



Interim Report Q2 2016



# Key Parameters

## Operating performance indicators

in € million

|                                 | 01/01/ -<br>06/30/2016 | 01/01/ -<br>06/30/2015 | Q2 2016 | Q2 2015 |
|---------------------------------|------------------------|------------------------|---------|---------|
| Sales revenue                   | 8.1                    | 37.3                   | 3.3     | 22.8    |
| Total output                    | 49.6                   | 81.7                   | 12.5    | 66.5    |
| Gross profit                    | 3.4                    | 13.2                   | 2.1     | 7.2     |
| EBITDA                          | -2.8                   | 8.6                    | -1.9    | 4.1     |
| EBIT                            | -3.5                   | 7.9                    | -2.3    | 3.7     |
| Financial result                | -10.2                  | -7.8                   | -5.0    | -3.7    |
| Consolidated result after taxes | -9.2                   | 0.0                    | -2.8    | -0.2    |
| Gross profit margin             | 42%                    | 36%                    | 65%     | 31%     |
| EBIT margin                     | -43%                   | 21%                    | -69%    | 16%     |
| Profit-turnover-ratio           | -113%                  | 0%                     | -84%    | -1%     |

## Balance sheet ratios

in € million

|   | 06/30/2016 | 12/31/2015 |
|---|------------|------------|
| Current assets  | 235.8      | 207.8      |
| of which: Properties held for sale<br>and other inventories | 184.7      | 142.5      |
| Equity  | 21.4       | 31.0       |
| Financial liabilities & compensation liabilities            | 241.5      | 205.6      |
| of which: non-current                                       | 113.5      | 122.9      |
| Balance sheet total   | 312.6      | 279.2      |

## Key sales figures

in € million

|                               | 01/01/ -<br>06/30/2016 | 01/01/ -<br>06/30/2015 |
|-------------------------------|------------------------|------------------------|
| Notarized sales of the period | 4                      | 12                     |
|                               | 06/30/2016             | 12/31/2015             |
| Orders on hand*               | 20                     | 20                     |

\* Amount of notarized sales of units not yet transferred to the customers

## Employees

Number of employees

|  | 06/30/2016 | 12/31/2015 |
|--|------------|------------|
|  | 60         | 62         |

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# 01 | TO OUR SHAREHOLDERS

# Dear Shareholders, dear Friends and Business Partners of ISARIA Wohnbau AG,

with the takeover of our company by the U.S. private equity fund Lone Star – announced in June and completed in the last few days – we are opening a new chapter in the company history of ISARIA Wohnbau AG.

We had already formulated growth as a clear strategic objective in our 2015 annual report. With the capital increase of € 53 million that has already taken place as part of the entry of Lone Star, we can achieve this growth faster and more effectively as a first step. There are now exciting but also challenging tasks ahead of us.

On the operational side, our major project nido in Karlsfeld, which has been our main construction project in the last few years, is slowly coming to an end. A focus for 2016 and 2017 is now project development, as numerous major projects – following the basic obtaining of building rights – are now being prepared in great detail and at great expense for the actual construction process and sales. Various new acquisitions have also been strengthening our project pipeline since the beginning of the year.

Part of the path we have taken with our new major shareholder is also, however, the exit from the stock exchange that takes effect today. In the five years and more since our flotation, we have ultimately remained too small to be attractive to institutional investors on the trading floor of the public capital market. For our few remaining shareholders this means that ISARIA share can no longer be traded on any stock market. We would like at this point to thank and bid goodbye to all those shareholders who remained faithful to us in the last few years and who have transferred their shares to Lone Star as part of the current takeover offer.

Munich, August 30, 2016



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Michael Haupt  
Spokesman of the  
Executive Board / CEO



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Jan von Lewinski  
Member of the  
Executive Board / COO

# ISARIA Wohnbau AG's share

## Voluntary public takeover offer by Lone Star to the shareholders of ISARIA Wohnbau AG

LSREF4 ARIA Beteiligungs GmbH & Co. KG ('LSREF 4'), an affiliate of Lone Star Real Estate Funds IV (US) L.P. and Lone Star Real Estate Fund IV (Bermuda), L.P. (Lone Star Funds and their affiliates together "Lone Star"), published the offer document in relation to its voluntary public offer for the acquisition of all outstanding shares of ISARIA Wohnbau AG ('ISARIA'). In accordance with § 10 of the German Securities Acquisition and Takeover Act LSREF4 had already publicly announced its intention to take over ISARIA on June 17, 2016.

On July 28, 2016, the acceptance period started in which shareholders of ISARIA have the right to tender their ISARIA shares against a cash compensation of € 4.50 per share. Accepting the offer requires submitting a written statement to the respective custodian bank. The four-week acceptance period ends on August 25, 2016 at 24:00 CET. In the offer document, LSREF4 communicates that it has already acquired 700,000 ISARIA shares. In the context of the announcement of the planned takeover, LSREF4 has concluded bilateral agreements with the majority of ISARIA's shareholders regarding over-the-counter purchases of ISARIA shares or the tendering of ISARIA shares in the takeover offer.

ISARIA shareholders who have not accepted the offer during the acceptance period can still accept it within two weeks after the bidder has published the results of the offer in accordance of the takeover act during

the so-called additional acceptance period. The further acceptance period runs from August 31, 2016, to September 13, 2016.

The offer document has been approved by the Federal Financial Supervisory Authority on July 27, 2016. All documents have been made available on the following website of LSREF4: and on the website of the company under Investor Relations / Takeover offer/.

Lone Star announced its intention to not only maintain the company as a stand-alone platform but also to expand its business operations significantly. At the same time there are no plans to change ISARIA's business model, the locations of its headquarters or the composition of the management board. On this basis, ISARIA's management board and supervisory board decided to support the offer.

In coordination with LSREF4, the company's management board intends to apply for a delisting of the shares of the company by the end of acceptance period of the takeover offer. Subsequent to such delisting, ISARIA's shares will not be tradable at stock exchanges anymore.

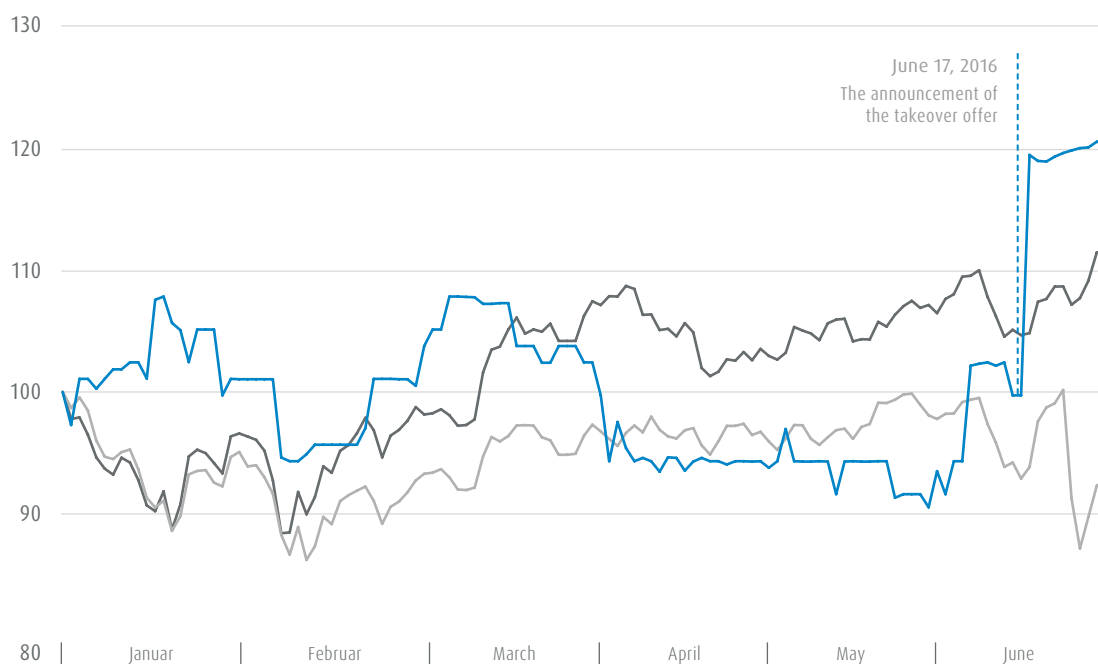
ISARIA's Executive Board and Supervisory Board has examined and evaluated the offer document and submit, in accordance with their statutory obligations, a reasoned opinion ("begründete Stellungnahme") which is published on ISARIA'S website in the investor relations section / Takeover offer.

