a series of standards, procedures and systems for identifying, measuring and managing different types of risk. These are described in its annual accounts, which are publicly available (www.vonovia.de).

Organizationally, risk management is assigned directly to the Management Board of Vonovia SE, which regularly monitors its effectiveness. The Management Board has overall responsibility for the risk management system. It decides on the organizational structures and workflows of risk management and provision of resources. It approves the documented risk management findings and takes account of them in steering the company. The Audit Committee of the Supervisory Board of Vonovia SE monitors the effectiveness of the risk management system. Executives belonging to the first level below the Management Board are appointed as risk owners and, in this role, assume responsibility for the identification, assessment, documentation and communication of all material risks in their area of responsibility. The Supervisory Board of FINANCE B.V., of which the chairman is also a member of the Management Board of Vonovia SE, is making use of these assessments in its own risk evaluation. Therefore, Finance B.V. has, in general, a conservative attitude towards risk.



The financial risks have been identified as the main risks to be monitored. The financial risks of the company are managed through matching interest expenses from its borrowings with interest income from loans to the Group companies. Interest rate risk and foreign currency risk are in general monitored by corresponding derivative instruments. Derivatives are contracted with major financial institutions with a positive credit rating.

In order to minimize the liquidity risk, the cash flow risk and fair value risk management, Finance B.V. is part of the Vonovia Group cash-pooling system. There is a significant concentration of credit risk as all borrowings are lent on to Vonovia Group companies. However, the sole shareholder acts as a general guarantor for all the borrowings. Therefore the financial risk for the company is limited to the capital and reserves of € 100 million.

As of January 1, 2013, a new law on management on supervision (Wet Bestuur en Toezicht) came into effect in the Netherlands. The purpose of this law is to attain a balance (at least 30 % of each gender) between men and women on the board of directors and the supervisory board of large entities (as defined in said law). After considering the current nature and activities of the Group and the knowledge and expertise of the current board members, the existing composition of the Board of Directors and the Supervisory Board is considered appropriate. However, the new law will be taken into account while appointing future members of the Board of Managers and the Supervisory Board.

FINANCE B.V. is incorporated in the consolidated financial statements of Vonovia, prepared in accordance with IFRS as endorsed in the EU.

Responsibility Statement

The Management Board has declared that to the best of its knowledge:

- The financial statements for the year 2016, which have been prepared in accordance with the Netherlands Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- The Management Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties they face, as required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act ("Wet op het financieel toezicht").

Amsterdam, March 9, 2017

**Original has been signed by
Iwan Oude Roelink**

**Original has been signed by
Rick van Dijk**

**Original has been signed by
Lars Schnidrig**

3. Financial Statements

a. Balance Sheet as of December 31, 2016 (before distribution of profit)

in € thousand	Note	Dec. 31, 2016	Dec. 31, 2015
Assets			
Fixed assets			
Tangible fixed assets	5	16	16
Financial fixed assets			
Receivables from affiliated companies and shareholder	6	10.462.769	8.680.725
Receivables from derivatives	21	31.533	154.285
Deferred tax assets	7	7.193	13.040
		10.501.511	8.848.066
Current assets			
Financial current assets			
Receivables from affiliated companies and shareholder	6	106.530	47.886
Receivables from derivatives	21	153.215	-
Other assets	8	1.066	18.554
Cash and cash equivalents	9	1	5.001
		260.812	71.441
Total assets		10.762.323	8.919.507

in € thousand	Note	Dec. 31, 2016	Dec. 31, 2015
Equity and Liabilities			
Equity			
Subscribed capital	18		18
Share premium reserve	100.000		5.000
Cash flow hedge reserve	-81.353		-31.852
Other reserves	4.663		-3.184
Unappropriated loss / profit	-2.124		7.847
Total shareholders' equity	10	21.204	-22.171
Long-term liabilities			
Hybrid bond	10/11	992.459	993.697
Total capital base	10	1.013.663	971.526
Long-term liabilities			
Bonds	11	8.218.020	7.157.639
Derivative financial liabilities	21	1.205	20.485
		8.219.225	7.178.124
Current liabilities			
Bonds	11	1.457.287	700.000
Accrued liabilities		1.036	3.106
Other liabilities	12	71.112	66.751
		1.529.435	769.857
Total equity and liabilities		10.762.323	8.919.507

b. Income Statement for the Year from January 1 to December 31, 2016

in € thousand	Note	Jan.-Dec. 2016	Jan.-Dec. 2015
Income			
Interest and similar income	13	361,671	285,539
Expenses			
Interest and similar expenses	13	-363,868	-274,404
Financial result		-2,197	11,135
Other operating income	14	27	105
Personnel expenses	15	-274	-187
Depreciation of tangible fixed assets	16	-4	-4
Other operating expenses	17	-271	-486
Total expenses		-549	-677
Loss / profit before taxation		-2,719	10,563
Income taxation	18	595	-2,716
Loss / profit for the year		-2,124	7,847

c. Statement of Cash Flows for the Year from January 1 to December 31, 2016

in € thousand	Note	Jan.-Dec. 2016	Jan.-Dec. 2015
Loss / profit for the year		-2.124	7.847
Cash flows from operating activities			
<i>Adjustments for:</i>			
Cash flow hedge reserve		-49.501	-13.998
Bonds (long-term liabilities)	11	1.055.100	3.362.120
Bonds (current liabilities)	11	762.568	700.000
Hybrid (perpetual)	10/11	-1.238	663
Receivables to affiliated companies and shareholder	6	-1.840.687	-3.963.242
Derivative financial instruments	21	-49.743	-83.224
Deferred tax assets	7	5.846	-2.642
Other assets	8	17.488	1.373
Accrued liabilities		-2.070	-7.994
Other liabilities	12	4.361	-2.364
Net cash (used in)/generated from operating activities		-97.876	-9.308
Cash flows from investing activities		-100.000	-1.461
Tangible fixed assets	5	-	2
Net cash (used in)/generated from investing activities		-	2
Cash flows from financing activities			
Capital contributions	10	95.000	-
Net cash (used in)/generated from financing activities		95.000	-
Net (decrease)/increase in cash and cash equivalents		-5.000	-1.459
		-5.000	-1.459
Movements in cash and cash equivalents can be broken down as follows:			
Balance as of January 1		5.001	6.460
Movement during the year		-5.000	-1.459
Balance as of December 31		1	5.001

d. Notes to the Financial Statements 2016

1 General Information

1.1 Activities

The business purpose of Vonovia Finance B.V. ("the company" or "FINANCE B.V.") with its statutory domicile in Amsterdam is to raise funds on the international debt markets through the issuance of unsecured and unsubordinated bonds as well as through unsecured and subordinated hybrid bonds for and on behalf of Vonovia SE, Düsseldorf, Germany, and its affiliated companies and to on-lend the raised funds to Vonovia SE and its Group companies for the purposes of Group financing.

The head office (principal place of business) is located at Apollolaan 133, 1077 AR Amsterdam, Netherlands. The company is registered under the number 58224416 at commercial register "KvK."

