Financial Report 2018

Vonovia Finance B.V.,

Amsterdam

VONOVIA

Supervisory Board Report 2018

Management Report 2018

Financial Statements

Other Information

Supervisory Board Report 2018

The Supervisory Board ("the SVB") is an independent body of Vonovia Finance B.V. ("the company") and is responsible for supervising and advising the Management Board. In addition, the Supervisory Board oversees the general business progress, the strategy and the operational performance of the company. In this respect, the SVB also focuses on the effectiveness of the company's internal risk management and control systems and the integrity and quality of the financial reporting.

Composition, Independence and Diversity

The Supervisory Board currently comprises five members. Three members are also representatives of the sole shareholder, while the other members are external SVB members. All external SVB members are independent in the sense of the Corporate Governance Code and the SVB Rules of Procedure.

Prof. Dr. A. Stefan Kirsten, 58, male, Chairman,
(former CFO of Vonovia SE)

Helene von Roeder, 48, female,
(CFO of Vonovia SE)

Simone Schumacher, 36, female,
(Head of Accounting BMW Finance N.V.)

Olaf Weber, 46, male
(Head of Finance and Treasury of Vonovia SE)

Dr. Fabian Heß, 44, male
(General Counsel of Vonovia SE)

The composition of the SVB changed during the year under review. Ms. Helene von Roeder joined the board as CFO of the shareholder, Vonovia SE. Prof. Dr. Kirsten, who stepped down as CFO of Vonovia SE, remained on the SVB as an external member.

The aim is to achieve a balanced composition of the SVB, where the combination of its members' different experiences, backgrounds, skills and independence best enables the SVB to discharge its various obligations in relation to the company and its stakeholders. The aim is also to achieve a balanced ratio of men and women on the SVB. Both aims have been successfully achieved.

Meetings and Activities

The Supervisory Board held three meetings during the year. On March 9, 2018, there was a conference call related to approval of the 2017 financial statements and the company's financial strategy on the BUWOG acquisition.

Two meetings were held in the company's office in Amsterdam – one on April 9, 2018, and one on September 13, 2018. During these meetings, the following items were discussed, among others:

> Operational business and performance up to December 31, 2017, and June 30, 2018

> Financial strategy of the company

> Board report 2017 and audit plan 2018 of the independent auditor

> Outlook 2018 on liquidity, tax and corporate governance

> Commercial Paper Program and Working Capital Facility (WCF).

> Updated Rules of Procedure (bylaws)

> Recruiting processes

Every board member was present in person or by conference call for all three meetings. The external independent auditor attended both meetings held in Amsterdam.

In a SVB-only meeting (i.e., without the Management Board) also held on September 13, 2018, the SVB discussed the performance of the Management Board and its individual members as well as the performance of the SVB and its individual members. The conclusion of both evaluations was positive with no action points required.

The members of the Supervisory Board received total remuneration of € 18 k in 2018 for their work.

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

The Supervisory Board expresses with great gratitude that the work of the Management Board and the company employees have again enabled strong growth in the current year. It especially welcomes the increased front office activities and the implementation of new Dept Capital Market (DCM) products like the commercial paper program and the WCF.

The Supervisory Board looks forwards to continuing this path in the future.

Amsterdam, March 8, 2019

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

Original has been signed by
Helene von Roeder

Original has been signed by
Olaf Weber

Original has been signed by
Simone Schumacher

Original has been signed by
Dr. Fabian Heß

Management Report 2018

History

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, Bochum, Germany, with the intention of acting as a main contributor to the execution of the finance 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.

The finance strategy is to pursue various complementary objectives simultaneously, so as to ensure sufficient liquidity at all times based on a sustainable equity-funding ratio with 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 SE 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 function of FINANCE B.V. as a financing vehicle of Vonovia Group is set up in such a way that it earns an arm's-length margin on the intercompany loans in excess of its borrowing costs on bonds. This should leave the company with sufficient residual earnings and cash flows, less certain operational charges and charges for central services provided through Vonovia SE. Essentially, 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 is ensured through the cash pool of Vonovia Group.

Common Dutch practice is to have a tax ruling for these international transactions within the group. The company has entered an advance pricing agreement with the Dutch tax authorities for the period until December 31, 2020.

Given the relevance of FINANCE B.V., a Supervisory Board was established in order to act in accordance with good corporate governance practices in the market 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.

Vonovia's broad access to the capital markets offers a competitive distinction in the German real estate business and represents a clear strategic advantage. Without having had fast and direct access to the international debt market, the company's growth in recent years would not have taken place.

Debt Capital Markets

The company has issued various debt instruments over the years like EUR-bonds, EMTN-bonds, USD-bonds and hybrids. The bonds issued by FINANCE B.V. are supported by the unconditional and unlimited guarantee of Vonovia SE.

Most popular are the EMTN-bonds that are issued under the European Medium-Term Notes Program (EMTN Program). This program allows the company to raise funds on a short-term basis without significant administrative efforts. The EMTN Program with a total issuance volume of € 20.0 billion is updated annually, and the corresponding base prospectus is supplemented any time new material information becomes available. The latest update was completed on March 14, 2018, and the latest supplement to the base prospectus was published on January 21, 2019. Each update and supplement of the program is approved by the regulatory authority of the Grand Duchy of Luxembourg (CSSF) and the bonds issued under the EMTN Program have been accepted for listing on the Luxembourg Stock Exchange. The total utilization of the EMTN Program issuance volume is € 11,850 million as of December 31, 2018.

Below you can see a table with all the outstanding bonds as of December 31, 2018:

Total outstanding in € millions	#	Notional Amount	avg. Coupon	rem. Term (y)
EUR-Bonds	1	600	3.125 %	0.6
USD-Bonds	1	185	4.580 %	4.7
Hybrids	2	1,700	4.257 %	1.8
EMTN fix	18	10,750	1.613 %	5.8
EMTN floating	2	1,100	0,405 %	2.6
Total	**24**	**14,335**	**1.936 %**	**4.9**

As of December 31, 2018, FINANCE B.V. has a total indebtedness of € 14,335 million related to the bond program without the CPs, which has been on-lent to Vonovia Group entities. The average coupon is 1.94 % and the average maturity is 4.9 years.

The average maturity for the € 700 million hybrid bond is based on the first opt-out date on April 8, 2019, and for the € 1,000 million hybrid bond, maturity is based on the first opt-out date on December 17, 2021.

In order to complement these bonds with maturities of 1 year and longer, a debt instrument with a maturity less than a year has been launched. In 2017, a commercial paper program with a volume of € 500 million began, which has been increased to € 1,000 million in the meantime. At the beginning of 2018, € 410 million had been issued under the program at extraordinarily favorable rates and have been paid back during the year.

The bonds are placed on the debt capital market mainly with European banks, asset managers and insurance companies. The placement to the U.S. market is normally done by private placements, but thus far the company only has one “Yankee bond” outstanding.

The commercial papers are sold via our dealer-banks. The ultimate owners of these papers are large European companies who have short term excess cash. The program that was in place just before the beginning of the year has been very successful. There have been 18 tranches issued with several dealer-banks in the amount of € 1,200 million since inception. The average tenor is around 3 months. Due to the negative interest rate, FINANCE B.V. receives more than it should repay. The last tranches had a yield to maturity of negative 23 basis points. In 2018 FINANCE B.V. received € 520 k as interest income due to the CP Program. At the end of the year 2018 € 420 million have been outstanding under the program.