## Share price performance

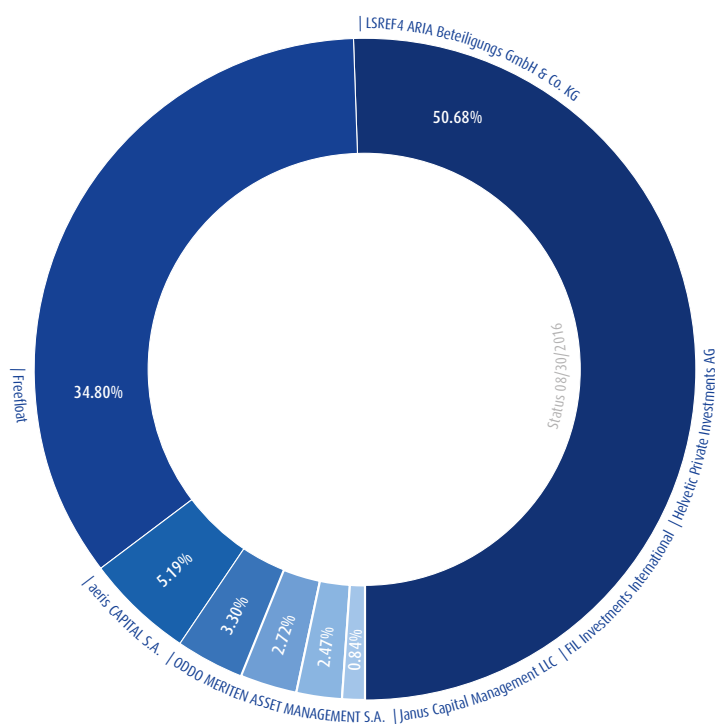
Following publication of the announcement of the takeover bid on June 17, 2016, the ISARIA share jumped by around 20% from € 3.70 to € 4.43 and then remained at this level just below the offer price from the takeover offer.

## Development of ISARIA shares

in the first half of 2016 in comparison to sector indexes (indexed)



ISARIA Wohnbau AG's share | EPRA Europe | EPRA Germany



## Shareholder structure

as of August 30, 2016

As of the editorial deadline for this quarterly report on August 30, 2016, Lone Star reported that it already holds 50.68% of the shares in ISARIA Wohnbau AG.

## Key data for ISARIA Wohnbau AG's share

|                     |  |
|---------------------|--|
| Stock market ticker | IWB  |
| Type of stock       | No-par value transferable shares                       |
| ISIN                | DE000A1E8H38   |
| WKN                 | A1E8H3   |
| Market segment      | Regulated market, Prime Standard                       |
| Designated Sponsor  | M.M. Warburg & Co., Hamburg<br>ODDO Seydler, Frankfurt |
| Stock exchange      | All German stock exchanges including Xetra             |

|                                       |                  |
|---------------------------------------|------------------|
| IPO                                   | 10 November 2010 |
| Highest price 6 months (Xetra)        | € 4.47           |
| Lowest price 6 months (Xetra)         | € 3.36           |
| Closing price on 06/30/2016 (Xetra)   | € 4.47           |
| Number of shares outstanding          | 23,764,000       |
| Market capitalisation in million Euro | 106.2            |



## Notifications of voting rights published

In the first six months of fiscal year 2016 ISARIA Wohnbau AG published one notification of voting rights in accordance with Section 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz/WpHG). All notifications of voting rights received by the company can be found on the company's website in the section Investor Relations / financial news / notifications of voting rights.

## Investor relations

The investor relations of ISARIA Wohnbau AG focus on achieving prompt, comprehensive communication with the financial community, continuity and the highest level of transparency, and are implemented in continual dialogue with analysts as well as existing and potential investors.

We also provide detailed information on the topic of investor relationships, our company and our share at [www.isaria.ag](http://www.isaria.ag), keyword Investor Relations. In addition to up-to-date news and dates, you can also access presentations as well as our annual and quarterly reports here.

# 02 | GROUP INTERIM MANAGEMENT REPORT

# 1. Business activities and economic environment

## I. Business activities and growth

ISARIA Wohnbau AG (hereinafter also referred to as the 'company' or, in connection with its subsidiaries and participating interests the 'ISARIA Wohnbau group' or only 'ISARIA Wohnbau') is a project developer for residential properties in the greater Munich region since 20 years. The group buys plots of land in attractive locations via independent special purpose entities/subsidiaries, plans residential properties in these locations, constructs these and then sells them. In most cases project development involves obtaining planning permission for residential properties for areas which were previously used commercially. In so doing, the company focuses on locations in which at least one hundred apartments can be realised. In order to realise the highest earnings potential the property might also be sold in an earlier phase of the project development. The business activities of ISARIA Wohnbau include the divisions *New Construction* of residential property and *Revitalisation* of existing properties. The latter includes changing former commercial properties into residential properties under the *APP.ARTMENTS* brand.

The company's business model is to sell all apartments and houses that it has constructed. In order to deploy the funds invested in the projects as profitably as possible, the Executive Board permanently reviews the phases in which the best, risk-optimised realisation result can be achieved. The normal case is the turnkey-ready sale of single properties to private investors or owner-occupiers. In certain cases, it may also be meaningful to sell the projects before or after completion of the construction rights development. During the review, it could also prove to be beneficial to retain the property as an investment property. For example, when holding obligatory subsidised residential building projects or commercial properties temporarily in the portfolio promises a better financial result in the future. The prerequisite for recognition as an investment property is that the (currently favourable) primary interest rate situation must

allow for sufficient surpluses from the management of the property to provide a proper return on equity and that this equity is not necessarily required for current assets. This can be ensured, for example, with new financial products from the group's own financing platform. Overall, investment properties can continually generate rental income to offset the comparatively volatile project development business. In the case of investment properties, basically, these are also evaluated on an ongoing basis with respect to the options for restructuring and utilisation.

The company, together with its SPEs, had originally operated exclusively in the high-growth area of greater Munich where it has ranked among the market leaders for several years. However this position can only be upheld by making ongoing acquisitions and it can not be expanded in a reasonable manner. Given this background, 2014 ISARIA Wohnbau took the strategic decision to expand its activities geographically and to include Hamburg as a second location. This is also in view of the fact that price levels in this city, which is next largest in terms of its size, are much lower than in Munich – while population growth is also strong and private households have comparable spending power. In 2014, the company acquired two projects and opened up an office in Hamburg. The company's headquarters, with all of the central departments, will continue to be in Munich.

ISARIA Wohnbau has its own financing platform within the group with One Group GmbH, Hamburg and its subsidiaries (hereinafter referred to as 'One Group'). The business activities of One Group mostly comprise conceiving, structuring and issuing project development funds for residential construction projects in Germany. In ISARIA Wohnbau's locations these funds invest exclusively in its projects. In other locations investments can also be made in external projects. One Group is run as a sub-group within the ISARIA Wohnbau group. The earnings of this sub-group are shown in the separate segment *One Group*.

## T 01 | ISARIA Wohnbau's Projects – New Developments

| Project          | Special purpose entity   | Location                  | Total number of housing units | Intended completion | Status  |
|------------------|--|---------------------------|-------------------------------|---------------------|---|
| nido             | ISARIA Wohnbau Objekt Karlsfeld 2 GmbH; Selection 10b  | Karlsfeld am Prinzenpark  | 24                            | 09/2016             |    |
|                  | ISARIA Wohnbau Objekt Karlsfeld 2 GmbH; Selection 10c  |                           | 25                            | 10/2018             |    |
|                  | ISARIA Wohnbau Objekt Karlsfeld 3 GmbH; Selection 11c1 (terraced house)                      |                           | 6                             | 02/2016             |    |
|                  | ISARIA Wohnbau Objekt Karlsfeld 3 GmbH; Selection 12b  |                           | 11                            | 12/2016             |  |
|                  | ISARIA Wohnbau Objekt Karlsfeld 3 GmbH; Selection 11c1 (apartment building), 11a2-c2 and 12a |                           | 36                            | 12/2017             |  |
| Tübinger Straße  | ISARIA Objekt Tübinger Straße GmbH & Co. KG / Wohnbau Objekt Hansasträße GmbH & Co. KG       | Munich-Sendling/ Westpark | 378                           | 2019 - 2020         |  |
| Diamant-Quartier | ISARIA Wohnbau Objekt Am Münchfeld GmbH & Co. KG   | Munich-Allach             | 615                           | 2019 - 2021         |  |
| Wohnpark Nord    | ISARIA Holding GmbH & Co. Objekt Hörghensweg KG  | Hamburg-Eidelstedt        | 800                           | 2017 - 2020         |  |
| Graumannsweg     | ISARIA Wohnbau Objekt Graumannsweg & Co. KG  | Hamburg-Nord              | 31                            | 12/2018             |  |

## T 02 | ISARIA Wohnbau's Projects – Revitalisations

| Project           | Special purpose entity                    | Location            | Total number of housing units | Intended completion | Status |
|-------------------|---|---------------------|-------------------------------|---------------------|--------|
| Elsenheimerstraße | JK Wohnbau GmbH & Co. Objekt Maistraße KG | Munich-Laim         | 350                           | 12/2018             | ⚙️     |
| Kapstadtring      | Objekt Kapstadtring 1 GmbH & Co. KG       | Hamburg-Winterhude  | 143                           | 12/2017             | 🏠      |
| Tower             | ISARIA south one GmbH & Co. KG            | Munich-Obersendling | 270                           | 12/2021             | ✏️     |

## Legend | Projects

- ⚖️ Plan B exists
- 🏠 building permit received
- ⚙️ Plan B developed
- ✏️ Plan B development
- 📄 preparation for start of construction
- 🔑 construction started
- 🏠 completed and handed over
- 🏡 sold in July 2016

The projects listed in the tables T 01 and T 02 will allow ISARIA Wohnbau group to generate its future revenue volume.