The rating agency Standard and Poor's (S&P) has issued a long-term corporate credit rating of BBB+ and a short-term credit rating of A-2 with a stable outlook for Vonovia SE. That, combined with the Vonovia SE unlimited and unconditional guarantee, should be considered the basis for FINANCE B.V.'s activities on the international debt markets. Standard & Poor's further raised the rating for the senior unsecured debt from BBB to BBB+ and for the subordinated hybrid debt from BB+ to BBB-.

The operations of FINANCE B.V. comprise the following:

- To participate in; finance; hold any other interest in; or to conduct management of other legal entities, partnerships or enterprises
- To furnish guarantees; provide security; warrant performance; or in any other way assume liability, whether jointly, severally or otherwise, for or in respect of obligations of Group Companies or other legal parties
- To do anything that, in the broadest sense of words, is connected with or may be conducive to the attainment of these objects

1.2 Group Structure

FINANCE B.V. is a member of the Vonovia Group. The ultimate parent of this Group is Vonovia SE with its legal domicile in Düsseldorf, Germany. The financial statements of FINANCE B.V. are included in the Vonovia SE consolidated financial statements, prepared according to IFRS, as endorsed in the EU. These financial statements are published in the German legal gazette, and they are available on the website of Vonovia under www.vonovia.de.

1.3 Going Concern

The company generated a net loss of € 2,124 k for the period from January 1 to December 31, 2016, which, together with an increased share premium reserve and the negative hedge accounting impact, resulted in net equity of € 21,204 k (December 31, 2015: negative € 22,171 k) for the shareholder's equity. Including the hybrid bond of € 992,459 k the total capital base had a value of € 1,013,663 k (December 31, 2015: € 971,526 k). In the future, the earnings of the company will be determined by income items associated with the on-lending of raised funds, and profitability will be based on the margins obtained from the on-lending in excess of the interest to be paid on the notes and the service charges. Based on that, FINANCE B.V. will achieve a reasonable profit under these circumstances. Finally, FINANCE B.V. is supported by the unconditional and unlimited guarantee of Vonovia SE. The accounts have therefore been prepared based upon the going concern principle.

1.4 Related Party Transactions

All legal entities that can be controlled, jointly controlled or significantly be influenced are considered to be a related party. Also, entities that can control the company are considered a related party. In

addition, statutory directors and other key personnel of FINANCE B.V. or of the shareholder or ultimate parent and close relatives are regarded as related parties.

Significant and/or material transactions between the company and related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information are disclosed if this is required to provide a true and fair view.

1.5 Estimates

Preparing interim financial statements and the application of relevant rules may require the use of critical accounting estimates, which thus requires exercising professional judgment. Estimates used in these interim financial statements are limited to the use of other assets, accrued liabilities for general expenses and other liabilities based on tax experience and sound professional judgment. This predominately applies to the determination of the fair value of the swap (Note 21) and the fair value calculations of the notes receivables (Note 6).

If necessary to provide a view in accordance with art. 2:360 part. 1 DCC of the Dutch Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the Notes to the Financial Statement items in question.

Unless explained otherwise, the estimates made by the management in preparing the 2016 Financial Statements are similar to those used in 2015.

1.6 Accounting Policies for the Statement of Cash Flows

The statement of cash flows has been prepared using the indirect method. The cash items disclosed in the statement of cash flows comprise cash at banks and cash in hand, except for deposits with a maturity longer than three months. Cash flows denominated in foreign currencies have been translated at average estimated foreign exchange rates. Exchange differences affecting cash items are shown separately in the statement of cash flows. Interest paid and received and income taxes are included in cash from operating activities. Transactions not resulting in inflow or outflow of cash, including finance leases, are not recognized in the statement of cash flows.

1.7 Comparison with Previous Year

The valuation principles and method of determining the result are the same as those used in the previous year.

2 Principles of Valuation for Assets and Liabilities

2.1 General

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

The financial statements are denominated in euros.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or at fair value. If not specifically stated otherwise, they are recognized at the amounts at which they were acquired or incurred.

The balance sheet, income statement and statement of cash flows include references to the notes.

2.2 Foreign Currencies

Functional Currency

Items in the financial statements of the FINANCE B.V. are stated with due observance of the currency of the primary economic environment in which the respective Group company operates (the functional currency), Finance B.V. and Vonovia SE are both in the Eurozone and the functional currency of both is the euro.

Transactions, Receivables and Liabilities

Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate prevailing on the balance sheet date. Investments are stated at the historical exchange rate. Transactions denominated in foreign currencies in the reporting period are recognized in the interim financial statements at the exchange rate of the transaction date.

In the income statement, foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates are recognized, except when deferred in equity as qualifying hedges.

Translation differences on non-monetary assets held at cost are recognized using the exchange rates prevailing at the dates of the transactions.

Translation differences on non-monetary assets such as equities held at fair value through profit or loss are recognized through profit or loss as part of the fair value gain or loss.

Foreign exchange differences arising upon the settlement or conversion of monetary items are recognized in the income statement in the period that they arise, unless they are hedged.

Hedging

In respect of any positions in the balance sheet that are covered by cross-currency interest rate swaps or by foreign exchange forward contracts, the differences in values calculated at mid-rates at the end of the period and contract rates are allocated to the respective principals of the loans. If the loan taken is denominated in a currency other than euros, the respective correction is allocated to this loan. Otherwise the respective loan granted is corrected. The underlying exchange rate EUR/USD on December 31, 2016, is fixed at 1.0541 and on December 31, 2015, was fixed at 1.0887.

2.3 Tangible Fixed Assets

Tangible fixed assets are valued at historical cost or production cost including directly attributable costs, less straight-line depreciation based on the expected future life and impairments.

Equipment, furniture and office equipment are depreciated over periods of between three and ten years. For computer hardware a depreciation period of three years is used.

2.4 Financial Fixed Assets

Loans, in Particular Loans to Affiliated Companies

Loans and receivables to Group companies with an original term of more than one year are treated as financial fixed assets. They are valued initially at the fair value of the amount owed, which normally consists of the face value. Subsequently they are measured at amortized cost, the FINANCE B.V. does not provide cash, if from day one it is clear that it will not be repaid.

2.5 Impairment of Fixed Assets

On each balance sheet date, the company tests whether there are any indications of tangible fixed assets being subject to impairment. If any such indications are present, the realizable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount is

higher than its realizable value; the realizable value is the higher of the fair value less costs of disposal and the value in use.

An impairment loss is directly recognized in the income statement, and the carrying amount of the asset concerned is concurrently reduced.

The fair value less costs of disposal is initially based on a binding sale agreement; if there is no such agreement, the fair value less costs of disposal is determined based on the active market, whereby usually the prevailing bid price is taken as market price. For the determination of the value in use, an estimate is made of the future net cash flow in the event of continued use of the asset.

If it is established that an impairment that was recognized in the past no longer exists or has been reduced, the increased carrying amount of the asset concerned is set no higher than the carrying amount that would have been determined if no impairment loss for the asset concerned had been reported.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognized in the income statement.

The amount of an impairment loss incurred on financial assets stated at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized on the date the impairment is reversed. The amount of the reversal shall be recognized through profit or loss.

2.6 Current Assets

Receivables and Other Assets

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected revenues. Interest gains are recognized using the effective interest method. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Current receivables are due and will be received within one year.