The success of the company over the years has been pro founding. The average bond volume issued per year between 2015 and 2018 was around € 3,025 million, which represents the 14th-biggest issuer of the top 15 euro-investment grade-ranked companies worldwide – as calculated by Dealogic as of January 3, 2019.

Operations During The Year

On January 8, 2018, FINANCE B.V. issued a dual tranche bond again under the EMTN Program with a total volume of € 1,000 million. The first tranche of € 500 million has a coupon of 0.75 % and a maturity date of January 15, 2025, and the second tranche with a volume of € 500 million has a coupon of 1.50 % and a maturity date of January 14, 2028. These funds are intended to be used for the upcoming takeover of BUWOG.

In addition in January 2018, FINANCE B.V. entered into a € 2,650 million acquisition bridge financing agreement for the takeover of BUWOG.

On March 15, 2018, FINANCE B.V. issued a multi tranche bond again under the EMTN Program with a total volume of € 2,100 million. The first tranche of € 600 million has a coupon of 3M EURIBOR plus 0.45 % and a maturity date of December 22, 2022; the second tranche with a volume of € 500 million has a coupon of 1.50 % and a maturity date of March 22, 2026; the third tranche with a volume of € 500 million has a coupon of 2.125 % and a maturity date of March 22, 2030; and the fourth tranche with a volume of € 500 million has a coupon of 2.75 % and a maturity date of March 22, 2038. These funds have been used for the BUWOG takeover.

Upon the issuance in March 2018, FINANCE B.V. reduced the commitment of the acquisition bridge financing for BUWOG from € 2,650 million down to € 960 million.

In May 2018, the undrawn € 960 million commitment of the acquisition bridge financing for BUWOG was cancelled automatically upon an € 996 million equity raise of Vonovia SE. In order to comply with all regulatory requirements, FINANCE B.V. entered into a new € 960 million acquisition bridge financing for the BUWOG acquisition in May 2018.

On June 25, 2018, FINANCE B.V. partially cancelled the commitment in the amount of € 516 million, reducing the total commitment down to € 444 million.

On July 3, 2018, FINANCE B.V. issued another € 500 million bond under the EMTN Program with a coupon of 0.875 % and a maturity date of July 3, 2023. This issuance was the final step of the financing activities for the public takeover offer of BUWOG.

After the issuance, FINANCE B.V. cancelled the remaining outstanding € 444 million undrawn commitment of the acquisition bridge financing for the BUWOG takeover.

Besides the BUWOG takeover, the possibility of a hard Brexit had a huge impact on FINANCE B.V. as its counterpartying UK banks, with whom the company has entered derivatives, were putting contingency plans in place. All the UK banks have set up entities outside the UK, and all of the existing framework agreements about the company has been repapered. Therefore FINANCE B.V. also needed to on-board at the Irish branch of the trade repository ("DDRIE"). These processes have been done with all existing banks of the company as well as with the FINANCE B.V. is anticipating doing business with. It also analyzed the cash impact if it would terminate all existing derivatives in case of a hard Brexit.

In September 2018, the two-year € 500 million floating rated bond was repaid, and the accompanying pay-fix receive float swap was terminated.

The most recent confirmation of the rating by S&P is from August 2, 2018, which includes the takeover of Victoria Park AB in Sweden.

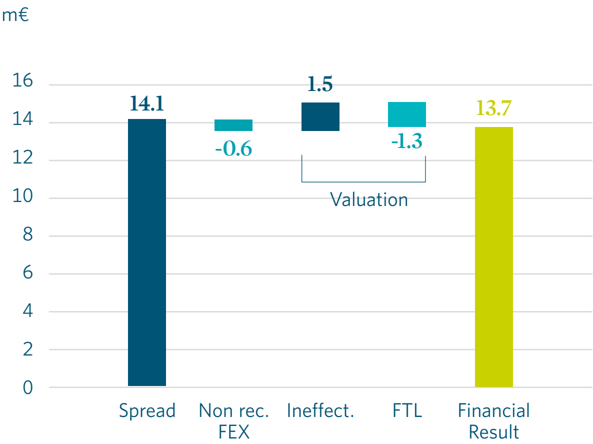
The proceeds from the debt capital market are on-lent to our affiliates by means of intercompany loans. The entities that are part of the internal company loans are listed in the notes.

Financial Result

FINANCE B.V. closed the 2018 financial year with a net income of € 9,615 k, which was essentially driven by the normal course of business. The company has earned a reasonable income of € 42.5 million from the margin between the incurred interest on borrowing and the earned interest on-lending.

After subtracting € 17.5 million of amortized finance expenses, € 9.6 million of amortized of "frozen" OCI from the termination of several pre-hedges and € 1.3 million valuation effects, the spread is € 14.1 million.

The picture below shows the bridge between spread to the financial result. The non-recoverable financial expenses relate mainly to the yearly update of the credit rating. The valuation effects result from ineffectiveness from the hedge accounting methodology in the amount of € 1.5 million and from first-time losses of the CCS in the amount of € 1.3 million.



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

Risk Management

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 SE 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. FINANCE B.V. is furthermore subject to regular internal audit procedures.

The operational execution of tasks and day-to-day business are performed by the staff of FINANCE B.V.

FINANCE B.V. is included in the risk management and internal control system of the 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 reports, which are publicly available under 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. is making use of these assessments in its own risk evaluation. Therefore, Finance B.V. has, in general, a conservative attitude towards risk and is avoiding any high risk appetite.

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 generally monitored by corresponding derivative instruments. Derivatives are contracted with major financial institutions with a high credit rating.

In order to minimize the liquidity risk, the cash flow risk and for 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 on-lent to Vonovia Group companies. However, the sole shareholder acts as a general guarantor for all the borrowings. Therefore, the risk of FINANCE B.V. is the same as that of Vonovia SE.

Below you can see the current risk profile determined on the basis of this risk analysis and the control measures. The current risk profile is assessed and compared with the desired risk profile. Action plans are drawn up for each risk if the current profile is graded at a higher level than the desired risk profile to further control/reduce the existing exposure. So far, no action plan is necessary.

Risk Area	Risks	Controls/Mitigation	Risk appetite low	Risk appetite medium	Risk appetite high
Strategic	Unsecured funding less attractive than secured	Certain amount of unsecured funding required by rating agency/ bond covenants		◯	
		Unsecured market is deeper and quicker accessable as secured funding		◯	
Operational	Liquidity risk	Cash pool with Vonovia SE	◯		
	Refinancing risk	Increased product offering (CP/ RCF)		◯	
Financial	Interest rate risk and foreign currency risk	Derivatives (IRS, XCS, Caps)	◯		
	Counterparty risk	Continuously monitoring	◯		
	Cash flow risk and fair value risk management	Applying hedge accounting	◯		
Compliance	International tax compliance	Bilateral APA		◯	
	Compliance with code of conduct/corp. governance	Continuously monitoring	◯		

▢ = current risk profile ◯ = preferred risk profile

Outlook

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 and to the favorable mispricing of the unsecured loans. However, the mispricing has become less favorable, making secured funding more attractive.

The European Central Bank's program to acquire qualified bonds ended by the close of 2018. However, the interest rates will remain unchanged at least through the summer of 2019. We therefore believe that the interest environment remains stable.

In comparison, the U.S. markets were influenced by the recent decision about the new rate hike by the Fed. Consequently, the spread between the lower ECB Rate and the higher Fed Fund is now 2.5 %.