## Key events in the period under review

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### Transfer of the benefits and obligations for the plot of land for the *Tower* project development

On January 4, 2016, upon payment of the final purchase price instalment, we assumed the benefits and obligations for the plot of land for the *Tower* project development. It will thus now be possible to commence the first construction operations for this large project development in Munich.

### Repayment and acceptance of new bonds and loans

At the end of January 2016, as scheduled, the last bond of k€ 10,000 was repaid to the Stratos Fund. A loan from a group-external mezzanine capital lender in the amount of € 15.0 million was accepted in June 2016. This loan has a duration of 12 months and a nominal interest rate of 8.5% p.a. This loan was accepted in order to refinance a project development which had previously been financed through ProReal Deutschland Fonds 2.

### Repayment of the ProReal Deutschland Fonds 2

At the end of March 2016, the decision was made to liquidate and return to investors the ProReal Deutschland Fonds 2 issued by One Group at the end of 2012 with € 25.4 million in raised capital – at the end of the scheduled project duration of June 30, 2016. Before it was planned to draw the option of extending by one year. In comparison to the currently distributed fund ProReal Deutschland Fonds 4 this fund has had significantly higher payout rates to investors. The group's financial expenses will continue to improve with the repayment of this fund. Financially, this decision initially results in an additional one-off expense of the financial expenses during the reporting period due to a present value adjustment of fund liabilities in

the amount of k€ 1,940. However, this one-off expense is off-set by future payments to investors saved in the amount of k€ 2,147. The actual repayment was made after the balance sheet date in July 2016. The liquidity outflow was partially offset through the acceptance of the loan described above.

### Takeover offer and delisting

In Lone Star, the company has found an investor with whom it will collaborate in the coming years to accelerate the company's growth. As part of this partnership the company supports the takeover offer by LSREF4 ARIA Beteiligungs GmbH & Co. KG ('LSREF4'), an affiliate of Lone Star Real Estate Fund IV (U.S.), L.P. and Lone Star Real Estate Fund IV (Bermuda), L.P., to the shareholders of the company with the objective of acquiring a majority shareholding in the company. LSREF4 announced its intention of a public takeover of ISARIA on June 17, 2016 as part of a publication pursuant to section 10 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz [WpÜG]). The publication of the documentation covering the public takeover offer, with the objective of acquiring all outstanding shares in ISARIA Wohnbau, occurred after the reporting period on July 28, 2016.

The company had already completed an agreement with the bidding company in June, on the basis of which LSREF4 would support a possible capital increase in the amount of half of ISARIA's share capital, i.e. 11,882,000 shares at a price of € 4.50 per share, in such a way that it would acquire all shares not subject to subscription rights exercised by shareholders. Furthermore, the company envisages an exit from the stock exchange (delisting) as part of the acquisition of a majority shareholding by LSREF4.

### Corporate restructuring

In order to safeguard existing tax loss carry forwards for ISARIA Wohnbau AG and other group companies, diverse corporate restructuring were undertaken – predominantly through the transformation of companies with the previous legal form 'GmbH' ('Companies

with Limited Liability') into 'Kommanditgesellschaften' ('Limited Partnerships'), and through the fusion of companies with considerable hidden reserves with companies with significant loss carry forwards. This restructuring was implemented – and came into effect – in part in June and in July 2016. Notarial costs and property transfer tax in the amount totalling k€ 291 was primarily incurred as a result, which was accounted for as expenses in the consolidated interim financial statements as of June 30, 2016.

### Acquisition of properties

The notarial certification of two property acquisitions in Munich as part of share purchase agreements of two special purpose entities was completed in June 2016; these are still subject to confidentiality and remain under suspensive conditions, which the company still anticipates to occur only partially in 2016. The company also acquired a plot of land on Graumannsweg in Hamburg in June 2016. These three acquisitions have a total sales volume of almost € 240 million for roughly 600 residential units.

### Developments of construction projects

In the first quarter of 2016, the *nido* project in Dr. Johann-Heitzer-Straße, in Karlsfeld West, so far only saw the completion and handing over of six terraced houses from one construction stage, which apart from that had already been completed in 2015. ISARIA Wohnbau is constructing a total of 553 residential units in twelve construction stages on the 115,000 sqm plot. Of these units, 457 had been handed over by the reporting date. As of July 1, 2016, a total of 62 housing units were under construction and, apart from one show home, they have already been sold to a great extent. The next construction phases are scheduled to be ready for handover in the third quarter of 2016. The planning applications for the final building phases that have not yet been started and which have a total of 34 units were all submitted in December 2015. Except for one last construction phase, all construction permits have been approved. The start of sales for further construction phases is planned for the short term.

### Project developments Munich

Political 'YES' for the planned project development was granted for the *Tower* project in Munich-Obersendling, which is now managed and marketed under the name 'south one', with the initial resolution by the City Council of Munich on December 16, 2015, on the basis of the winning design submitted by the architectural firm Meili, Peter Architekten Munich as part of the two-stage planning procedure. On January 4, 2016, the building was handed over to us by the previous owner. The gutting work of the building was started at the beginning of March 2016. The required dismantling measures which will open up the supporting structure will be completed within one year. Simultaneously, construction planning and urban landuse planning will be executed in coordination with the state capital of Munich. In the third quarter of 2016, the preliminary planning will be completed on the basis of the winning design by the architectural firm Meili, Peter Architekten. The scheduling of the activity-related development plan process with the construction planning envisages an approval decision by the state capital of Munich in the first/second quarter of 2017. Upon receipt of the approval decision, an application should be made for a building permit shortly after.

With respect to the *Diamant-Quartier* project in Munich-Allach, the basic outline resolution was adopted by the city council on July 29, 2015. In December 2015, the winning design for urban development and landscape architecture was chosen in a competition. At the beginning of March 2016, the Committee of City Planning and Building Regulation made the decision to continue the development plan process on the basis of the winning design. The early public involvement of citizens and authorities was completed in June 2016. In the fourth quarter of 2016, public authorities will once again participate in the development plan process. In the second quarter of 2017, the approval decision and the start of remediation work will be announced in line with construction planning regulations.

For the building in Elsenheimer Straße in Munich a positive preliminary building application already exists to convert this to a boarding house/residential complex. A second preliminary building application regard-

ing planning questions was answered on June 15, 2015. The architect and technical planners have adjusted their planning in accordance with this preliminary building permit and continue to prepare the draft plan for subsequent approval. Alternative concepts are also being explored and evaluated in this context.

The *Tübinger Straße* property includes an abandoned production site in Munich-Westpark. This site, i.e. the properties on the parallel streets that border each other to the rear, is shared between the special purpose entities Wohnbau Objekt Hansastrasse GmbH and Wohnbau Objekt Tübinger Straße GmbH. The plots of land had previously been uniformly built over, and the redevelopment secured with the preliminary decision from May 2014 also provides for a uniform development predominantly focused on new housing and, to a lesser extent, business (mainly retail). Since the takeover of the special purpose entities in the second quarter of 2015, the company has been looking into the feasibility of developing the two plots separately. This privately funded residential and retail space will be focused on the Tübinger Straße plot. A boarding house concept (serviced apartments) is currently being developed for the Hansastrasse plot of land. Part of the vacant production halls on both plots has been rented out to the City of Munich until July 31, 2016 for the accommodation of refugees. The management thereof remained exclusively the responsibility of the City of Munich. Demolition works will begin in the third quarter of 2016.

In total, city council decisions or preliminary building permits for the respective targeted residential development are now in place for all our Munich project developments secured by 2015.

## Project developments Hamburg

The design for the former office building in Kapstadt-ring in Hamburg envisages a boarding house concept for future use. After the company received the building permit in May 2016, work was started on dismantling the building in June 2016. According to the plan, work will be completed in the first quarter of 2018.

Continuing efforts are being made with the district administration and Hamburg's Senate to obtain the building rights for the plot of land in Hamburg Nord as part of an upstream workshop procedure to the planning procedure B. A preliminary approval for an 'express construction' pursuant to section 246 of the German Building Code (BauGB) is expected in the third quarter of 2016. The planning procedure B should be completed at the end of 2017. The special feature of section 246 of the German Building Code (BauGB) (newly enacted in 2015) governing the is to be accommodation of refugees is that residential buildings can be established on commercial plots of land. The company made the decision after the reporting date to dispose of this project – in its current building law status – at a significant increase in value to a local project developer and portfolio manager. The registration of sale was done on July 14, 2016. The transfer of benefits and obligations is due to take place in the third quarter of 2016.

The company secured a small project development for 31 apartments in Hamburg in a very good location (Graumannsweg) in the second quarter of 2016. The construction application is already in preparation; a building permit is expected at the end of 2016. The building will be subject to individual sales and should be completed in 2018. The credit agreement for the project's bank financing was approved in August 2016 after the reporting date.