2.7 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank balances and deposits held at call with maturities under twelve months. Bank overdrafts are shown as borrowings under current liabilities. Cash and cash equivalents are stated at nominal value.

2.8 Equity

When FINANCE B.V. purchases shares, the consideration paid is deducted from equity (other reserves or any other reserve, if the articles of association allow so) until the shares are canceled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity (other reserves or any other reserve). The consideration received will be added to the reserve from which the purchase price has been deducted earlier.

Incremental costs directly attributable to the purchase, sale and/or issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.9 Long-term Liabilities

Bonds

Bonds are initially measured at fair value and subsequently at amortized cost net of transaction costs. Released transaction costs led to an altered subsequent measurement. All long-term amounts due from bonds have a maturity of over one year. Debt issuance costs are netted against a nominal amount.

Other Liabilities

Other liabilities are initially valued at fair value and subsequently at amortized cost.

Long-term Debt

On initial recognition long-term debts are recognized at fair value. Transaction costs that can be directly attributed to the acquisition of long-term debts are included in initial recognition. After initial recognition long-term debts are recognized at amortized cost, which equals the amount received, taking into account premiums or discounts, and minus transaction costs.

The difference between stated book value and the mature redemption value is accounted for as interest cost in the income statement on the basis of the effective interest rate during the estimated term of the long-term debts.

2.10 Current Liabilities

Short-term liabilities with a remaining maturity of one year or less are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, which equals the amount received, taking account of any premiums or discounts, less transaction cost.

Bonds

The bonds are valued at amortized cost net of transaction costs. All short-term amounts payable from bonds within one year are disclosed under current liabilities. This includes, in particular, accrued interests.

Accrued Liabilities

The accruals are stated at the amount required, based on sound business judgment and valued at the expected costs. Accrued liabilities comprise outstanding invoices.

Other Liabilities (Including Trade Payables)

On initial recognition current liabilities are recognized at fair value. After initial recognition current liabilities are recognized at amortized cost, which equals the amount received, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

Current and Deferred Income Tax

The current Dutch nominal tax rate of 25 % has been applied.

2.11 Provisions

Provisions are recognized for legally enforceable or constructive obligations existing at the balance sheet date, the settlement of which is probable to require an outflow of resources whose extent can be reliably estimated.

Provisions are measured on the basis of the best estimate of the amounts required to settle the obligations at the balance sheet date. Unless indicated otherwise, provisions are stated at the present value of the expenditure expected to be required to settle the obligations.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

2.12 Financial Instruments

Securities included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at fair value. The company applies hedge accounting to hedging currency risk on borrowings and loans. While the derivative is stated at fair value, the hedged item is measured at amortized cost. The gain or loss relating to the ineffective portion is recognized in the income statement within financing costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If no fair value can be readily and reliably established, fair value is approximated by deriving it from the fair value of components or of a comparable financial instrument, or by approximating fair value using valuation models and valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models, making allowance for entity-specific inputs.

The company applies hedge accounting. The company documents the relationship between hedging instruments and hedged items at the inception of the transaction. The company also tests its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

With a cash flow hedge, the changes in fair value of the derivative hedging instrument are initially recognized in the cash flow hedge reserve to the extent that the hedge is effective. Amounts accumulated in the cash flow hedge reserve are reclassified to the income statement at the same time that the underlying hedged item affects net income. To the extent that the hedge is ineffective, the change in fair value is immediately recognized in net interest.

The company shall discontinue prospective hedge accounting in the following cases:

- The hedging instrument expires or is sold, terminated or exercised
- The hedge no longer meets the criteria for hedge accounting
- The company revokes the designation

To measure the cross-currency swaps, future cash flows are calculated and then discounted. The calculated cash flows result from the contract conditions and the U.S. dollar forward exchange rate (development of exchange rates expected by the market). Discounting is based on market interest rate data as of the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the cross-currency swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

2.13 Deferred Taxes

Deferred income tax assets are recognized to provide for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the interim financial statements. This is done with the understanding that deferred income tax assets are recognized only to the extent that it is probable that a future taxable profit will be available against which the temporary differences and fiscal losses can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized.

Deferred income taxes are recognized at face value.

3 Principles for Recognition of Income and Expenses

3.1 General

Result is determined as the difference between the realizable value of services rendered and the costs and other charges for the period. Results on transactions are recognized in the period in which they are realized; losses are taken as soon as they are foreseeable.

3.2 Revenue Recognition, Financial Income and Expenses

Revenue from interest income and cost from interest expenses are allocated to the reporting period in which they occur following the matching principle. Interest income and expense are recognized on a time pro rata basis, taking into account the effective interest rate of the assets and liabilities concerned. When recognizing the interest charges, the transaction cost on the loans received is taken into account.

3.3 Exchange Rate Differences

Exchange rate differences arising upon the settlement of monetary items are recognized in the income statement in the period that they arise unless hedged.

3.4 Other Operating Income and Expenses

Other operating income and expenses include income and expenses that are not directly attributable to the interest income and expenses and are valued at the realizable value. Gains and losses upon the sale of tangible fixed assets are included in other operating income or other operating expenses respectively.

3.5 Personnel Expenses

Salaries, wages and social security contributions are charged to the income statement based on the terms of employment where they are due to employees and the tax authorities respectively.

3.6 Depreciation of Tangible Fixed Assets

Tangible fixed assets are depreciated over their expected useful lives as of the inception of their use. Future depreciation is adjusted if there is a change in estimated useful life.

3.7 Taxation

The current tax position is not calculated on the basis of its ordinary profit or loss, but by using the margin agreed in the advanced pricing agreement, current income tax occurs even if the company makes a loss. Account is also taken of changes in deferred tax assets and deferred tax liabilities.

Deferred tax assets are recognized for all deductible temporary differences between the value of the assets and liabilities under tax regulations on the one hand and the accounting policies used in these financial statements on the other, on the understanding that deferred tax assets are only recognized insofar as it is probable that future taxable profits will be available to offset the temporary differences and available tax losses.

4 Financial Instruments and Risks

Risks associated with financial instruments are subject to the risk management system of the Vonovia Group and are in particular monitored through the middle office located in the Vonovia Group Finance department.

4.1 Market Risk

Currency Risk

FINANCE B.V. mainly operates in the European Union. The currency risk for the company largely concerns positions and future transactions in U.S. dollars. Management has determined, based on risk assessment, that some of these currency risks need to be hedged. Forward exchange contracts are used for this purpose. Receivables denominated in U.S. dollars are hedged, to the extent that it is highly probable that the purchases will occur.

The cash-effective currency risks arising in connection with the issuance of bonds in U.S. dollars were eliminated by the simultaneous contracting of cross-currency swaps of FINANCE B.V.

Interest Rate Risk

Risks associated with movements in interest rates are addressed through adequate interest rate hedges. Loans to affiliated companies are in general on fixed terms.

In the course of its business activities, FINANCE B.V. is exposed to the cash-effective interest rate risks as a result of floating-rate debt as well as new and follow-on loans. Within this context, the interest markets are continually monitored by the Treasury department. Its observations are incorporated into the financing strategy.