Leaving the impact from the valuation of derivatives and financial instruments aside, for 2019, management expects a positive result alongside the intended profit margin from the normal course of business, which may offset the negative impacts from the remaining aforementioned valuation effects from derivatives.

The company had five employees in total at the end of the 2018 financial year.

On January 29, 2019, FINANCE B.V. issued another € 500 million bond under the EMTN Program with a coupon of 1.80 % and a maturity date of June 29, 2025.

On February 12, 2019 Finance B.V. called for redemption of the Hybrid Bond in whole of € 700 million with a first call date 2019, due 2074, guaranteed on a subordinated basis by Vonovia SE, effective on April 8, 2019.

As of January 1, 2013, a new law on management and supervision (Wet Bestuur en Toezicht) came into effect in the Netherlands. The purpose of this law is to attain a balance of men and women (at least 30 % of each gender) 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 when appointing future members of the Management Board and the Supervisory Board. The men/women rate of the Supervisory Board is now more than 30 %.

Responsibility Statement

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

> The financial statements for the year ending December 31, 2018, 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 8, 2019

Original has been signed by
Thorsten Arsan (Chairman)

Original has been signed by
Iwan Oude Roelink

Original has been signed by
Rick van Dijk

Financial Statements

Balance Sheet as of December 31, 2018

(before distribution of profit/loss)

in € thousand	Note	Dec. 31, 2017	Dec. 31, 2018
Assets			
Fixed assets			
Tangible fixed assets	5	14	11
Financial fixed assets			
Receivables from affiliated companies and shareholder	6	11,563,141	14,636,498
Receivables from derivatives	22	5,041	15,689
Deferred tax assets	7	4,696	6,313
		11,572,892	14,658,511
Current assets			
Financial current assets			
Receivables from affiliated companies and shareholder	6	143,497	213,189
Receivables from derivatives		482	605
Other assets	8	545	299
Cash and cash equivalents	9	1	1
		144,525	214,094
Total assets		**11,717,417**	**14,872,605**

in € thousand	Note	Dec. 31, 2017	Dec. 31, 2018
Equity and Liabilities			
Equity			
Subscribed capital		18	18
Share premium reserve		100,000	100,000
Cash flow hedge reserve	22	-62,459	-57,858
Other reserves		1,914	7,567
Unappropriated profit		5,653	9,615
Total shareholder's equity	10	45,126	59,342
Long-term liabilities			
Hybrid bond	10/11	993,814	995,221
Total capital base	10	1,038,940	1,054,563
Long-term liabilities			
Bonds	11	9,689,882	11,474,634
Derivative financial liabilities	22	283	7,491
		9,690,165	11,482,125
Current liabilities			
Bonds	11	499,713	1,799,527
Commercial papers	11	410,215	420,000
Accrued liabilities	12	78,068	116,323
Other liabilities	12	316	67
		988,312	2,335,917
Total equity and liabilities		11,717,417	14,872,605

Income Statement for the Year from January 1 to December 31, 2018

in € thousand	Note	Jan.–Dec. 2017	Jan.–Dec. 2018
Income			
Interest and similar income	13	318,107	330,776
Expenses			
Interest and similar expenses	13	-309,970	-317,084
Financial result		8,137	13,692
Other operating income	14	6	5
Personnel expenses	15	-312	-363
Depreciation of tangible fixed assets	16	-6	-6
Other operating expenses	18	-285	-350
Total expenses		-603	-719
Profit before taxation		7,540	12,978
Income taxation	19	-1,887	-3,363
Profit for the year		**5,653**	**9,615**

Statement of Cash Flows for the Year from January 1 to December 31, 2018

in € thousand	Note	Jan.-Dec. 2017	Jan.-Dec. 2018
Profit for the year		5.653	9.615
Cash flows from operating activities			
Adjustments for:			
Cash flow hedge reserve		18.269	4.601
Bonds (long-term liabilities)	11	1.471.863	1.784.753
Bonds and commercial papers (current liabilities)	11	-547.358	1.309.600
Hybrid (perpetual)	10/11	1.355	1.407
Receivables to affiliated companies and shareholder	6	-1.137.338	-3.143.048
Derivative financial instruments	22	178.304	-3.562
Deferred tax assets	7	2.497	-1.616
Other assets	8	521	246
Accrued liabilities	12	6.577	38.256
Other liabilities	12	-341	-249
Net cash generated from/(used in) operating activities		-5.651	-9.612
		2	**3**
Cash flows from investing activities			
Tangible fixed assets	5	-2	-3
Net cash generated/(used in) from investing activities		-2	-3
Cash flows from financing activities			
Capital contributions	10	–	–
Net cash generated from financing activities		–	–
Net increase/(decrease) in cash and cash equivalents		–	–
		-	**-**
Movements in cash and cash equivalents can be broken down as follows:			
Balance as of January 1		1	1
Movement during the year		–	–
Balance as of December, 31		**1**	**1**

Notes to the Financial Statements 2018

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 and, since 2017, commercial papers for and on behalf of Vonovia SE, Bochum, 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 the Dutch Chamber of Commerce ("KvK.").

Based on a comfortable platform of equity and debt investors and the long-term credit rating BBB+ (investment grade rating) for Vonovia SE 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 August 2, 2018. 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.

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 Bochum, Germany. Vonovia SE is also the immediate parent company of FINANCE B.V. 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 Vonovia's website at www.vonovia.de.

1.3 Going Concern

The company generated a net profit of € 9,615 k for the year from January 1 to December 31, 2018 (January 1 to December 31, 2017: € 5,653 k) which, together with the negative hedge reserve, resulted in net equity of € 59,342 k (December 31, 2017: € 45,126 k) for the shareholder's equity. Including the hybrid bond of € 995,221 k (December 31, 2017: € 993,814 k), the total capital base had a value of € 1,054,563 k (December 31, 2017: € 1,038,940 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.

The negative working capital situation of the company won't be an issue because the short-term bonds were also offset by the receivables of the affiliated companies, which are, however, generally recognized as long-term receivables. In addition, the repayment of the bonds or the Commercial papers can be refinanced at any time by the addition of new bonds or Commercial papers. 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 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 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 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 swaps (Note 22) 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 2018 Financial Statements are similar to those used in 2017.

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. The changes of tangible fixed assets were settled in the cash flow from investing 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 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 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; which mitigate FX risk and interest rate risk, 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, 2018, was fixed at 1.1450 and on December 31, 2017, was fixed at 1.1993.

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. A depreciation period of three years is used for computer hardware.

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. They are subsequently measured at amortized cost; FINANCE B.V. does not issue loans if it is clear from day one that it will not be repaid.

2.5 Impairment of Fixed Asset

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 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 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.

2.7 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.

2.8 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.

2.9 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.

2.10 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 as part of determining the amortized cost value.

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.

2.11 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 and Commercial Papers

The bonds and the commercial papers are valued at amortized cost net of transaction costs. All short-term amounts payable from bonds or commercial papers 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 expected cost. 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 paid, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

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.

Current and Deferred Income Tax

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

2.12 Accounting Policies for Operational Lease and Rental Contracts

Operational lease contracts exist whereby a large part of the risks and rewards associated with ownership are not incurred by nor for the benefit of FINANCE B.V. The lease contracts are recognized as operational leasing. Lease payments are recorded on a straight-line basis, taking into account reimbursements received from the lessor, in the income statement for the duration of the contract.

2.13 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.