## II. Overall Economic Developments

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According to the summer forecast by the Institute for World Economics (IfW) in Kiel in June 2016, Germany's economic upswing will continue. In addition to the continued strength of private consumption, growing investment activity is increasingly becoming a driving force behind this economic upswing. New record levels of employment, significant increases in wages and salaries, low energy prices and robust rises in monetary social services are the foundation of strong increases in the purchasing power of private households.

Residential construction will continue to benefit from these extremely positive underlying conditions, in particular due to the continuation of very low financing costs but also due to a lack of alternative investments. The Institute for World Economics (IfW) even forecasts a significant increase here into the year 2017, driven decisively by very low interest rates.

The effects of the Brexit vote by Great Britain on Germany's economy and the real estate market cannot currently be estimated. Generally speaking, however, it is expected that Germany's real estate market will benefit from this vote in the short to medium term.

## III. Developments on the real estate markets in Germany and Munich

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### The market for residential project developers

The real estate economy in Germany (as an indicator for the current situation) initially registered month-for-month losses in the first quarter of 2016. The value increased again in the second quarter and currently still stands at 0.9% below the closing value for 2015. The real estate climate (as an indicator for the further outlook) was at a high, but not a peak level in the first quarter of 2015. In June 2016, it stood at 2.6% below the level attained at the end of 2015. The climate for the housing construction sector was no exception at

minus 2.5%. However, it remains the most attractive asset class and thus a 'safe harbour' in comparison with the other asset classes. A decline of this size was last registered in June 2015. The reason for this deterioration is attributable to the supply side, where there is now talk of product availability having reached 'limited' or even 'critical' levels. Due to a limited supply, prices for owner-occupier residential property in Germany are continuing to increase strongly, according to a monthly report by the Federal German Bank in February 2016. Price rises are also gaining in breadth and are increasingly affecting rural areas. The price index for residential real estate in the seven largest cities has increased by 45% since 2010. In 2015 alone, owner-occupier apartments became 6.5% more expensive – terraced and detached houses, 5%.

The underlying conditions in the real estate sector can thus continue to be regarded as being excellent for residential project developers. They therefore continue to enjoy an excellent environment in all of Germany's high-growth regions.

The effects of regulations enacted in mid-2015 to slow increases in rent prices and to reinforce the principle of the ordering party for agency fees – German Rental Law Amendment Act (Mietrechtsnovellierungsgesetz [MietNovG]) – is now predominantly being called into question. Currently there is no recognisable trend in either levels of rent or new build real estate sales. A sustainable impact on the real estate market has yet to materialise. A further tightening of these regulations is already the subject of political discussion.

The so-called Residential Real Estate Credit Guideline (Wohnimmobilienkreditrichtlinie [WKR]) has been in force since March 21, 2016. As part of the implementation of this EU guideline, the Federal German Assembly (Bundesrat) and the Federal German Parliament (Bundestag) have decreed a fundamental change in the law, which in part will have a significant effect on the building finance business for banks and agents. It has been noted that, at present, there is a significant degree of uncertainty among the banks concerning the consequences of these regulations, which has subsequently caused significant delays to lending.

Neither can the prospect of permanent limitations being placed on lending to entire groups of buyers be excluded. This would have a negative effect on our current sales channel, which is almost exclusively based on individual sales. Further developments are to be closely monitored.

### Developments on the housing market in Munich

Munich is one of Germany's top places to live. Its attractiveness has remained unchanged since our last in-depth reporting in our 2014 annual report. Munich as a location continues to take first place in many national studies with regard to factors relevant for the real estate market, such as economic and structural indicators, location strength and future-proof locations. Munich once again took the top two spots as administrative district and state capital in the German regional ranking programme 'Prognos Zukunftsatlas 2016' against all other districts and cities in Germany. This study investigated the prospects of all 402 administrative districts and autonomous cities in Germany. Munich also continues to hold one of the top places in international rankings, for example it takes second place in the City Investment Intensity Index recently published by Jones Lang Lasalle (JLL) or fourth place in the study on the quality of life published by Mercer in February 2016. Munich's high-performance economic structure can be seen in factors including the largest number of company headquarters per resident. It is the most productive German city and is often called the 'City of the DAX groups'. As a consequence, Munich is also the highest-priced location for residential real estate in Germany.

These sustainable and very positive underlying conditions let to continued high demand on the Munich residential real estate market over the past few years, with a substantial increase in prices. According to the annual market analysis by the City of Munich's Committee of Experts ('Gutachterausschuss'), there was a repeated strong increase in price levels within the residential real estate market in the year 2015. Based on an annual comparison, the rate of price increases

stood at approx. 12% (prev. plus 9%) for residential plots of land, for plots of land for multi-storey apartment buildings at approx. 8% (prev. plus 14%) and for owner-occupier apartments (new build and existing) at an average of 7% (prev. plus 11%). The strongest increase was seen in the middle price category. The distinction between residential locations shows that price elasticity is highest in average locations, i.e. relatively speaking, the apartments are still affordable. This is the segment in which ISARIA Wohnbau AG is predominantly represented.

Since 2014, the subject of a 'property bubble' has been increasingly discussed. Indeed, the gap between renting and buying residential property is expanding significantly in Munich's property market (and not just there). However, just looking at price changes alone is not totally meaningful. On the one hand, available household income must not be ignored when considering the affordability of owner-occupier residential property. When looking at rental and owner-occupier costs respectively in relation to the development of purchasing power, it becomes clear, according to an analysis by the Cologne Institute for Economic Research (Institut der deutschen Wirtschaft Köln e.V.), that both the acquisition of owner-occupier residential property and the renting of property in the German metropolises – including Munich – have become more affordable on the whole since 2010. Furthermore, buying is even more affordable than renting, including in Munich. The primary cause of this is the trend in interest rates. On the other hand, at least in Munich, the price trend can also be fundamentally substantiated. Demand for residential accommodation in Munich continues to be high. An average of 80 people move to Munich every day. In theory that means 50 new apartments every day. More than 300,000 people have thus moved to Munich over the past 15 years. As such, the City of Munich reported in May this year that its number of residents had passed the 1.5 million mark. And according to the current forecast, until 2030 the city should grow to more than 1.7 million inhabitants.

This means that Munich is far from a surplus scenario. On the contrary: the continuing high level of demand among private and professional investors for residen-

tial property in Munich has thinned out the supply to the market for some time. The number of sales within the residential and shared ownership market also dropped in 2015 again against the previous year period (-3%). This makes 2015 the third year in a row in which the Committee of Experts ('Gutachterausschuss') in Munich has reported a decline in the number of sales. This development in contract numbers documents the limited supply – or now prevailing lack of apartments. This can, in turn, be overcome only by a significant and sustainable expansion of construction activity. There has been, however, a noticeable decrease in the number of building permits based on an assessment of the first three quarters of 2015. According to a JLL report from February 2016, there were almost a third fewer apartments approved by the end of October 2015. This corresponds to the lowest approval level since 2010. Consequently the sustainable increase in completions shall become something of a distant future in years to come, meaning that an increase in prices is inevitable. Already in 2014, the number of completions dropped to approx. 6,300 apartments (after 7,904 in 2013), thus missing the annual new build target of 8,500 apartments set by the City of Munich. In 2015, the net rate of growth for new build apartments stood at approximately 5,000 apartments, making it once again significantly lower. Furthermore, when taking into consideration prior population dynamics and the additional residents as a result of an influx of refugees, other institutes predict a requirement of 15,000 to 20,000 apartments per year, a number far greater than the figure calculated by the City of Munich, and three-to-four times as many apartments as are being built today. Consequently, according to the prognos study 'Living in Germany 2045' ('Wohnen in Deutschland 2045'), from March 2016 there will be a shortage of 158,000 apartments by 2030. Moreover, unlike in some other large German cities, the space available for construction in Munich continues to decrease. For example, in the metropolitan area, there are only enough sites for around 46,000 apartments. Therefore, closer cooperation between Munich and the surrounding regions will be of key importance for further development.

There is currently no indication that the market situation will ease over the medium term, nor that there will be substantial price declines, or for that matter, a price bubble in the Munich real estate market. Homebuyers are still prepared to buy properties, despite increasing or higher purchase prices – and this applies to both investors and also owner occupiers, with the properties on offer still being very limited.

ISARIA Wohnbau is well prepared for this development with its existing project pipeline of more than 2,000 residential units in Munich.