4.2 Credit Risk

Vonovia SE serves within the Vonovia Group as a management holding and the cash-pool leader. FINANCE B.V. is an integral part of the Vonovia risk and control management system. The risk of default arising from financial assets and derivative financial instruments involves the risk of default by counterparties. The maximum loss from derivative instruments equals their positive fair value. Risk is additionally limited through a limit system, which is based on credit assessments by the Treasury middle office, which uses announcements from international rating agencies to make these assessments. In general only banks with a long-term credit rating at least equal to those of Vonovia SE are defined as eligible counterparties of the FINANCE B.V.

4.3 Liquidity Risk

The company uses several banks that are selected at Group level. The liquidity risk is monitored by assuring that the critical terms of the relevant items match. Finally FINANCE B.V. is supported by the unconditional and unlimited guarantee of Vonovia SE.

4.4. Price Risk

FINANCE B.V. incurs risk regarding the valuation of securities disclosed under financial assets and securities within current assets. The company manages market risk by stratifying the portfolio and imposing limits.

4.5 Notes to the Statement of Cash Flows

The statement of cash flows shows how the cash of FINANCE B.V. has changed during the year of 2016 as a result of cash inflows and outflows. A distinction is made between changes in cash flow from operating activities, investing activities and financing activities.

The cash flow from operating activities is determined from the profit or loss for the period using the indirect method. It was mainly increased by the placement of new bonds, but more decreased by the issue of some more loans to the companies of Vonovia Group. It was also decreased by the cash flow hedge reserve and the derivative financial instruments. The changes of tangible fixed assets were settled in the cash flow from investing activities, but there were no changes in 2016. Furthermore, the cash flow from financing activities increased by the share premium reserve, paid up from Vonovia SE.

5 Tangible Fixed Assets

- Tangible fixed assets comprise office equipment and computer hardware, subject to depreciation.

in € thousand	2016	2015
Acquisition cost as of January 1	23	16
Additions during the year	4	7
Disposals during the year	-	-
Acquisition cost as of December 31	27	23
Accumulated depreciation as of January 1	7	3
Depreciation for the year	4	4
Accumulated depreciation disposals	-	-
Accumulated depreciation as of December 31	11	7
Total book value as of December 31, 2016	16	16

6 Receivables from Affiliated Companies and Shareholder

Receivables from affiliated companies are related to Group financing. The receivables from intercompany loans bear an average interest rate as of Dec. 31, 2016, of 2.1610 % for EMTNs and Yankees (as of Dec. 31, 2015: 2.3495 %), 4.9955 % for the hybrid debt (as of Dec. 31, 2015: 4.2282 %) and 4.2536 % for the perpetual hybrid (as of Dec. 31, 2015, 4.2328 %), and the contracts have an unlimited term; therefore, all intercompany loans are unsecured, long-term loans. In addition there are receivables from the cash pool agreement with Vonovia SE. These bear interest at EONIA - 0.25 % (Dec. 31, 2015: EONIA 0.25 %). Receivables from cash pooling are classified as current assets in the balance sheet, they are unsecured and unlimited, too.

In June, September and December 2016 the company used its EMTN Program in the amount of € 2,500 million and passed the liquidity into the Vonovia Group, using it for some more intercompany loans. At the balance sheet date no fixed assets were subject to impairments. The fair value of the receivables from affiliated companies and shareholder approximates the book value.

in € thousand	Dec. 31, 2016	Dec. 31, 2015
Gagfah I Invest GmbH & Co. KG	1,813,214	-
Deutsche Annington Beteiligungsverwaltungs GmbH	1,801,784	1,551,784
Deutsche Annington Acquisition Holding GmbH	1,706,092	1,467,972
Vonovia SE	1,028,015	3,023,860
Süddeutsche Wohnen GmbH	649,330	649,330
WG Norden Asset GmbH & Co. KG	297,099	-
WBN Asset GmbH & Co. KG	235,573	-
Deutsche Annington Holdings Eins GmbH	221,437	221,437
Kieler Wohnungsbaugesellschaft mbH	204,265	204,265
Gagfah Erste Grundbesitz GmbH	194,530	-
Bremische Ges. f. Stadtern.-entw. & Wohnungsbau mbH	163,847	163,847
Prima Wohnbauten Privatisierungs-Management GmbH	136,259	-
GBH Acquisition GmbH	136,246	136,246
Vonovia Immobilienmanagement one GmbH	122,519	-
Beamten Baugesellschaft Bremen GmbH	121,550	121,550
Deutsche Annington Holdings Zwei GmbH	119,952	119,952
DA DMB Netherlands B.V.	116,337	116,337
NILEG Residential Asset GmbH & Co. KG	103,335	-
Eisenbahn-Wohnungsbauges. Karlsruhe GmbH	100,139	100,139
Deutsche Annington Rhein-Ruhr GmbH & Co. KG	99,012	-
Osnabrücker Wohnungsbauges. mbH	98,204	98,204
Gagfah Acquisition 1 GmbH	93,399	-
Siege Siedlungsgesellschaft mbH Mainz	84,135	84,135
DAIG 1. Objektgesellschaft mbH	78,036	78,036
Gagfah A Asset GmbH & Co. KG	76,299	-
Vonovia Elbe Wohnen GmbH	67,472	67,472
Deutsche Annington Wohnungsgesellschaft I mbH	66,254	-
Deutsche Annington Wohnungsgesellschaft IV mbH	62,953	-
DAIG 9. Objektgesellschaft B.V.	50,068	50,068
Bundesbahn-Wohnungsbauges. Kassel GmbH	47,268	47,268
GAGFAH S. A.	36,016	36,016
Gagfah Acquisition 2 GmbH	33,495	-
DAIG 21. Objektgesellschaft B.V.	27,831	27,831
DAIG 20. Objektgesellschaft B.V.	26,322	26,322
Deutsche Annington Heimbau GmbH	24,921	24,921
DAIG 13. Objektgesellschaft mbH	24,635	24,635
Deutsche Annington DMB Eins GmbH	21,547	21,547
DAIG 19. Objektgesellschaft B.V.	21,404	21,404
DAIG 2. Objektgesellschaft mbH	20,896	20,896
DAIG 11. Objektgesellschaft B.V.	19,909	19,909
DAIG 4. Objektgesellschaft mbH	19,109	19,109
Vonovia Immobilienmanagement two GmbH	18,781	-
DAIG 22. Objektgesellschaft B.V.	14,475	14,475
DAIG 10. Objektgesellschaft B.V.	12,078	12,078
DAIG 3. Objektgesellschaft mbH	11,061	11,061
DAIG 24. Objektgesellschaft B.V.	9,167	9,167
DAIG 23. Objektgesellschaft B.V.	7,979	7,979
DAIG 17. Objektgesellschaft B.V.	6,322	6,322
Börsenhof A Besitz GmbH	5,648	5,648
DAIG 18. Objektgesellschaft B.V.	4,534	4,534
DAIG 25. Objektgesellschaft B.V.	1,071	1,071
DAIG 12. Objektgesellschaft mbH	945	945
Deutsche Annington Wohnungsgesellschaft III mbH	-	62,953
Total (Long-Term)	10,462,769	8,680,725
Vonovia SE Cash Pooling (current)	106,530	47,886
Total (Long-Term and current)	10,569,299	8,728,611

The fair value of the receivables from affiliated companies and shareholder is € 800 million higher than amortized cost due to the decrease of the market interest rate (December 31, 2015: € 492 million higher).