2.14 Financial Instruments

Securities included in financial and current assets, as well as liabilities and derivative financial instruments, are initially and subsequently measured 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, allowing 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 swap or the floater, 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.

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 monitored in particular through the middle office located in the Vonovia Group Finance department.

4.1 Market Risk
Currency Risk for the Yankee Bond
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. The functional currency of FINANCE B.V. is the Euro and the majority of the asset side consists of positions in Euros, hence exposing the company to the currency risk between the U.S. Dollar and the Euro. 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 and payables 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 generally 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 acts as a management holding and the cash-pool leader within the Vonovia Group. 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 that of Vonovia SE are defined as eligible counterparties of 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 financial instruments disclosed under financial assets 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 2018 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 for the year using the indirect method. It was mainly increased by the placement from a grand volume of new bonds as long-term liabilities and by the reclassification of bonds from long-term liabilities to current liabilities, as the reclassification in the 2018 financial year was much higher than the repayment of the bonds. However, it decreased by the issue of a lot more loans to the companies of the Vonovia Group, particular to Deutsche Annington Acquisition Holding GmbH to finance the BUWOG acquisition. The changes of tangible fixed assets were settled in the cash flow from investing activities. There were no capital increases in the 2018 financial year, resulting in the cash flow from financing activities being null.

5 Tangible Fixed Assets

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

in € thousand	Dec. 31, 2017	Dec. 31, 2018
Acquisition cost as of January 1	27	31
Additions during the year	4	3
Disposals during the year	–	–
Acquisition cost as of December 31	31	34
Accumulated depreciation as of January 1	11	17
Depreciation for the year	6	6
Accumulated depreciation disposals	–	–
Accumulated depreciation as of December 31	17	23
Total book value	**14**	**11**

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, 2018, of 1.8716 % for EMTNs, Yankee and commercial papers (as of Dec. 31, 2017: 1.8661 %), 4.9955 % for the hybrid debt (as of Dec. 31, 2017: 4.9955 %) and 4.2536 % for the perpetual hybrid (as of Dec. 31, 2017, 4.2536 %), 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, 2017: EONIA -0.25 %). Receivables from cash pooling are classified as current assets in the balance sheet; they are unsecured and unlimited, too.

The company used its EMTN Program in the amount of € 1,000 million in January 2018, in March 2018 for four new bonds totaling € 2,100 million and in July 2018 for a new bond with the volume of € 500 million. It then passed the liquidity into the Vonovia Group, using it for more intercompany loans. Refer to note 11 for further disclosures of the debt issued by FINANCE B.V. At the balance sheet date, no fixed assets were subject to impairments.

in € thousand	Dec. 31, 2017	Dec. 31, 2018
Deutsche Annington Acquisition Holding GmbH	1,467,972	4,179,599
Vonovia SE	1,605,199	1,966,930
Gagfah GmbH	1,813,214	1,813,214
Deutsche Annington Beteiligungsverwaltungs GmbH	1,551,784	1,551,784
Süddeutsche Wohnen GmbH	649,330	649,330
Südost Woba Dresden GmbH	565,350	565,350
Wohnbau Nordwest GmbH	478,460	478,460
Wohnungsgesellschaft Norden mbH	297,099	297,099
Wohnungsbau Niedersachsen GmbH	235,573	235,573
Deutsche Annington Holdings Eins GmbH	221,437	221,437
Kieler Wohnungsbaugesellschaft mbH	204,265	204,265
Gagfah Erste Grundbesitz GmbH	194,530	194,530
Bremische Ges. f. Stadtern.-entw. & Wohnungsbau mbH	163,847	163,847
Prima Wohnbauten Privatisierungs-Management GmbH	136,259	136,259
GBH Acquisition GmbH	136,246	136,246
Vonovia Immobilienmanagement one GmbH	122,519	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 Norddeutsche Immobiliengesellschaft mbH	103,335	103,335
Eisenbahn-Wohnungsbauges. Karlsruhe GmbH	100,139	100,139
Deutsche Annington Rhein-Ruhr GmbH & Co. KG	99,012	99,012
Osnabrücker Wohnungsbauges. mbH	98,204	98,204
Gagfah Acquisition 1 GmbH	93,399	93,399
Siege Siedlungsgesellschaft mbH Mainz	84,135	84,135
DAIG 1. Objektgesellschaft mbH	78,036	78,036
Gagfah M Immobilien-Management GmbH	76,299	76,299
Vonovia Elbe Wohnen GmbH	67,472	67,472

in € thousand	Dec. 31, 2017	Dec. 31, 2018
Deutsche Annington Wohnungsgesellschaft I mbH	66,254	66,253
Deutsche Annington Wohnungsgesellschaft IV GmbH & Co.KG	62,953	62,953
DAIG 9. Objektgesellschaft B.V.	50,068	50,068
Bundesbahn-Wohnungsbauges. Kassel GmbH	47,268	47,268
Gagfah Acquisition 2 GmbH	33,495	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	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	5,649	5,649
DAIG 18. Objektgesellschaft B.V.	4,534	4,534
Liegenschaften Weissig GmbH	2,971	2,971
DAIG 25. Objektgesellschaft B.V.	1,071	1,071
DAIG 12. Objektgesellschaft mbH	945	945
Woba Dresden GmbH	542	542
Total (long-term)	**11,563,141**	**14,636,498**
Vonovia SE cash pooling (current)	143,497	213,189
Total (long-term and current)	**11,706,638**	**14,849,687**

The fair value of the receivables from affiliated companies and shareholder is € 825 million higher than amortized cost due to the decrease of the market interest rate (December 31, 2017: € 609 million higher).

Long-term Loans to Affiliated Companies and Shareholder

in € thousand	Dec. 31, 2017	Dec. 31, 2018
Balance as of January 1	10,462,769	11,563,140
Additions	1,624,507	3,073,358
Terminations	-36,015	–
Repayments during the year	-488,120	–
Balance as of December 31	**11,563,141**	**14,636,498**

7 Deferred Tax Assets

The deferred tax assets are especially dependent on changes in the currency rate from the bond in U.S. dollars. Furthermore, the deferred tax assets are based on temporary differences from the valuation of the financial instruments; for more information see note 22. The position as a whole is of a long-term nature. The deferred tax assets are mainly based on the Yankee bond and the cross-currency swap for this bond. Along with the four EMTN-bonds, a new floater came into the account in March 2018. All the instruments are long term, so no resolutions are expected for 2019.

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

Deferred Tax Assets

in € thousand	Cross-currency swap	Floater	Yankee bonds	Other	Total
As of January 1, 2018	-1,260	71	5,885	–	4,696
Addition during the year	–	1,790	–	–	1,790
Change recognized in fair value movement in deferred taxes on derivative financial instruments	-2,662	–	2,489	–	-173
As of December 31, 2018	**-3,922**	**1,861**	**8,374**	**–**	**6,313**

in € thousand	Cross-currency swap	Floater	Yankee bonds	Other	Total
As of January 1, 2017	-45,589	300	52,482	–	7,193
Addition during the year	–	-229	–	–	-229
Change recognized in fair value movement in deferred taxes on derivative financial instruments	44,329	–	-46,597	–	-2,268
As of December 31, 2017	**-1,260**	**71**	**5,885**	**–**	**4,696**

8 Other Assets

The other assets in the amount of € 299 k (December 31, 2017: € 545 k) pertain to prepaid invoices. 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 (2017: € 18 k) and consists of 18,000 ordinary shares with a nominal value of € 1 each.