## Developments on the housing market in Hamburg

The residential real estate market in Hamburg has also not changed since our last report at the end of 2015. Hamburg unites strong spending power with a high number of residents, as is the case in Munich. The real estate market in this city with its 1.8 million residents is the third largest in Germany in terms of requirements for new properties, following Berlin and Munich. Real estate prices in Hamburg are among the highest in Germany. According to a recent study by Postbank, Hamburg leads the top cities with the best future prospects for property development up to 2030, even beating Munich at 2nd place. In the 'Brandmeyer Stadtmarken-Monitor' 2015 (a 'city brand' survey), Hamburg actually has top ranking as the favourite city in Germany, even ahead of Munich. As a result, demand is also expected to outstrip supply over the long term in Hamburg. At present, there is a lack of around 30,000 residential units in order to cover requirements. According to the prognos study 'Living in Germany 2045' ('Wohnen in Deutschland 2045') from March 2016 there will be a shortage of 94,000 apartments by 2030. This is due in particular to significantly insufficient construction activity in previous years. Since 2013 the annual construction covers at least the target defined by the local 'Alliance for living in Hamburg' ('Bündnis für das Wohnen in Hamburg') of 6,000 apartments per year. Both this target and the projection by the Federal Institute for Building, Urban Affairs and Spatial Development (BBSR) of a

new build requirement of approx. 9,500 apartments are no longer sufficient in light of the current influx of refugees. The Hamburg Senate is therefore planning to meet demand by way of simplified building permits and largescale housing development.

In January 2016, prices for new build apartments in Hamburg reached approximately € 4,420 per sqm, which corresponds to an increase of 6.7% within 12 months. The portfolio showed the first stagnation in prices in the second half of 2015. The portfolio showed the first stagnation in prices in the second half of 2015. The continued price trend remains to be seen. Due to the price level that is lower compared to Munich, an increasing number of tenants are in search of a freehold apartment at similar monthly financial charges.

### Competitive position of ISARIA Wohnbau in Munich

Competition for project developers for residential construction is mostly fragmented throughout Germany. There are many smaller providers on the market, who develop a few, small-scale properties in the traditional housing estate structures. As a result of the strong growth in the population of Munich, which has been the case for decades, however, some major companies have become established, who mostly ensure urban development growth. ISARIA Wohnbau has ranked among these companies for several years.

The leading Munich-based apartment property developers identified by bulwiengesa include the most important players who have been in family ownership for decades, and who have been successful in the market for just as long. Based on a sufficiently large and strategic project pipeline, developing residential properties in Munich is thus clearly one of the least crisis-hit business models in the real estate industry. According to the 2016 project developer study published in May 2016, ISARIA Wohnbau is in the TOP 10 of the largest project developer for residential properties in Munich.

### Competitive position of ISARIA Wohnbau in Hamburg

The market for residential construction project developers in Hamburg is structured similarly to Munich. The ten largest residential project developers in Hamburg have a combined share of more than 30% of the total project volume in the residential segment.

According to a project developer study in 2016, ISARIA Wohnbau is now one of the TOP 10 apartment project developers in Hamburg. Following the sale of the property *Wohnpark Nord*, this position must be retained by way of intensified acquisition activity.

## 2. Financial position and results of operations

During the first six months of 2016 individual sales of € 9.1 million (prior year period: € 15.6 million) were notarised. This depends, on the one hand, on what is still a very limited supply in the major project *nido*, and a larger time gap until the start of sales for upcoming project developments. On the other hand, the start of sales for the final construction phases for *nido* was also delayed. Given the consistently improving visible quality of the location and the generally positive market trend, the company does, however, anticipate an increase in achievable earnings.

Notarised sales less units already transferred resulted in an order book value of € 25.1 million as of June 30, 2016 (December 31, 2015: € 19.9 million). This order book secures future revenues.

### I. Results of operations

As our projects are realised over multiple years, the disclosure of revenues is subject to substantial accounting fluctuations, which affect the ability to compare these figures with previous years.

The earnings position of ISARIA Wohnbau during the first six months of 2016 was characterised by expected minimal sales revenues from the handover of residential units. The resulting gross profit is insufficient to cover fixed costs and financial expenses for the current period. Financing costs were also impacted by an additional one-off expense resulting from the present value adjustment of fund liabilities as already described above. In conclusion, this has resulted in a negative consolidated result for the reporting period.



see T 03  
Results of  
operations

#### T 03 | Results of operations

|   | 01/01/ - 06/30/2016<br>k€ | 01/01/ - 06/30/2015*<br>k€ | Change<br>k€   |
|---|---------------------------|----------------------------|----------------|
| Revenues  | 8,105                     | 37,295                     | -29,190        |
| Total output                                    | 49,601                    | 81,674                     | -32,073        |
| Cost of materials                               | -46,173                   | -68,427                    | 22,254         |
| <b>Gross profit</b>                             | <b>3,428</b>              | <b>13,247</b>              | <b>-9,819</b>  |
| <i>Gross profit margin</i>                      | <i>42%</i>                | <i>36%</i>                 | --             |
| Fair-value measurement of investment properties | 0                         | 791                        | -791           |
| Personnel expenses                              | -2,738                    | -3,269                     | 531            |
| Other operating income                          | 1,312                     | 2,792*                     | -1,480         |
| Other operating expenses                        | -4,793                    | -4,947                     | 154            |
| <b>EBIT</b>                                     | <b>-3,494</b>             | <b>7,930*</b>              | <b>-11,424</b> |
| Financial result                                | -10,170                   | -7,784                     | -2,386         |
| EBT   | -13,664                   | 146*                       | -13,810        |
| Income tax expenses (-) / gains (+)             | 4,478                     | -141                       | 4,619          |
| <b>Comprehensive income</b>                     | <b>-9,186</b>             | <b>5*</b>                  | <b>-9,191</b>  |

\* adjusted prior-year figures due to a change in measurement methods for investment properties

The revenue volume (revenues from the sale of property units and from rentals as well as from other receivables) totalled k€ 8,105 in the first six months of fiscal year 2016 (Q2 2015: k€ 37,295). As revenues are generally only recognized upon completion (handover) in the accounts, and not continuously in line with the percentage of completion, the amount of revenues disclosed every period depends on the respective completion dates of the individual construction properties and is thus subject to strong fluctuations. Revenues are primarily due to the income from the residential units handed over in the respective period. In the first six months of 2016, this was mostly due to the handovers of residential units in one further construction stage (section 11c) in the *nido* construction project (ISARIA Wohnbau Objekt Karlsfeld 3 GmbH). In addition, the plot on Herbarthstraße in Berlin, held by the One Group and originally purchased as a project development, was sold in the second quarter of 2016 with the transfer of benefits and obligations.

Total output includes revenues as well as the change in inventories of ongoing construction properties according to construction progress as well as the acquisition of plots of land (increase in inventories) and handovers (decrease in inventories) in the current reporting period. In the reporting period the ISARIA Wohnbau group had a net increase in inventories of k€ 41,469 (previous year period: k€ 44,379). Both during the reporting period and the comparison period of the previous year, the acquisition of property represents a significant proportion of the increase in inventory. Here, the transfer of benefits and obligations of the plot of land in the *Tower* project to the special purpose entity led to an increase in inventories of k€ 28,000 in the reporting period. In contrast to the previous year period, as part of an initial consolidation of two special purpose entities, the first-time inclusion of plots of land led to an increase in inventories in the amount of k€ 47,276. The respective offsetting items are located in material expenses. The cost of materials falls by k€ 22,254 from k€ 68,427 in the first six months of 2015 to k€ 46,173 in the first six months of 2016. This decline in the amount of k€ 18,588 is the result of lower purchase prices for plots (see above). The remaining change reflects the slightly lower volume of

construction, when compared with the same period in the previous year.

The absolute gross profit in the reporting period is significantly below the respective previous year's figures, due to lower sales revenues. The accounting gross profit margin currently stands, however, at 42% and therefore significantly above the value of 36% for the respective previous year period.

The earnings from the fair-value measurement of investment properties in the previous year in the amount of k€ 791 resulted from the revaluation of this property at market value in connection with the reclassification of the property previously intended for sale from properties held for sale, to investment properties.

Personnel expenses decreased by k€ 531 or 16% to k€ 2,738 compared to k€ 3,269 over the same period of the previous year. On the one hand, this decline resulted from lower personnel expenses for the Executive Board – which has consisted of two Executives since December 2015. On the other hand, personnel expenses in the previous year period were increased by bonus payments made to the Executive Board for the previous business year 2014, which exceeded the corresponding allocated amount. Over the period of the first six months of 2016, the ISARIA Wohnbau group had in average 60 employees (compared to 58 employees in average over the same period in 2015).

Other operating income for the reporting period in the amount of k€ 1,312 (previous year: k€ 2,792) includes income from the de-recognition of a liability in the amount of k€ 704 as well as k€ 215 (previous year: k€ 1,599) for a claim for compensation payments for downstream costs the company had already incurred in previous years for a legacy property. Furthermore, this item primarily contains income in the amount of k€ 185 from the reversal of provisions (previous year: k€ 257).

Other operating expenses are lower by k€ 175 at k€ 4,793 in the first three months of 2016 (Q2 2015: k€ 4,947). Guarantee and follow-up costs are decreased by k€ 467. The lower sales revenues are also mirrored

by the lower increase in the provision for guarantees for the units handed over during the reporting period. Legal and advisory costs of k€ 473 are, however, more than the figure of the previous year period. These are pre-dominantly attributable to the ongoing investment process which has led to the takeover offer described above. Furthermore, sales commissions and advertising costs were k€ 149 below the figure for the previous year period. On balance, other operating expenses remain almost constant.