Long-Term loans to Affiliated Companies and Shareholder

in € thousand	2016	2015
Balance as of January 1	8,680,725	4,717,760
Additions	3,840,842	6,533,716
Terminations	-62,953	-1,000,000
Repayments during the year	-1,995,845	-1,570,751
Balance as of December 31	10,462,769	8,680,725

7 Deferred Tax Assets

The deferred tax assets are especially dependent on changes in the currency rate from the bond in U.S. dollars. Further, the deferred tax assets are based on temporary differences from the valuation of the financial instruments, for more information see note 21. The position as a whole is of a long-term nature.

The deferred tax assets will be used in the future as follows:

Deferred Tax Assets						
in € thousand						
	Cross-currency swap	Pre-hedges	Floater	Yankee bonds	Other	Total
As of January 1, 2016	-38.571	5.104	-	44.842	1.665	13.040
Addition during the year	-	-	300	-	-	300
Change recognized in fair value movement in deferred taxes on derivative financial instruments	-7.018	-5.104	0	7.640	-1.665	-6.147
As of December 31, 2016	-45.589	-	300	52.482	-	7.193

Deferred Tax Assets					
in € thousand					
	Cross-currency swap	Pre-hedges	Yankee bonds	Other	Total
As of January 1, 2015	-12.644	-	21.011	2.032	10.399
Addition during the year	-	5.104	-	-	5.104
Change recognized in fair value movement in deferred taxes on derivative financial instruments	-25.927	-	23.831	-367	-2.463
As of December 31, 2015	-38.571	5.104	44.842	1.665	13.040

8 Other Assets

The other assets in the amount of € 1,066 k (2015: € 18,554 k) mainly pertains to prepaid bank fees for new loans planned in 2017 regarding the Vonovia acquisition of Conwert. The fair value of the other assets approximates the book value.

9 Cash and Cash Equivalents

Cash and cash equivalents are not restricted with regard to their use.

10 Capital Base

The authorized share capital of FINANCE B.V. amounts to € 18 k (2015: € 18 k) and consists of 18,000 ordinary shares with a nominal value of € 1 each.

A capital contribution was made by the shareholder Vonovia SE in 2016. Based on the resolution, the share premium reserve increased by € 95 million to € 100 million.

The company's Articles of Association, specifically article 19, provide that the profits shall be at the disposal of the Annual General Meeting. A resolution to pay out dividends shall only be effective upon approval of the Management Board of Managing Directors and if the equity exceeds the reserves that are required by law or the Articles of Association. The company can only make distributions to the shareholders and other persons entitled up to an amount that does not exceed the amount of the distributable reserves. The General Meeting may resolve to pay dividends from legally distributable reserves.

The Management Board has proposed to charge the net loss of 2016 amounting to € 2,124 k to the other reserves.

Statement of Changes in Capital Base in € thousand								
	Subscribed capital	Share premium reserve	Cash flow hedge reserve	Other reserves	Unappropriated profit / loss	Total shareholders' equity	Hybrid bond	Total capital base
As of January 1, 2016	18	5.000	-31.852	-3.184	7.847	-22.171	993.697	971.526
Shareholder's capital contributions	-	95.000	-	-	-	95.000	-	95.000
Change in value	-	-	-	-	-	-	-1.238	-1.238
Other reserves	-	-	-	7.847	-7.847	-	-	-
Unappropriated loss	-	-	-	-	-2.124	-2.124	-	-2.124
Assignment to Cash flow hedge reserve	-	-	-49.501	-	-	-49.501	-	-49.501
As of December 31, 2016	18	100.000	-81.353	4.663	-2.124	21.204	992.459	1.013.663

Statement of Changes in Capital Base in € thousand								
	Subscribed capital	Share premium reserve	Cash flow hedge reserve	Other reserves	Unappropriated profit	Total shareholders' equity	Hybrid bond	Total capital base
As of January 1, 2015	18	5.000	-17.855	-6.992	3.808	-16.021	993.034	977.013
Shareholder's capital contributions	-	-	-	-	-	-	-	-
Appreciation of the hybrid bond	-	-	-	-	-	-	663	663
Other reserves	-	-	-	3.808	-3.808	-	-	-
Unappropriated profit	-	-	-	-	7.847	7.847	-	7.847
Assignment to Cash flow hedge reserve	-	-	-13.997	-	-	-13.997	-	-13.997
As of December 31, 2015	18	5.000	-31.852	-3.184	7.847	-22.171	993.697	971.526

Presentation of the Hybrid Bond

In 2014, FINANCE B.V. issued a hybrid bond with a nominal volume of € 1,000 million. This subordinated loan is subordinated to all other liabilities. The hybrid bond is of unlimited duration and can only be terminated by FINANCE B.V. on certain contractually fixed dates or for certain contractually fixed purposes. Up until the first termination date in December 2021, the hybrid bond shall bear interest at a rate of 4.0 % p.a. If FINANCE B.V. does not exercise its termination right at this point, the interest rate that will apply until the next termination date in December 2026 will correspond to the five-year swap rate plus a margin of 339 basis points. The markup will increase by 25 basis points as of December 2026 and by another 75 basis points as of December 2041. The agreements reached allow interest payments to be suspended. Suspended interest payments shall not bear interest.

Pursuant to Dutch Accounting Standard 240, the presentation of the hybrid bond in the interim financial statements follows the legal form of the instrument. The hybrid bond is therefore presented as a liability under the capital base. Accrued liabilities in the amount of € 1.6 million on the hybrid bond are shown under other liabilities (Note 12).

11 Bonds

The long-term and the current liabilities comprise the following bonds, issued by December 31, 2016:

Bond	Face Value	Coupon	Maturity
Eurobond 2	€ 100k	3.125 % listed	7-2019
Yankee bond 1	USD 50k	3.200 % unlisted	10-2017
Yankee bond 2	USD 50k	5.000 % unlisted	10-2023
EMTN 2013	€ 1,000	3.625 % listed	10-2021
EMTN 2014	€ 1,000	2.125 % listed	7-2022
Hybrid Bond	€ 100k	4.625 % listed	4-2074
Hybrid Bond (perpetual)	€ 100k	4.000 % listed	-
EMTN 3/2015 1	€ 1,000	0.875 % listed	3-2020
EMTN 3/2015 2	€ 1,000	1.500 % listed	3-2025
EMTN 12/2015 1	€ 100k	EURIM03+95bps	12-2017
EMTN 12/2015 2	€ 100k	1.625 % listed	12-2020
EMTN 12/2015 3	€ 100k	2.250 % listed	12-2023
EMTN 6/2016 1	€ 100k	0.875 % listed	6-2022
EMTN 6/2016 2	€ 100k	1.500 % listed	6-2026
EMTN 9/2016	€ 100k	EURIM03+38bps	9-2018
EMTN 12/2016	€ 100k	1.250 % listed	12-2024

The bonds issued are unsecured and unsubordinated, only the hybrid bonds are subordinated.