The Management Board has proposed to add the net profit of 2018 amounting to € 9,615 k (year ended December 31, 2017: net profit € 5,653 k) to the other reserves.

Statement of Changes in Capital Base

in € thousand	Subscribed capital	Share premium reserve	Cash flow hedge reserve	Other reserves	Unappropri-ated profit/loss	**Total share-holders' equity**	Hybrid bond	**Total capital base**
As of January 1, 2018	18	100,000	-62,459	1,914	5,653	**45,126**	993,814	**1,038,940**
Appreciation of the hybrid bond	–	–	–	–	–	**–**	1,407	**1,407**
Other reserves	–	–	–	5,653	-5,653	**–**	–	**–**
Unappropriated profit	–	–	–	–	9,615	**9,615**	–	**9,615**
Development to Cash flow hedge reserve	–	–	4,601	–	–	**4,601**	–	**4,601**
As of December 31, 2018	**18**	**100,000**	**-57,858**	**7,567**	**9,615**	**59,342**	**995,221**	**1,054,563**

in € thousand	Subscribed capital	Share premium reserve	Cash flow hedge reserve	Other reserves	Unappropri-ated profit/loss	**Total share-holders' equity**	Hybrid bond	**Total capital base**
As of January 1, 2017	18	100,000	-80,728	4,038	-2,124	**21,204**	992,459	**1,013,663**
Appreciation of the hybrid bond	–	–	–	–	–	**–**	1,355	**1,355**
Other reserves	–	–	–	-2,124	2,124	**–**	–	**–**
Unappropriated profit	–	–	–	–	5,653	**5,653**	–	**5,653**
Development to Cash flow hedge reserve	–	–	18,269	–	–	**18,269**	–	**18,269**
As of December 31, 2017	**18**	**100,000**	**-62,459**	**1,914**	**5,653**	**45,126**	**993,814**	**1,038,940**

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 has an 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 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 € 1,644 million on the hybrid bond are shown under "Accrued Liabilities" (Note 12).

11 Bonds and Commercial Papers

The long-term and the current liabilities comprise the following bonds, issued by December 31, 2018:

Bond	Face value	Coupon	Maturity
Eurobond	€ 100 k	3.125 % listed	7-2019
Yankee bond	USD 50 k	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	€ 100 k	4.625 % listed	4-2074
Hybrid Bond (perpetual)	€ 100 k	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 2	€ 100 k	1.625 % listed	12-2020
EMTN 12/2015 3	€ 100 k	2.250 % listed	12-2023
EMTN 6/2016 1	€ 100 k	0.875 % listed	6-2022
EMTN 6/2016 2	€ 100 k	1.500 % listed	6-2026
EMTN 12/2016	€ 100 k	1.250 % listed	12-2024
EMTN 01/2017 1	€ 100 k	0.750 % listed	1-2022
EMTN 01/2017 2	€ 100 k	1.750 % listed	1-2027
EMTN 09/2017	€ 100 k	1.125 % listed	9-2025
EMTN 11/2017	€ 100 k	EURIM03+35bps	11-2019
EMTN 01/2018 1	€ 100 k	0.750 % listed	01-2024
EMTN 01/2018 2	€ 100 k	1.500 % listed	01-2028
EMTN 03/2018 1	€ 100 k	EURIM03+45bps	12-2022
EMTN 03/2018 2	€ 100 k	1.500 % listed	03-2026
EMTN 03/2018 3	€ 100 k	2.125 % listed	03-2030
EMTN 03/2018 4	€ 100 k	2.750 % listed	03-2038
EMTN 07/2018	€ 100 k	0.875 % listed	07-2023

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 bond has been issued in a private placement exclusively to qualified investors in accordance with Rule 144A under the U.S. Securities Act.

The Finance Department of the Vonovia Group and FINANCE B.V. intends to make use of the issuer call option of the € 700 million Hybrid Bond on April 8, 2019, the first call date.

The Multi-Currency Commercial Paper Program supports flexible and broad access to capital markets. Since November 2017, the company acts as an issuer under the € 500 million commercial paper program established by the company. Debt issuances under these programs have unconditional and irrevocable guarantees from Vonovia SE. The current liabilities amounting to € 450 million from December 2017 have been paid back from February to May 2018. In September 2018 the Multi-Currency Commercial Paper Program increase to € 1,000 million. The following Commercial papers of the program are issued as at December 31, 2018:

Commercial papers	Face value	Issue price	Maturity
CP 9, Commerzbank AG	€ 100 k	100.0409	2-2019
CP 10, Bayerische LB	€ 100 k	100.0422	2-2019
CP 11, BNP Paribas S.A.	€ 100 k	100.0422	2-2019
CP 12, Societe Generale S.A.	€ 100 k	100.0385	2-2019
CP 13, Bayerische LB	€ 100 k	100.0396	2-2019

in € thousand	Book value Dec. 31, 2017	Book value Dec. 31, 2018	Market value Dec. 31, 2017	Market value Dec. 31, 2018
Long-term				
Eurobond 2	598,946	–	630,216	–
Yankee bond 2	204,790	215,056	219,497	223,421
EMTN 2013	498,029	498,497	561,405	541,955
EMTN 2014	496,551	497,257	535,090	520,145
Hybrid Bond	697,277	–	734,475	–
EMTN3/2015 1	497,261	498,459	508,955	504,235
EMTN3/2015 2	492,103	493,125	514,300	491,485
EMTN 12/2015 2	1,245,726	1,247,107	1,302,563	1,280,088
EMTN 12/2015 3	989,257	990,934	1,081,130	1,040,210
EMTN6/2016 1	496,780	497,486	507,635	500,560
EMTN6/2016 2	494,734	495,312	508,330	483,410
EMTN 12/2016	988,611	990,170	1,012,330	974,840
EMTN1/2017 1	497,973	498,459	506,165	500,050
EMTN1/2017 2	494,982	495,486	515,850	488,235
EMTN9/2017	495,253	495,848	498,270	478,060
EMTN 11/2017	501,609	–	502,450	–
EMTN 01/2018 1	–	495,658	–	483,830
EMTN 01/2018 2	–	495,361	–	471,245
EMTN 03/2018 1	–	598,299	–	590,334
EMTN 03/2018 2	–	494,745	–	485,965
EMTN 03/2018 3	–	493,465	–	484,075
EMTN 03/2018 4	–	488,086	–	481,255
EMTN 07/2018	–	495,824	–	491,495
Total	9,689,882	11,474,634	10,138,661	11,514,893
Hybrid bond (perpetual)	993,814	995,221	1,097,820	1,030,460
Total	10,683,696	12,469,855	11,236,481	12,545,353

in € thousand	Book value Dec. 31, 2017	Book value Dec. 31, 2018	Market value Dec. 31, 2017	Market value Dec. 31, 2018
Current				
EMTN 9/2016	499,713	–	500,462	–
Hybrid Bond	–	699,195	–	705,012
Eurobond 2	–	599,567	–	609,972
EMTN 11/2017	–	500,765	–	499,790
CP 1, Commerzbank AG	70,030	–	–	–
CP 2, LB Hessen-Thüringen	60,026	–	–	–
CP 3, LB Baden-Württemberg	46,028	–	–	–
CP 4, BNP Paribas S.A.	60,041	–	–	–
CP 5, Bayerische LB	60,039	–	–	–
CP 6, Societe Generale S.A.	34,014	–	–	–
CP 7, Societe Generale S.A.	40,011	–	–	–
CP 8, Bayerische LB	40,026	–	–	–
CP 9, Commerzbank AG	–	93,000	–	–
CP 10, Bayerische LB	–	100,000	–	–
CP 11, BNP Paribas S.A.	–	100,000	–	–
CP 12, Societe Generale	–	77,000	–	–
CP 13, Bayerische LB	–	50,000	–	–
Total Long-term and current	**11,593,624**	**14,689,382**	**11,736,943**	**14,360,127**

The U.S.-dollar market value for the Yankee bond was USD 255,817,500 (2017: USD 263,242,500).