Earnings before interest and taxes (EBIT) are negative at k€ -3,494 and decreased by k€ 11,424 compared to the previous year (k€ 7,930). In relation to revenues this results in a negative EBIT margin of -43% (Q2 2015: 21%).

The negative financial result in the first six months of 2016 has increased by k€ 2,386 to k€ -10,170 compared to k€ -7,784 in the same period of the previous year. Financial income was lower than in Q2 2015 (k€ 82), totalling k€ 4 in the first six months of 2016. Financial expenses increased in the first six months of 2016 compared to the same period of the previous year (k€ 8,094) by k€ 2,144 to k€ 10,238. This does include, however, the one-off effect of the present value adjustment of fund liabilities in the amount of k€ 1,940 as already described above. Had this one-off effect not been incurred, financing expenses would have only increased by k€ 204 or 2.5% respectively in comparison to the previous year period. The average interest-bearing liabilities increased, however, during the reporting period by approximately 13% against the previous year period. The latter is due directly to the corresponding higher project volumes to be financed. The fact that financing expenses have increased to a significantly lesser extent than this figure reflects the further improvement in the financing structure of the group. The average interest rate for all interest-bearing liabilities was reduced in the first six months of 2016 – before the one-off effect mentioned above – to a current level of 7.4% p.a. (previous year: 7.9% p.a.). The result from participating interests carried at equity totalled k€ 65 in the period under review (Q2 2015: k€ 228).

The consolidated earnings before taxes for the period under review are with k€ -13,664 negative, compared with k€ 146 slightly positive pre-tax earnings over the same period of the previous year. Income tax income in the amount of k€ 4,478 (Q2 2015: Expenses in the amount of k€ 141) led to earnings after taxes of k€ -9,186 (Q2 2015: k€ 5). The tax income is attributable to the capitalisation of further deferred tax assets on loss carry forwards in the amount of k€ 4,351. On the one hand, the losses accrued during the reporting period led to a corresponding mandatory capitalisation at the level of ISARIA Wohnbau AG. On the other hand, the tax restructuring implemented during the reporting period led to additional loss carry forwards which were utilised at the level of individual special purpose entities.

Business activities in the *One Group* segment are mostly reflected in the financial result of the group. One Group recorded a negative financial result of k€ -2,693 in the period under review (Q2 2015: k€ 108). At k€ 5,944, financial income has increased in comparison to the comparative period (k€ 5,179) due to a correspondingly higher volume of investment. The financial expenses amounted to k€ 8,638 in the reporting period in comparison to k€ 5,071 in the same period of the previous year. k€ 1,940 thereof are attributable to the one-off effect during the reporting period already described above from the adjustment of the present value of fund liabilities due to an adjustment of the underlying residual maturity of ProReal Deutschland Fonds 2. In total, (non-cash) expenses from the adjustment for the present value of compensation liabilities to the funds' unit holders in the reporting period were k€ -6,439 (Q2 2015: k€ -1,039). The difference of the non-cash financial expense to the previous year period which extends beyond the one-off effect described above is attributable to the fact that the dividend payment to the funds' shareholders for the fourth quarter of 2015 was predominantly made in December 2015. In the same period in the previous year, on the other hand, distributions for the fourth quarter 2014 were made in the first quarter 2015. This generated a significant liquidity surplus during the reporting period which carries the overhead costs. Overhead costs in the period under review



(personnel expenses, amortisation/depreciation, other operating expenses) totalled k€ 1,267 (Q2 2015: k€ 1,176). Furthermore, a result from the fair-value measurement in the amount of k€ 791 is allotted to this segment in the previous year period. Considering income tax expenses of k€ 33 (Q2 2015: k€ 294), on the whole this led to negative segment earnings after taxes of k€ -3,473 (Q2 2015: k€ -83), prior to the consideration of the amortisation of intangible assets acquired as part of the acquisition of One Group GmbH. This corresponds to the economic segment earnings included in internal reporting. However, the intangible assets acquired as part of the acquisition of One Group GmbH are also to be allocated to the One Group segment at a group level. These were subject to scheduled amortisation in the period under review in the amount of k€ 566 (Q2 2015: k€ 566). This is offset by the resulting reversal of deferred tax liabilities in the amount of k€ 181 (Q2 2015: k€ 181). In total this results in negative earnings after taxes for the *One Group* segment of k€ -3,858 (Q2 2015: k€ -302).

The course of business for the group as a whole in the first six months of 2016 developed according to plan in terms of sales revenues, financing and overhead costs. The one-off expense of k€ 1.940 within the financial expenses from the adjustment of the underlying residual maturity in the ProReal Deutschland Fonds 2 was, however, not planned. However, the latter will be compensated for, at least in part through corresponding savings, in the second half of 2016.

## Fair values of properties held for sale

At a project developer such as ISARIA Wohnbau, central assets – properties held for sale and inventories under construction – are carried at cost. This is a fundamental difference between the balance sheet for the ISARIA Wohnbau group and that of a real estate holding company, where central assets are carried at their market values. In order to make these figures still comparable with those from real estate holding companies the company has identified the fair value of these stocks itself using residual value calculations that are standard on the market, and had these confirmed by an external expert. In this valuation method an expert estimates the income values in agreement with the project developers. The budgeted completion costs including a reasonable profit margin for the developer are deducted from the income values. The residual amount in this valuation method gives the market value of our project developments. The company then uses these market values to calculate the net asset value (NAV) according to EPRA standards, the figure used internationally to assess real estate companies, for reasons of comparison. When calculating the EPRA NAV, ISARIA Wohnbau uses its equity before minority interests, supplemented by hidden reserves from the calculation of the residual values of the inventories. The recoverability of market values was last confirmed in 2014 by a sale which exceeded the book value and the residual value.

T 04 | EPRA NAV – ISARIA Wohnbau group

|   | 06/30/2016<br>k€ | 12/31/2015<br>k€ |
|---|------------------|------------------|
| Equity before non-controlling interests | 21,438           | 30,955           |
| Hidden reserves of inventories          | 82,628           | 89,989           |
| <b>EPRA NAV</b>                         | <b>104,066</b>   | <b>120,944</b>   |
| <b>Number of shares</b>                 | <b>23,764</b>    | <b>23,764</b>    |
| <b>NAV per share</b>                    | <b>4.38</b>      | <b>5.09</b>      |



The company conducts these calculations considering the EPRA Best Practice Recommendations from December 2014. According to these recommendations, 'Trading Properties' are to be included at their market value without considering deferred taxes, as the EPRA NAV shall reflect the real estate value of the equity. According to this method, as of December 31, 2015 the EPRA NAV for the ISARIA Wohnbau group was k€ 120,944. Calculations for residual values and thus the EPRA NAV are only updated every six months. As of June 30, 2016 the EPRA NAV declined to k€ 104,066. On the one hand, longer time frames in some project developments lead to higher financing costs and a stronger discounting effect, and therefore to a reduction in hidden reserves. On the other hand, the equity capital flowing into the EPRA NAV is reduced by the negative result of the reporting period.

For a project developer NAV analysis is only useful for assessment of risk. It is used to determine the value above the book value at which the projects in the current stage of development can be sold to third parties. However, the enterprise value of a developer or its share is also determined by future profits after tax that can be generated from the realisation of these and other projects at present and in the future.

## II. Net assets

Net assets were significantly influenced by an increase in inventories due to the acquisition of the plot in the project *Tower* in the first quarter of 2016, as well as construction work capitalised in the reporting period. Total assets increased by 12% to k€ 312,618 as of June 30, 2016 compared to k€ 279,174 as of December 31, 2015.

Non-current assets increased to k€ 76,862 on June 30, 2016 compared to December 31, 2015 (k€ 71,340) by k€ 5,522. k€ 4,351 thereof were the result of the capitalisation of further deferred tax assets on loss carry forwards as described above. In addition, capitalised costs for investment properties currently under construction led to an increase in this item of k€ 1,703. This was offset mainly by the amortisation of intangible assets.

Current assets rose by 13% to k€ 235,756 on June 30, 2016 compared to December 31, 2015 (k€ 207,833). Properties held for sale and other inventories increased here by k€ 42,183; k€ 28,000 thereof were attributable to the acquisition of the benefits and obligations relating to the plot of land for the *Tower* project in



see T 05  
Net assets



see T 04  
EPRA NAV

### T 05 | Net assets

|   | 06/30/2016<br>k€ | 12/31/2015<br>k€ | Change<br>k€  |
|---|------------------|------------------|---------------|
| Non-current assets  | 76,862           | 71,340           | 5,522         |
| Current assets  | 235,756          | 207,833          | 27,923        |
| of which: Properties held for sale<br>and other inventories | 184,678          | 142,495          | 42,183        |
| Equity  | 21,438           | 30,955           | -9,517        |
| <i>Equity ratio</i>   | 6,9%             | 11,1%            | --            |
| Non-current liabilities                                     | 121,716          | 131,328          | -9,612        |
| Current liabilities   | 169,464          | 116,890          | 52,574        |
| <b>Balance sheet total</b>                                  | <b>312,618</b>   | <b>279,174</b>   | <b>33,444</b> |

January 2016, following the payment of the final purchase price instalment. The further increase in the properties held for sale and other inventories has resulted from the ongoing activation of construction costs in line with construction progress, less the units which were handed over. In connection with the acquisition of the *Tower* plot of land payments made in advance, which were previously stated under 'Other receivables', were reclassified to 'Inventories', leading to a reduction in 'Other receivables' of k€ 14,000. Cash increased by k€ 1,534 from k€ 32,011 as of December 31, 2015 to k€ 33,545 as of the balance sheet date.