The Eurobond is listed on the Frankfurt Stock Exchange; the EMTNs are listed on the Luxembourg Stock Exchange, as are the hybrid bonds.

The Yankee bonds have been issued in a private placement exclusively to qualified investors in accordance with Rule 144A under the U.S. Securities Act.

in € thousand	Book value Dec. 31, 2016	Book value Dec. 31, 2015	Market value Dec. 31, 2016	Market value Dec. 31, 2015
<i>Long-Term</i>				
Eurobond 2	598,344	597,731	644,640	641,010
Yankee bond 1	-	685,495	-	696,018
Yankee bond 2	234,992	227,276	247,277	237,292
EMTN 2013	497,576	497,098	571,875	549,080
EMTN 2014	495,860	495,166	535,360	504,570
Hybrid Bond	695,444	693,770	738,990	710,654
EMTN 3/2015 1	496,076	494,899	509,225	490,240
EMTN 3/2015 2	491,099	490,084	506,635	461,330
EMTN 12/2015 1	-	747,806	-	753,150
EMTN 12/2015 2	1,244,370	1,243,187	1,307,125	1,248,363
EMTN 12/2015 3	987,623	986,132	1,076,550	994,410
EMTN 6/2016 1	496,082	-	504,025	-
EMTN 6/2016 2	494,166	-	500,275	-
EMTN 9/2016	499,313	-	500,830	-
EMTN 12/2016	987,075	-	996,180	-
Total	8,218,020	7,158,644	8,638,987	7,286,117
Hybrid bond (perpetual)	992,459	993,697	1,035,000	975,000
Total	9,210,479	8,152,341	9,673,987	8,261,117
<i>Current</i>				
Eurobond 1	-	698,995	-	707,728
Yankee bond 1	708,718	-	717,377	-
EMTN 12/2015 1	748,569	-	754,763	-
Total	10,667,766	8,851,336	11,146,127	8,968,845

The U.S. dollar market value for the Yankee bonds is USD 756,187,500 (2015: USD 757,755,000) for Yankee bond 1 and USD 260,655,000 (2015: USD 258,340,000 for Yankee bond 2.

The valuation of the Yankee bonds is calculated using standard market valuation methods for such instruments on the basis of the market data provided by an accredited market data vendor.

The determined rates were verified with respect to the implicit risk premiums.

Vonovia SE serves as the guarantor of the bonds and associated interest obligations of its subsidiary FINANCE B.V. These obligations result from the issuance of bonds in the amount of € 10.7 billion.

in € thousand	Balance as of Dec. 31, 2016	Repayment obligation within 1 year	Remaining maturity 1–5 years	Remaining maturity > 5 years
Euro- / EMTN bonds	8,036,153	748,569	3,335,679	3,951,905
Hybrid bond (perpetual)	992,459	-	-	992,459
Yankee bonds	943,710	708,718	-	234,992
Hybrid bonds (without perpetual)	695,444	-	-	695,444
	10,667,766	1,457,287	3,335,679	5,874,800
in € thousand	Balance as of Dec. 31, 2015	Repayment obligation within 1 year	Remaining maturity 1–5 years	Remaining maturity > 5 years
Euro- / EMTN bonds	6,251,098	698,995	3,083,623	2,468,480
Hybrid bond (perpetual)	993,697	-	-	993,697
Yankee bonds	912,771	-	685,495	227,276
Hybrid bonds (without perpetual)	693,770	-	-	693,770
	8,851,336	698,995	3,769,118	4,383,223

Repayment obligations falling due within twelve months are included in current liabilities.

12 Other Liabilities

Obligations with a maturity within one year are disclosed as current liabilities.

The current liabilities as of December 31, 2016, result mainly from accrued interest liabilities on the issued bonds.

in € thousand

Bond	Coupon	Interest Payment	Dec. 31, 2016	Dec. 31, 2015
Eurobond 1	2.125 %	annual July, 25	-	6,503
Eurobond 2	3.125 %	annual July, 25	8,168	8,146
Yankee bond 1	3.200 %	semi-annual October/April, 2	5,629	5,450
Yankee bond 2	5.000 %	semi-annual October/April 2	2,932	2,839
EMTN 2013	3.625 %	annual October 8	4,171	4,160
EMTN 2014	2.125 %	annual July 9	5,094	5,080
Hybrid bond	4.625 %	annual April 8	23,771	23,706
EMTN 3/2015 1	0.875 %	annual March 30	3,320	3,311
EMTN 3/2015 2	1.500 %	annual March 31	5,671	5,676
EMTN 12/2015 1	EURIM3+	quarterly March/Jun/Sep/Dec 15	226	291
EMTN 12/2015 2	1.625 %	annual December 15	946	944
EMTN 12/2015 3	2.250 %	annual December 15	1,048	1,045
EMTN 6/2016 1	0.875 %	annual June 10	2,457	-
EMTN 6/2016 2	1.500 %	annual June 10	4,212	-
EMTN 9/2016	EURIM3+	quarterly March/Jun/Sep/Dec 13	18	-
EMTN 12/2016	1.250 %	annual December 6	891	-
Hybrid bond (perpetual)	4.000 %	annual December 17	1,644	1,639
Total			70,198	68,790
Compensation with swaps without ccs			257	-
Compensation with the cross-currency swap			-	- 2,127
Other tax liabilities			614	83
Trade payables			43	5
Total			71,112	66,751

The fair value of the current liabilities approximates the book value due to its short-term character.

Syndicated Bridge Facility

In 2015, Vonovia SE concluded an agreement on a syndicated bridge facility amounting to € 5,450 million via FINANCE B.V. with JPMorgan Chase Bank N.A. and Bank of America N.A. for the interim financing of the acquisition of the Deutsche Wohnen AG. The acquisition plans were seized in February 2016. The credit line had never been drawn. The prepaid assets have been paid by the shareholder in accordance with the agreement between the shareholder and FINANCE B.V.

There are still no bridge facilities in use per December 31, 2016.

13 Interest and Similar Income and Expenses

in € thousand	Jan.–Dec. 2016	Jan.–Dec. 2015
Interest income from affiliated companies and shareholder	323,562	241,496
Interest income from third parties	38,109	44,043
Total interest and similar income	361,671	285,539
Interest expenses from affiliated companies	-	- 1
Interest expenses from Euro/EMTN bonds	- 123,743	- 73,577
Interest expenses from Hybrid bond (perpetual)	- 40,004	- 41,639
Interest expenses from Yankee bonds	- 32,588	- 34,188
Interest expenses from Hybrid bonds (without perpetual)	- 32,440	- 32,310
Interest expenses from Term loan	- 19,704	- 57,035
Termination expenses from Forward swaps	- 54,530	-
Interest expenses from liquidation Forward swaps	- 4,463	-
Interest expenses from ineffectiveness of Forward swaps	- 5,602	-
Other interest expenses to third parties	- 48,296	- 32,598
Other interest expenses	- 2,498	- 3,056
Total interest and similar expenses	- 363,868	- 274,404
Total financial result	- 2,197	11,135

In connection with the initial valuation of the cross-currency swaps, interests are expensed in the income statement due to the difference between the net present value and the fair value.