The valuation of the Yankee bond 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 and commercial papers in the amount of € 14,689 million.

in € thousand	Balance as of Dec. 31, 2018	Repayment obligation within 1 year	Remaining maturity 1–5 years	Remaining maturity > 5 years
Euro-/EMTN bonds	12,359,910	1,100,332	5,822,322	5,437,256
Hybrid bond (perpetual)	995,221	–	–	995,221
Yankee bond	215,056	–	215,056	–
Hybrid bonds (without perpetual)	699,195	699,195	–	–
Commercial papers	420,000	420,000	–	–
	14,689,382	**2,219,527**	**6,037,378**	**6,432,477**

in € thousand	**Balance as of Dec. 31, 2017**	Repayment obligation within 1 year	Remaining maturity 1–5 years	Remaining maturity > 5 years
Euro- / EMTN bonds	9,287,528	499,713	4,832,875	3,954,940
Hybrid bond (perpetual)	993,814	–	–	993,814
Yankee bond	204,790	–	–	204,790
Hybrid bonds (without perpetual)	697,277	–	–	697,277
Commercial papers	410,215	410,215	–	–
	11,593,624	**909,928**	**4,832,875**	**5,850,821**

Movement of the Bonds

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2018**
Balance as of January 1	10,667,766	11,593,624
Additions	2,400,032	3,981,438
Repayments during the year	-1,457,287	-909,928
Change in valuation rate	-16,887	24,248
Balance as of December 31	**11,593,624**	**14,689,382**

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

12 Accrued Liabilities/Other Liabilities

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

The current liabilities as of December 31, 2018, result mainly from accrued interest liabilities on the issued bonds.

in € thousand Bond	Coupon	Interest payment	Dec. 31, 2017	Dec. 31, 2018
Eurobond 2	3.125 %	annual July 25	8,168	8,168
Yankee bond 2	5.000 %	semi-annual October/April 2	2,577	2,699
EMTN 2013	3.625 %	annual October 8	4,171	4,171
EMTN 2014	2.125 %	annual July 9	5,094	5,094
Hybrid bond	4.625 %	annual April 8	23,771	23,771
EMTN 3/2015 1	0.875 %	annual March 30	3,320	3,320
EMTN 3/2015 2	1.500 %	annual March 31	5,671	5,671
EMTN 12/2015 2	1.625 %	annual December 15	946	946
EMTN 12/2015 3	2.250 %	annual December 15	1,048	1,048
EMTN 6/2016 1	0.875 %	annual June 10	2,457	2,457
EMTN 6/2016 2	1.500 %	annual June 10	4,212	4,212
EMTN 9/2016	EURIM3+	quarterly March/Jun/Sep/Dec 13	14	–
EMTN 12/2016	1.250 %	annual December 6	891	890
EMTN 01/2017	0.750 %	annual January 25	3,504	3,504
EMTN 01/2017	1.750 %	annual January 25	8,175	8,175
EMTN 09/2017	1.125 %	annual September 8	1,772	1,763
EMTN 11/2017	EURIM3+	quarterly Feb/Mai/July/Nov 20	12	20
EMTN 01/2018 1	0.750 %	annual January 15	–	3,606
EMTN 01/2018 2	1.500 %	annual January 14	–	7,192
EMTN 03/2018 1	EURIM3+	quarterly March/Jun/Sep/Dec 22	–	23
EMTN 03/2018 2	1.500 %	annual March 22	–	5,836
EMTN 03/2018 3	2.125 %	annual March 22	–	8,296
EMTN 03/2018 4	1.750 %	annual March 22	–	10,699
EMTN 07/2018	0.875 %	annual July 3	–	2,182
Hybrid bond (perpetual)	4.000 %	annual December 17	1,644	1,644
Commercial paper 9			–	26
Commercial paper 10			–	28
Commercial paper 11			–	28
Commercial paper 12			–	21
Commercial paper 13			–	14
Total			77,447	115,504
Compensation with swaps without ccs			200	93
Accruals			421	726
Total accrued liabilities			78,068	116,323
Other tax liabilities			72	64
Trade payables			244	3
Total other liabilities			**316**	**67**

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

Syndicated Bridge Facility No. 1

In January 2018, Vonovia SE acquired the BUWOG Group. For this acquisition, Vonovia SE concluded an agreement on a syndicated bridge facility amounting to € 2,650 million via FINANCE B.V. with JPMorgan Chase Bank N.A. The credit line had been decreased in March 2018 with an amount of € 960 million and was cancelled in May 2018. 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.

Syndicated Bridge Facility No. 2

In May 2018, Vonovia SE concluded a new agreement on a syndicated bridge facility amounting to € 960 million via FINANCE B.V. with JPMorgan Chase Bank N.A. to comply with the legal requirements of the BUWOG acquisition. The credit line had been reduced in June 2018 to an amount of € 444 million and was cancelled on July 3, 2018. There are no prepaid assets for the bridge as of December 31, 2018.

Working Capital Facility/Revolving Credit Facility

In October 2018, Vonovia SE concluded an agreement on a new Working Capital Facility/Revolving Credit Facility amounting to € 1,000 million via FINANCE B.V. with Commerzbank AG. The prepaid assets 2018 have been paid by the shareholder in accordance with the agreement between the shareholder and the company.

13 Interest and Similar Income and Expenses

in € thousand	Jan.-Dec. 2017	Jan.-Dec. 2018
Interest income from affiliated companies and shareholder	278,323	317,087
Interest income from third parties	39,784	13,689
Total interest and similar income	318,107	330,776
Interest expenses from affiliated companies	-1	0
Interest expenses from Euro/EMTN bonds	-144,806	-183,417
Interest expenses from Hybrid bond (perpetual)	-40,004	-40,004
Interest expenses from Yankee bonds	-26,545	-10,580
Interest expenses from Hybrid bonds (without perpetual)	-32,371	-32,371
Interest expenses from Term loan	-1,007	-8,179
Termination expenses from Forward swaps	-27,563	-12,654
Interest expenses from liquidation Forward swaps	-10,393	-10,393
Other interest expenses to third parties	-27,280	-19,486
Total interest and similar expenses	-309,970	-317,084
Total financial result	**8,137**	**13,692**

In the year under review € 9.6 million were reclassified to profit or loss from the cash flow hedge reserve.

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. 2017	Jan.-Dec. 2018
Income from reversal of provisions from liabilities	6	–
Write-off old receivables from suppliers	–	5
Total release of other liabilities	–	0
Total	**6**	**5**

15 Personnel Expenses

Personnel expenses are disbursed for employees as follows:

in € thousand	Jan.-Dec. 2017	Jan.-Dec. 2018
Wages and salaries	277	324
Social security charges	35	39
Total	**312**	**363**

16 Depreciation of Tangible Fixed Assets

Depreciation expenses of € 6 k (Jan.-Dec. 2017: € 6 k) are related to the depreciation of tangible assets, which are comprised of office equipment.