### III. Financial position

At k€ 21,438, equity has decreased compared to December 31, 2015 (k€ 30,955) and is primarily attributable to the negative group result after tax. The equity ratio subsequently decreased, as a result of the increased balance sheet total, from 11.1% to 6.9%.

Non-current liabilities fell by k€ 9,612 to k€ 121,716 on 30 June, 2016 compared to k€ 131,328 on December 2015, 31. This decrease is primarily the result of a reclassification of the non-current portion of compensation liabilities to shareholders in general partnerships from the ProReal Deutschland Fonds 2 to the current liabilities, due to the scheduled repayment for June 30, 2016, which was decided during the reporting period. The previous balance sheet approach was calculated on the basis of an extension of this fund by one year. This was offset by the funds acquired from the ProReal Deutschland Fonds 4 during the reporting period.

Current liabilities increased by k€ 52,574 from k€ 116,890 as of December 31, 2015, to k€ 169,464 or 46% on the balance sheet date. In the first instance, the current portion of compensation liabilities to shareholders in general partnership increased by k€ 28,044, which was primarily due to the amended maturities in the ProReal Deutschland Fonds 2. In addition, current financial liabilities to banks increased during the reporting period on balance by k€ 13,260. This was primarily due to the new acceptance of a further bank

line of credit for a project development in the amount of k€ 16,950. The repayments for bank liabilities in other project developments had an offsetting effect. Current liabilities to non-banks increased on balance by k€ 4,032 during the reporting period. On the one hand, in January 2016, the last bond was repaid to the Stratos Fonds in connection with this in the amount of k€ 10,000. At the end of the second quarter of 2016, this was countered by the acceptance of a new mezzanine loan in the amount of k€ 15,000 for the partial refinancing of a project development; the previous mezzanine financing of this was repaid, which served the repatriation of investors' money from the ProReal Deutschland Fonds 2. Liabilities from advance payments made by buyers pursuant to the Estate Agent and Property Developer Act (MaBV) increased by k€ 6,972 due to the ongoing construction progress in the reporting period.

Cash in the ISARIA Wohnbau group rised compared to December 31, 2015 (k€ 32,011) by k€ 1,534 and totalled k€ 33,545 on the balance sheet date. As of June 30, 2016 the group could freely dispose of these funds in the amount of k€ 9,153 (December 31, 2015: k€ 17,119).

The increase in freely disposable cash is due to the cash flow from operating activities in the amount of k€ -31,735 (Q2 2015: k€ 24,206), the cash flow from investing activities of k€ -2,083 (Q2 2015: k€ 1,204) and the cash flow from financing activities in the amount of k€ 25,852 (Q2 2015: k€ -28,568).

The cash flow from operating activities totalled k€ -31,735 in the period under review after k€ 24,206 in the previous year period and is mostly due to the consolidated earnings before income taxes in the amount of k€ -13,664 plus the financial result (k€ 10,170), the increase in properties held for sale of k€ 42,183 and the downturn in receivables from the sale of property and other receivables and financial assets of k€ 6,297 as well as the increase in trade payables and other short-term liabilities by k€ 9,776.

The cash flow from investing activities in the first six months of 2016 amounted to k€ -2,083 (Q2 2015: k€ 1,204) and primarily resulted from capitalised costs



see T 06  
Financial position

from investment properties currently under construction in the amount of k€ -1,703 as well as from payments for the repurchase of minority shareholdings into two special purpose entities in the amount of k€ 331. In the previous reporting period, this cash flow resulted primarily from cash in the amount of k€ 1,510 minus payments for the acquisition of tangible assets in the amount of k€ 345, which were acquired as part of the initial consolidation of two special purpose entities.

The cash flow from financing activities in the first six months of 2016 amounted to k€ 25,852 (Q2 2015: k€ -28,568). The inflow from drawing down financial liabilities for the ongoing construction activities in the amount of k€ 49,422 (Q2 2015: k€ 11,816) exceeded the repayment of financial liabilities in the amount of k€ 22,548 (Q1 2015: k€ 37,268) and interest payments in the amount of k€ 1,022 (Q2 2015: k€ 3,116).

#### T 06 | Financial position

|             | 06/30/2016<br>k€ | 12/31/2015<br>k€ | Change<br>k€  |
|-------------|------------------|------------------|---------------|
| <b>Cash</b> | <b>9,153</b>     | <b>17,119</b>    | <b>-7,966</b> |

|                      | 01/01/ - 06/30/2016<br>k€ | 01/01/ - 06/30/2015*<br>k€ | Veränderung<br>k€ |
|----------------------|---------------------------|----------------------------|-------------------|
| Cash flow from       |                           |                            |                   |
| operating activities | -31,735                   | 24,206                     | -55,941           |
| investing activities | -2,083                    | 1,204                      | -3,287            |
| financing activities | 25,852                    | -28,568                    | 54,420            |

\* adjusted prior-year figures due to a change in measurement methods for investment properties

### 3. Opportunity and risk report

As a result of its business activities, ISARIA Wohnbau group is exposed to various operational and economic risks. In this regard, please refer to the detailed information in the group management report for fiscal year 2015. From January 1, 2016, no risks have been entered into or have become perceptible which would lead to a different assessment. The entry of the new major shareholder and the capital increase carried out in this connection will, in the opinion of the Executive Board, lead to a significant reduction of liquidity risks.

## 4. Report on the events after the balance sheet date

As of July 6, 2016, the company has acquired the majority of shares in a company which holds a plot with an existing building on the Gustav-Heinemann-Ring in Munich. The sale price is due by August 31, 2016. ISARIA Wohnbau has already received the commitment of the bank which had previously provided the financing for the acceptance of the existing loan financing of over € 7.0 million. The project has a calculated sales volume of approximately € 30.0 million.

The company made the decision after the reporting date to dispose of the project *Wohnpark Nord* – in its current building law status – at a significant increase in value to a local project developer and portfolio manager. The registration of sale was made on July 14, 2016. The transfer of benefits and obligations was completed in August 2016.

The scheduled repayment of the ProReal Deutschland Fonds 2 in the amount totalling € 26.8 million was made at the end of July 2016. The necessary funds originated from reinvestments by investors into the ProReal Deutschland Fonds 4 as well as from the liquid funds of previous investments in the projects of ISARIA Wohnbau that were freed up or rescheduled.

On July 28, 2016, Lone Star published its voluntary takeover offer of ISARIA Wohnbau AG, which it had announced to the shareholders on June 17, 2016. The acceptance period began on this day, during which the ISARIA shareholders were able to tender their shares at the price of € 4.50 in cash per share. The four-week acceptance period ended on August 25, 2016. Within this period, 91.36% of the shareholders accepted this offer. The statutory further acceptance period runs from August 31 to September 13, 2016. On expiry of this further acceptance period the offer can no longer be accepted.

With the agreement of the Supervisory Board on August 2, 2016, the Executive Board has passed the following resolution on the basis of its authorisation permitted under section 3, para 4 of the company's statute.

a) The company's share capital shall be increased from its current level of € 23,764,000.00, by € 11,882,000.00, to € 35,646,000.00 through the issuance of 11,882,000 new bearer shares with a pro rata amount of the share capital of € 1.00 each (the 'new shares') against cash deposits. The new shares will be issued from January 1, 2016 with full dividend rights.

b) The new shares will be offered to the shareholders of the company by way of subscription. The subscription ratio shall be 2:1, i.e. two old shares entitle a subscription to one new share.

c) The subscription price will be € 4.50.

d) The subscription deadline shall be 14 calendar days. It shall begin on August 4, 2016 and run up to and including August 17, 2016.

Due to the agreement between the company and Lone Star dated June 17, 2016, the capital increase was fully subscribed. Only 3.7% of existing shareholders utilised the offer. The resulting gross proceeds before costs and commissions or fees stand at € 53.5 million. The company intends to utilise the net proceeds from offering new shares in the amount of approximately € 20.0 million to finance the previously notarised acquisition of plots, the respective sales prices of which are not yet due. Furthermore, the company intends to use up to a further € 20.0 million as its own funds, the verification of which is necessary for a loan financing by banks for the properties located in the *Kapstadtring* in Hamburg and *Hansastraße* in Munich. This should enable the realisation of both construction projects currently held in the portfolio, and which were reclassified under fixed assets in the 2015 financial year. Any additional proceeds are to be used for the financing of further acquisitions which, in part, have already been identified and which are currently under negotiation.