They are attributable to the stringent financial risk management strategy, which does not allow for holding open a currency risk in connection with the issuance of the bonds in U.S. dollars, even temporarily.

14 Other Operating Income

in € thousand	Jan.–Dec. 2016	Jan.–Dec. 2015
Income from reversal of provisions from liabilities	5	-
Recharged expenses to affiliated companies and shareholder	-	87
Total release of other liabilities	22	18
Total	27	105

15 Personnel Expenses

Personnel expenses are disbursed for employees as follows:

in € thousand	Jan.–Dec. 2016	Jan.–Dec. 2015
Wages and salaries	243	169
Social security charges	31	18
Total	274	187

16 Depreciation of Tangible Fixed Assets

Depreciation expenses of € 4 k (Jan.–Dec. 2015: € 4 k) are related to the depreciation of tangible assets, which are comprised of office equipment.

17 Other Operating Expenses

Jan.-Dec. 2016 in € thousand	PricewaterhouseCoopers Accountants N.V.	Other PWC Network	Total PWC Network	Other Network	Total
Audit of the financial statements	60	-	60	-	60
Other audit services	18	-	18	-	18
Tax services	-	-	-	10	10
Other non-audit services	-	-	-	30	30
	78	-	78	40	118
General administrative expenses	-	-	-	153	153
Total	78	-	78	193	271

Jan.-Dec. 2015 in € thousand	PricewaterhouseCoopers Accountants N.V.	Other PWC Network	Total PWC Network	Other Network	Total
Audit of the financial statements	93	-	93	-	93
Other audit services	-	-	-	-	-
Tax services	-	-	-	12	12
Other non-audit services	-	-	-	110	110
	93	-	93	122	215
General administrative expenses	-	-	-	271	271
Total	93	-	93	393	486

The audit fees of the financial statements are based on invoices and estimated work orders for auditing services rendered from PricewaterhouseCoopers Accountants N.V. related to the audit of the 2016 financial statements. PricewaterhouseCoopers Accountants N.V. have done other non-audit services for the company amounting to € 24 k (Jan.-Dec. 2015: € 139 k), but these are included in the capital finance costs of the bonds.

18 Income Taxation

The taxation on the result of ordinary activities can be specified as follows:

in € thousand	Jan.-Dec. 2016	Jan.-Dec. 2015
Loss / profit before taxation	- 2,719	10,563
Deferred tax assets	2,586	- 1,803
Current tax liabilities	- 602	- 78
Income taxation	- 1,389	- 835
Total	- 2,124	7,847

Effective tax rate 21.9 % (Jan.-Dec. 2015: 25.7 %)
The nominal tax rate is 25.0 % (Jan.-Dec. 2015: 25.0 %)

The current tax position is not calculated on basis of the ordinary profit or loss but by using the margin agreed in the advanced pricing agreement; current income tax occurs even with a loss, too. Furthermore, because of the APA, no deferred tax assets on tax loss carryforwards are taken into account. The deferred tax assets result only from cash flow hedge reserve. Therefore no deferred income tax from the 2016 tax loss can be offset against the current 2016 income tax. In conclusion, the effective tax rate deviates from the nominal tax rate.

19 Related Parties

In accordance with the business purpose of the company, namely, raising funds from the debt capital markets, the lending of the funds to Vonovia SE or its affiliated companies respectively reflects the related party relationships and is therefore related to Group financing activities.

All loans are granted to Group companies for Group financing purposes. The interest income mainly stems from these Group companies. The interest rates charged to the Group companies are comprised of a weighted mix of interest rates from the issued bonds plus a service charge margin on an arm's length basis.

The company obtains services from the shared service center of Vonovia SE, for which no service fees have been charged because setting up the entity and setting in place the operational activities were in the sole interest of Vonovia as the main beneficiary.

Therefore any receivables and liabilities to Vonovia SE or its affiliated companies are related to the financing activities mentioned above.

20 Average Numbers of Employees

As of December 31, 2016, the company has five employees (2015: two), of which are three male and two female (2015: two male). All employees work in the Netherlands. A financial analyst will be employed in January 2017. The Management Board of three people comprises only men; two of them work in the Netherlands and the other one in Germany. Services are obtained by the shared service functions of Vonovia Group.

21 Financial Instruments

The company's policy is to fully hedge its interest rate and exchange rate exposures. The financial instruments of the company state the following nominal amounts:

in € thousand	2016	2015
Balance as of January 1	4,189,809	739,809
Additions Pre-hedges (Forward swaps)	-	2,700,000
Additions Floater	500,000	750,000
Cash settlement Pre-hedges (Forward swaps)	- 2,700,000	-
Balance as of December 31	1,989,809	4,189,809

At the beginning of 2016 the financial instruments consisted of five forward swaps with a total nominal volume of € 2,700 million, two interest rate swaps relating to a floater bond with a total nominal volume of € 750 million and four cross-currency swaps corresponding to two U.S. dollar bonds with a total nominal volume of € 739.8 million.

In connection with the € 500-million bond with a variable coupon issued in September 2016, the company has used a corresponding interest rate hedging transaction to fix the interest rate at 0.140 % for two years.

Five forward swaps that were designated in October 2015, with a nominal volume of € 2,700 million, were settled with the counterparties in June and December 2016 respectively for a total amount of € 131.4 million.

Three hedging instruments can be continued within what is known as **passive hedge accounting**. To the extent that the hedges were ineffective at the date of the unwinding, for an amount of € 5.6 million, the change in fair value was immediately recognized in net interest. Future changes in value,

previously reported outside profit or loss under cash flow hedge reserve, will be amortized through profit or loss in line with the expected cash flows from the underlying hedged items (two tranches of the bond issued on June 6, 2016, each with a volume of € 500 million, as well as the bond issued on December 6, 2016, with a volume of € 1,000 million). An amount of € 4.5 million relating to these three hedging instruments, has been amortized in the reporting year.

Since the originally intended hedged items for the remaining two settled hedging instruments were no longer associated with a high probability of occurrence, their termination prices totaling € 54.5 million were recognized affecting net income in the first place and subsequently passed on to Vonovia SE.

The main parameters on December 31, 2016, are as follows:

In € thousand	Designation Date	Term	Size (m€)	Counterparty	Var. Rate	total cash unwinding Pre-hedges	immediate ineffectiveness in income statement	immediate expenses in income statement	Amortization 2016	Fair Value CCS Dec. 31, 2016	Fair value interest rate swaps Dec. 31, 2016	Ineffectiveness Dec. 31, 2016	Cash flow hedge reserve Dec. 31, 2016
Forward swap trade 1						27.540	1.711		2.008				23.821
Forward swap trade 2						18.672	701		1.815				16.156
Forward swap trade 3						30.710	3.191		640				26.879
Forward swap trade 4						37.820		37.820					
Forward swap trade 5						16.710		16.710					
Interest rate swap	Sep 2016	2 years	500.000	BoAML	3M EURIBOR						127		-127
Interest rate swap	Dec 2015	2 years	750.000	JPM / BoAML	3M EURIBOR						-1.332	6	1.326
Cross-currency swap	Oct 2013	10 years	184.952	JPM / MS	USD exchange rate					31.633		5.262	-36.796
Cross-currency swap	Oct 2013	4 years	654.857	JPM / MS	USD exchange rate					150.823 (1)		5.013	-155.836
			1.989.809			131.452	5.603	54.530	4.463	182.356	-1.205	10.281	-124.576
Accrued interest											2.392		
Fair value (dirty)										184.748		-257	
												-1.462	

1) short term (settlement Oct 2, 2017)

22 Directors

Management Board:

- Iwan Oude Roelink, Amsterdam
- Rick van Dijk, Rotterdam
- Lars Schnidrig, Düsseldorf

The Management has received remuneration for the year of 2016 amounting to € 132 k (Jan.–Dec. 2015: € 84 k).