17 Audit fees

The following audit fees were expensed in the income statement in the reporting period:

Jan.-Dec. 2018 in € thousand	Pricewaterhouse-Coopers Accountants N.V.	Other PWC Network	**Total PwC Network**
Audit of the financial statements	76	–	76
Other audit services	–	–	–
Tax services	–	–	–
Other non-audit services	30	–	30
Total	**106**	**–**	**106**

Jan.-Dec. 2017 in € thousand	Pricewaterhouse-Coopers Accountants N.V.	Other PWC Network	**Total PwC Network**
Audit of the financial statements	71	–	71
Other audit services	–	–	–
Tax services	–	–	–
Other non-audit services	30	–	30
Total	**101**	**–**	**101**

The fees listed above relate to the procedures applied to the company by accounting firms and the external independent auditor as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ("Wet toezicht accountantsorganisaties – Wta") as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups. These fees relate to the audit of the 2018 financial statements, regardless of whether the work was performed during the financial year.

PricewaterhouseCoopers Accountants N.V. have provided other non-audit services for the company amounting to € 30 k (Jan.-Dec. 2017: € 30 k), but these are included in "Interest and Similar Expenses." The non-audit services performed by PricewaterhouseCoopers Accountants N.V. are related to the comfort letter on the EMTN Program. These non-audit services are allowed under the current regulations.

18 Other Operating Expenses

in € thousand	**Jan.-Dec. 2017**	**Jan.-Dec. 2018**
Consultancy fees	82	96
Independent auditor's remuneration	71	76
Rent and lease	76	78
IT and administration costs	11	35
Other costs	45	65
Total	**285**	**350**

in € thousand	within 2019	within 2019–2023	beyond 2023
Rents and lease	78	39	–

19 Income/Loss Taxation

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

in € thousand	Jan.-Dec. 2017	Jan.-Dec. 2018
Profit before taxation	7,540	12,978
Deferred tax assets	384	-58
Current tax liabilities/assets	521	-280
Corporate income taxation	-2,792	-3,025
Profit for the year	**5,653**	**9,615**

Effective tax rate 25.9 % (Jan.-Dec. 2017: 25.0 %)
The nominal tax rate is 25.0 % (Jan.-Dec. 2017: 25.0 %)

FINANCE B.V. has reached an agreement with the Dutch tax authorities regarding an advance pricing agreement ("APA") for the period of establishment, which will last until December 31, 2018. A new APA with a period of validity from January 1, 2016, to December 31, 2020, was signed in January 2017.

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; the current income tax occurs even with a potential loss. Furthermore, because of the APA, no deferred tax assets on tax loss carryforwards would be taken into account. The deferred tax assets result only from cash flow hedge reserve.

20 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.

21 Average Numbers of Employees

As of December 31, 2018, the company has five employees (December 31, 2017: four), four of whom are men and one woman (December 31, 2017: three men and one woman). All employees work in the Netherlands. The Management Board of three people comprises only men; all of them work in the Netherlands. Services are obtained by the shared service functions of the Vonovia Group.

22 Financial Instruments

At the beginning of 2018, the financial instruments consisted of an interest rate swap relating to a floater bond with a nominal volume of € 500 million (beginning of 2017: two interest rate swap with a nominal value of € 1,250 million) and two cross-currency swaps corresponding to a USD-bond with a total nominal volume of € 185.0 million (beginning of 2017: four cross-currency swaps with a nominal value of € 739.8. million).

In connection with a € 600 million bond with a variable coupon issued in March 2018 with a term of 4.75 years, the company entered into a corresponding interest hedge agreement with J.P. Morgan Securities plc (fixed rate 0.793 % plus spread 0.45 %).

In line with the repayment of the floater bond with a nominal volume of € 500 million on September 13, 2018, the corresponding interest rate swap ended as well.

Future changes in value of the cash flow hedge reserve related to three hedging instruments unwound in October 2015. Therefore, 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.

The main parameters development for the cash flow reserve as well as for the derivatives on December 31. 2018, were as follows:

Development of Cash flow hedge reserve taking into account deferred tax:

in € thousand	Jan. 1, 2018	Development gross amount	Development deferred tax	Dec. 31, 2018
Cash flow hedge reserve related to three unwound hedging instruments	**57,230**	-9,626	–	**47,604**
Interest rate Swap Floater 500	**212**	-283	71	**–**
Interest rate Swap Floater 600	**–**	7,491	-1,873	**5,618**
Cross Currency Swap	**-12,638**	-10,464	2,616	**-20,486**
Corresponding USD-bonds	**17,655**	9,956	-2,489	**25,122**
Cash flow hedge reserve according to balance sheet	**62,459**	-2,926	-1,675	**57,858**

in € thousand	Jan. 1, 2017	Development gross amount	Development deferred tax	Development transfer	Dec. 31, 2017
Cash flow hedge reserve related to three unwound hedging instruments	**66,856**	-9,626	–	–	**57,230**
Interest rate Swap Floater 500	**-96**	411	-103	–	**212**
Interest rate Swap Floater 750	**994**	-1,325	331	–	**–**
Cross Currency Swap 750	**-116,877**	155,836	-38,959	–	**–**
Cross Currency Swap 250	**-27,596**	19,944	-4,986	–	**-12,638**
Corresponding USD-bonds	**157,445**	-186,387	46,597	–	**17,655**
Other adjustments	**625**	–	–	-625	**–**
Cash flow hedge reserve according to balance sheet	**81,351**	-21,147	2,880	-625	**62,459**

Development of Derivatives:

in € thousand				Face-value	Jan. 1, 2018	Development: Cash flow hedge reserve	Development: Ineffectiveness Income Statement	Development: First day loss Income Statement	Development: Reclassification	Dec. 31, 2018
Passive Hedge Accounting				–	–	9,626	–	–	-9,626	–
Interest rate Swap Floater	Sep 2016	2 years	3M EURIBOR	500,000	**-283**	283	–	–	–	–
Interest rate Swap Floater	Mar 2018	4,75 years	3M EURIBOR	600,000	–	-7,491	–	–	–	**-7,491**
Cross Currency Swap eff.	Oct 2013	10 years	USD exchange rate	184,592	**16,851**	10,464	–	–	–	**27,315**
Cross Currency Swap first day loss/ineffectiveness					**-11,810**	–	1,530	-1,346	–	**-11,626**
					5,041	10,464	1,530	-1,346	–	**15,689**
Market value (clean)				**1,284,592**	**4,758**	12,882	1,530	-1,346	-9,626	**8,198**
Accrued interest				–	**283**	–	–	–	–	**511**
Market value (dirty)				–	**5,041**	–	–	–	–	**8,709**

in € thousand				Face-value	Jan. 1, 2017	Development: Cash flow hedge reserve	Development: Ineffectiveness Income Statement	Development: First day loss Income Statement	Development: Reclassification	Dec. 31, 2017
Passive Hedge Accounting				–	–	9,626	–	–	-9,626	–
Interest rate Swap Floater	Sep 2016	2 years	3M EURIBOR	500,000	**128**	-411	–	–	–	**-283**
Interest rate Swap Floater	Dec 2015	2 years	3M EURIBOR	750,000	**-1,333**	1,325	8	–	–	–
Cross Currency Swap eff.	Oct 2013	10 years	USD exchange rate	184,592	**36,795**	-19,944	–	-	–	**16,851**
Cross Currency Swap first day loss/ineffectiveness					**-5,262**	–	-5,143	-1,405	–	**-11,810**
					31,533	-19,944	-5,143	-1,405	–	**5,041**
Cross Currency Swap	Oct 2013	4 years	USD exchange rate	554,857	**155,836**	-155,836	–	–	–	–
Cross Currency Swap first day loss/ineffectiveness					**-5,013**	–	-4,082	9,095	–	–
					150,823	-155,836	-4,082	9,095	–	–
Market value (clean)				**1,434,592**	**181,151**	-165,240	-9,217	7,690	-9,626	**4,758**
Accrued interest				–	**2,135**	–	–	–	–	**283**
Market value (dirty)				–	**183,286**	–	–	–	–	**5,041**

23 Further Information about the Bodies and the Company

The Management Board of Vonovia Finance B.V. consists of three members as of December 31, 2018.

Thorsten Arsan, Chairman of the Management Board
Head of Finance and Treasury Finance B.V. and Head of Front Office Vonovia SE

Iwan Oude Roelink
Director of Finance B.V.

Rick van Dijk
Director of Finance B.V.

The Management has received remuneration for the 2018 financial year amounting to € 212 k (Jan.-Dec. 2017: € 134 k).

The Supervisory Board currently consists of five members.

Prof. Dr. A. Stefan Kirsten, Chairman of the Supervisory Board
Former CFO of Vonovia SE

Helene von Roeder
CFO of Vonovia SE

Simone Schumacher
Head of Accounting BMW Finance N.V.

Olaf Weber
Head of Finance and Treasury Vonovia SE

Dr. Fabian Heß
General Counsel of Vonovia SE

In June 2018, the new CFO of Vonovia SE, Ms. Helene von Roeder, joined the Supervisory Board – increasing it to five members. As a result, the Supervisory Board of FINANCE B.V. men/women ratio is above 30 % for both genders.

The members of the Supervisory Board received a remuneration of € 18 k in 2018 (Jan.–Dec. 2017: € 15 k).

The shares of the company entitle the shareholder to voting and profit rights, and they are all held by Vonovia SE, the holding company of the Vonovia Group. Vonovia SE is the leading German real estate company and a top company in the European real estate market.

Since 2013, Vonovia SE went from its IPO to the MDAX and then into DAX 30. Finance B.V. was founded in 2013 as a subsidiary to act as the financing vehicle of the Vonovia Group on an international debt capital market.

24 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 year 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").

25 Subsequent Events

After the balance sheet date December 31, 2018, the company issued a new six-year bond of € 500 million on January 29, 2019, as the issue date out of the EMTN Program with the coupon of 1.800 %.

On February 12, 2019 Finance B.V. called for redemption of the Hybrid Bond in whole of € 700 million with a first call date 2019, due 2074, guaranteed on a subordinated basis by Vonovia SE, effective on April 8, 2019.

Amsterdam, March 8, 2019

Management Board

Original has been signed by
Thorsten Arsan (Chairman)

Original has been signed by
Iwan Oude Roelink

Original has been signed by
Rick van Dijk

Supervisory Board

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

Original has been signed by
Helene von Roeder

Original has been signed by
Simone Schumacher

Original has been signed by
Olaf Weber

Original has been signed by
Dr. Fabian Heß

Other Information

Profit Appropriation According to the Articles of Association

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 add the net profit of 2018 amounting to € 9,615 k (year ended December 31, 2017: net profit € 5,653 k) to the other reserves.

Independent Auditor's Report

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

Report on the financial statements 2018

Our opinion

In our opinion, Vonovia Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 2018 of Vonovia Finance B.V., Amsterdam ('the Company'). The financial statements comprise:

> the balance sheet as at 31 December 2018;
> the income statement for the year then ended;
> the statement of cash flows for the year then ended; and
> the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework 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. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of Vonovia Finance B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountants-organisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

The Company’s main activity is the financing of group companies through the placement of bonds and commercial papers 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 driven by the operations of the Company, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 1.5 of the financial statements the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the fair value of swaps and the fair value calculations of the notes receivables, we considered these matters as key audit matters as set out in the section ‘Key audit matters’ of this report. Furthermore, we identified the existence of the loans issued, valuation of derivatives and hedge accounting as key audit matter because of the importance of existence for users of the financial statements and the detailed requirements for hedge accounting.

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 finance 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’.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out below. 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, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Based on our professional judgement, we determined the materiality for the financial statements as a whole at € 148,000,000 (2017: € 117,000,000). As a basis for our judgement, we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders are the most important ones. 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 10% of the total of those expenses.

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 € 7,400,000 (2017: € 5,850,000) 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. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

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

Due to the nature of the Company, key audit matters do not change significantly year over year. As compared to last year there have been no changes in key audit matters.

Key audit matter	How our audit addressed the matter
Valuation of the loans issued	
Note 6 We consider the valuation of the loans issued, as disclosed in note 6 to the financial statements for a total amount of € 14,636,498,000 to be a key audit matter. This is because the management board has to identify objective evidence of impairment, which is very important and judgemental, and because of the possible material effects an impairment may have on the financial statements. The management board did not identify any objective evidence that a loan is impaired.	We performed the following procedures to test the management board's assessment of possible loss events to address the valuation: > 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 performed a margin analysis. > We recalculated the amortised cost value based on the effective interest method. > We have reconciled data input such as projected cash flow, interest rates and maturities with underlying contracts. > We have reconciled credit spreads and market interests with data from external data providers. > We performed confirmation procedures with the counterparties of the loans. We found management board's assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.
Existence of the loans issued	
Note 6 We consider the existence of the loans issued, as disclosed in note 6 to the financial statements for a total amount of € 14,636,498,000, to be a key audit matter. Significant auditor's attention is necessary because of the size of the loan portfolio and the importance of existence for users of the financial statements.	We performed the following procedures to support the existence of the loans issued to Vonovia SE group companies: > We confirmed the existence of the loans with the counterparties integrally. > We evaluated the existence of the counterparties by means of verification through the chamber of commerce. > We performed analytical procedures on the relationship between the interest expenses versus interest income, taken into consideration the applicable spread. > We compared interest receipts with bank statements Based on the procedures as set out above, we found no material differences.

Key audit matter	How our audit addressed the matter
Derivative valuation	
Note 22 We consider the fair value of the derivatives portfolio of €15,689,000 positive and €7,491,000 negative, as disclosed in note 22 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 fully liquid and therefore valuation is a complex area.	We performed the following procedures to support the valuation of derivatives: > We tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relationships (when relevant) by testing the input of contracts in the Company's valuation system on a sample basis. > 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. 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. Based on the procedures as set out above we found no material differences.
Hedge accounting	
Note 22 We consider the application of hedge accounting to be a key audit matter. Refer to note 22 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 support the appropriateness of the application of hedge accounting: > We tested a sample 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. 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; and
> 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 the 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 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was 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 in accordance with Part 9 of 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 six years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 17 to the financial statements.

For the period to which our statutory audit relates, in addition to the audit, we have provided the following services which are not included in the annual report of the company:

> review of the interim financial statements;
> comfort letter for the prospectus

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.

Amsterdam, 8 March 2019
PricewaterhouseCoopers Accountants N.V.

L.H.J. Oosterloo RA

Appendix to our auditor's report on the financial statements 2018 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. In this respect, we also issue an additional report to the supervisory board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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.

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