The members of the Supervisory Board have received remuneration for the year of 2016 amounting to € 2 k. (Jan.–Dec. 2015: € 0 k).

23 Responsibility Statement

The Management Board has declared that to the best of its knowledge:

1. The financial statements, which have been prepared in accordance with the Netherlands Civil Code, give a true and fair view of the assets, the liabilities, the financial position and the results of the company.
2. The management report gives a true and fair view of the development and performance of the company's situation on the balance sheet date, the events that occurred during the period and the risks to which the company is exposed are faced as required pursuant to section 5:28d(8)/(9) of the Dutch Financial Markets Supervision Act ("Wet op het financieel toezicht").

24 Subsequent Events

FINANCE B.V. has reached an agreement with the Dutch tax authorities regarding an advance pricing agreement for the period of establishment, which will last until December 31, 2017. In 2016, the company applied for a new APA with a period of validity from January 1, 2016, to December 31, 2020. The Dutch tax authorities have approved the application, and it was signed on January 17, 2017.

The company issued bonds of € 1,000 million from the EMTN Program on January 25, 2017, which are divided into two tranches of € 500 million each. The first one is a five-year tranche with an interest rate of 0.750 %, the second one is a ten-year tranche with an interest rate of 1.750 %. Both are placed at the regulated Market of the Luxembourg Stock Exchange.

Amsterdam, March 9, 2017

Management Board

Original has been signed by
Iwan Oude Roelink

Original has been signed by
Rick van Dijk

Original has been signed by
Lars Schnidrig

Supervisory Board

Original has been signed by
Dr. A. Stefan Kirsten (Chairman)

Original has been signed by
Christoph Schauerte

Original has been signed by
Simone Schumacher

4. Other Information

Independent Auditor's Report

Refer to the independent auditor's report on the next page.



Independent auditor's report

To: the general meeting and supervisory board of Vonovia Finance B.V.

Report on the financial statements 2016

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Vonovia Finance B.V. as at 31 December 2016, and of its result and its cash flows for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of Vonovia Finance B.V., Amsterdam (the company).

The financial statements comprise:

- the balance sheet as at 31 December 2016;
- the income statement for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Vonovia Finance B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ref.: e0397636

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, the Netherlands

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Our audit approach

Overview and context

The company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Vonovia SE as disclosed in note 1.1 to the financial statements. The company has financial instruments in place to mitigate interest rate risk and currency risk. We paid specific attention to the areas of focus following from the operations of the company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the management board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management board that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a financing company. We therefore included specialists in the area of financial instruments in our team.

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at €107,000,000 (2015: €89,000,000). We determined materiality based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders to be the most important stakeholders. Based thereon we applied a benchmark of 1% of total assets. Inherent to the nature of the company's business, the amounts in the financial statements are large in proportion to the income statement line items other operating income, personnel expenses, depreciation of tangible fixed assets, other operating expenses and income taxation. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 5% of profit before tax.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €5,350,000 (2015: €4,450,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

Due to the nature of the company's business we recognise that key audit matters which we reported in our independent auditor's report on the financial statements 2015 may be long-standing and therefore may not change significantly year over year. As compared to last year there have been no changes in key audit matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<p><i>Valuation and existence of the loans issued</i></p> <p><i>Note 6</i></p> <p>We consider the valuation and existence of the loans issued, as disclosed in note 6 to the financial statements for a total amount of €10,462,769,000 to be a key audit matter. This is due to the size of the loan portfolio in combination with the fact that the management board's assessment of objective evidence of impairment is very important and judgemental. As a result, any impairment may have a material effect on the financial statements.</p> <p>The management board did not identify any objective evidence that a loan is impaired.</p>	<p>We performed the following procedures to test the existence of the loans issued to Vonovia SE group companies and to test the management board's assessment of possible loss events to address the valuation:</p> <ul style="list-style-type: none"> • We evaluated the financial situation of the group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the company. • We evaluated the financial position of Vonovia SE by verifying observable data from rating agencies, developments in credit spreads and other publicly available data. • We analysed if there were any loss events at an individual loan level by challenging the valuation assessments prepared by the management board, which we did by analysing the financial situation of the group companies to which loans have been provided. • We performed a margin analysis. • We recalculated the amortised cost value based on the effective interest method. • We audited data input to calculate the fair value of the loans, including cash flows, based on underlying contracts, credit spread and market interest. • We compared interest receipts with bank statements.

Key audit matter

How our audit addressed the matter

- We performed confirmation procedures with the counterparties of the loans.

We found the management board's assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.

Derivative valuation

Note 21

We consider the fair value of the derivatives portfolio of €184,748,000 as disclosed in note 21 to the financial statements and used in the company's hedge effectiveness testing to be a key audit matter. This is due to the nature of the portfolio that includes longer-dated interest rate swaps and cross-currency interest rate swaps. The market for these swaps is not always fully liquid and therefore valuation is a complex area.

We performed the following procedures to address the valuation of derivatives:

- We tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relationships.
- We reconciled the interest rate curves and other market data with independent sources.
- We assessed whether the settings used in the valuation system and the models are in line with market practice.

Based on these procedures we found the management board's assumptions used in the valuation of derivatives to be reasonable compared to market data and the chosen models to be in line with market practice. We also tested the mathematical accuracy of the models used and reconciled the outcome of the valuation system with the general ledger. Based on the procedures as set out above we found no material differences.

Hedge accounting

Note 21

We consider the application of hedge accounting to be a key audit matter. Refer to note 21 to the financial statements. This is because of the detailed formal and technical requirements that are relevant to the application of hedge accounting and because inappropriate application of these requirements can lead to a material effect on the financial statements.

We performed the following procedures to assess the appropriateness of the application of hedge accounting:

- We tested on a sample basis whether the hedge documentation and hedge effectiveness testing as prepared by the management board met the requirements of RJ 290, *Financial Instruments*, and whether the hedge effectiveness test was mathematically correct.
- We reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements.

Based on the procedures as set out above we found the application of hedge accounting to be appropriate.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the supervisory board report;
- the management report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the management report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Vonovia Finance B.V. in July 2013 by the management board. The appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of four years.

Responsibilities for the financial statements and the audit

Responsibilities of the management board and the supervisory board for the financial statements

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.



Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 9 March 2017
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M.P.A. Corver RA

Appendix to our auditor's report on the financial statements 2016 of Vonovia Finance B.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.