Following extensive negotiations with the state capital Munich, the company was able to complete a long-term rental contract in August 2016 governing the

renting of a property located on Elsenheimerstraße by the city of Munich. The rental contract shall begin on August 15, 2016; the annual net base rents amounts to € 1.85 million. Henceforth the sale of the property is now planned.

In coordination with the new major shareholder, the company's Executive Board submitted an application at August 19, 2016 for the revocation of the admission of all ISARIA shares to be traded on the Frankfurt stock exchange (delisting). This application was accepted on August 25, 2016. The revocation will become effective at the end of August 30, 2016. The ISARIA shares then will no longer be traded on a stock exchange.

Apart from this, on the date that this group management report was prepared, the company was not aware of any material events that occurred after the balance sheet date and which have a material impact on the group's business growth.

## 5. Forecast

On the basis of the development of business operations during the first six months of 2016, the current progress of construction in the major project *nido* in Karlsfeld, and the orderly progress being made in the area of project developments as well as the noticeable developments for the rest of the 2016 financial year, we expect sales revenues of approximately 100 million and an EBIT of approximately 25 million for the whole of 2016. Regarding profit after taxes, we affirm our forecast of a figure in the medium single-digit million range for the whole of 2016, which was submitted as part of the report for the period ending December 31, 2015.

Munich, August 30, 2016



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Michael Haupt  
Spokesman of the  
Executive Board / CEO



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Jan von Lewinski  
Member of the  
Executive Board / COO

# 03 | CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS



# Consolidated Statement of Comprehensive Income

from 1 January to 30 June 2016

|   | 01/01/ -<br>06/30/2016<br>k€ | 01/01/ -<br>06/30/2015*<br>k€ | Q2 2016<br>k€  | Q2 2015*<br>k€ |
|---|------------------------------|-------------------------------|----------------|----------------|
| <b>Sales revenue</b>  |                              |                               |                |                |
| a) from the sale of property units  | 5,892                        | 35,070                        | 2,164          | 21,742         |
| b) from the lease of property units   | 2,206                        | 2,219                         | 1,126          | 1,052          |
| c) from other deliveries and services   | 7                            | 7                             | 3              | 2              |
|   | <b>8,105</b>                 | <b>37,295</b>                 | <b>3,293</b>   | <b>22,796</b>  |
| Change in inventories of properties held for sale with finished or unfinished buildings | 41,496                       | 44,379                        | 9,217          | 43,683         |
| <b>Total output</b>   | <b>49,601</b>                | <b>81,674</b>                 | <b>12,510</b>  | <b>66,479</b>  |
| <b>Cost of materials</b>  |                              |                               |                |                |
| a) Expenses for the sale of property units  | -44,590                      | -66,838                       | -9,570         | -58,467        |
| b) Expenses for the lease of property units   | -1,582                       | -1,588                        | -806           | -857           |
|   | <b>-46,173</b>               | <b>-68,427</b>                | <b>-10,377</b> | <b>-59,325</b> |
| <b>Gross profit</b>   | <b>3,428</b>                 | <b>13,247</b>                 | <b>2,133</b>   | <b>7,154</b>   |
| Personnel expenses  | -2,738                       | -3,269                        | -1,316         | -1,662         |
| Depreciations / amortisation / impairment charges                                       | -703                         | -685                          | -357           | -349           |
| Fair-value measurement of investment properties   | 0                            | 791                           | 0              | 791            |
| Other operating income  | 1,312                        | 2,792                         | 441            | 620            |
| Other operating expenses  | -4,793                       | -4,947                        | -3,169         | -2,852         |
| <b>EBIT</b>   | <b>-3,494</b>                | <b>7,930</b>                  | <b>-2,269</b>  | <b>3,703</b>   |
| Financial income  | 4                            | 82                            | 3              | 23             |
| Financial expenses  | -10,238                      | -8,094                        | -5,027         | -4,002         |
| Result of associates accounted for using the equity method                              | 65                           | 228                           | 69             | 231            |
| <b>Financial result</b>   | <b>-10,170</b>               | <b>-7,784</b>                 | <b>-4,956</b>  | <b>-3,747</b>  |
| <b>Consolidated result before income taxes</b>  | <b>-13,664</b>               | <b>146</b>                    | <b>-7,224</b>  | <b>-44</b>     |
| Income tax expenses   | 4,478                        | -141                          | 4,442          | -165           |
| <b>Consolidated result after income taxes</b>   | <b>-9,186</b>                | <b>5</b>                      | <b>-2,782</b>  | <b>-209</b>    |
| of which attributable to the shareholders of ISARIA                                     | -9,192                       | 17                            | -2,791         | -208           |
| of which attributable to non controlling interests                                      | 6                            | -12                           | 8              | -2             |
| Other Comprehensive income  | 0                            | 0                             | 0              | 0              |
| <b>Comprehensive income</b>   | <b>-9,186</b>                | <b>5</b>                      | <b>-2,782</b>  | <b>-209</b>    |
| of which attributable to the shareholders of ISARIA                                     | -9,192                       | 17                            | -2,791         | -208           |
| of which attributable to non controlling interests                                      | 6                            | -12                           | 8              | -2             |
| <b>Earnings per share in €</b>  |                              |                               |                |                |
| Basic   | -0.39                        | 0                             | -0.39          | -0.04          |
| Diluted   | -0.39                        | 0                             | -0.39          | -0.04          |

\* adjusted prior-year figures due to a change in measurement methods for investment properties

# Consolidated Balance Sheet

## as of 30 June 2016

| Assets   | 06/30/2016<br>k€ | 12/31/2015<br>k€ |
|--|------------------|------------------|
| I. Non-current assets  | 76,862           | 71,340           |
| 1. Intangible assets   | 6,782            | 7,362            |
| 2. Investment properties   | 49,868           | 48,165           |
| 3. Property, plant and equipment                                   | 664              | 687              |
| 4. Financial assets  |                  |                  |
| a) Investments in associates accounted for using the equity method | 844              | 779              |
| 5. Deferred tax assets   | 18,601           | 14,247           |
| 6. Other accounts receivable                                       | 102              | 101              |
| II. Current assets   | 235,756          | 207,833          |
| 1. Properties held for sale and other inventories                  |                  |                  |
| a) Properties and equivalent rights with unfinished buildings      | 183,409          | 142,323          |
| b) Properties and equivalent rights with finished buildings        | 1,269            | 172              |
| 2. Accounts receivable from the sale of property                   | 3,872            | 6,207            |
| 3. Income tax receivables  | 4,198            | 3,317            |
| 4. Other accounts receivable and financial assets                  | 9,463            | 23,804           |
| 5. Cash  | 33,545           | 32,011           |
| <b>Total assets</b>  | <b>312,618</b>   | <b>279,174</b>   |

## Passiva

|   | 06/30/2016<br>k€ | 12/31/2015<br>k€ |
|---|------------------|------------------|
| I. Eigenkapital   | 21,438           | 30,955           |
| 1. Subscribed capital   | 23,764           | 23,764           |
| 2. Equity and Reserves  | 68,967           | 68,967           |
| 3. Balance sheet loss   | -71,288          | -62,096          |
| Consolidated equity of the majority shareholders  | 21,443           | 30,635           |
| 4. Non controlling interests  | -5               | 320              |
| II. Non-current liabilities   | 121,716          | 131,328          |
| 1. Compensation liabilities to shareholders in general partnership  | 94,927           | 104,247          |
| 2. Financial liabilities to banks   | 18,587           | 18,650           |
| 3. Deferred tax liabilities   | 4,727            | 4,938            |
| 4. Other provisions   | 3,476            | 3,493            |
| III. Current liabilities  | 169,464          | 116,890          |
| 1. Compensation liabilities to shareholders in general partnership  | 34,762           | 6,718            |
| 2. Financial liabilities from silent participations, shareholder loans and other forms of capital provision | 14,032           | 10,000           |
| 3. Financial liabilities to banks   | 79,212           | 65,953           |
| 4. Trade accounts payable   | 10,100           | 7,043            |
| 5. Liabilities from payments made on account  | 19,044           | 12,072           |
| 6. Income tax liabilities   | 1,621            | 3,954            |
| 7. Other provisions   | 7,708            | 8,101            |
| 8. Other liabilities  | 2,985            | 3,050            |
| <b>Total equity and liabilities</b>   | <b>312,618</b>   | <b>279,174</b>   |

# Statement of Changes in Consolidated Equity

from 1 January to 30 June 2016

|                                   | Subscribed capital | Equity and<br>Reserves | Balance sheet loss |  |
|-----------------------------------|--------------------|------------------------|--------------------|--|
|                                   | k€                 | k€                     | k€                 |  |
| <b>As of 01/01/2015*</b>          | <b>23,764</b>      | <b>137,120</b>         | <b>-137,532</b>    |  |
| Comprehensive Income              | 0                  | 0                      | 80                 |  |
| First-time consolidation          | 0                  | 0                      | 0                  |  |
| <b>As of 06/30/2015*</b>          | <b>23,764</b>      | <b>137,120</b>         | <b>-137,452</b>    |  |
| Adjustment according to IAS 8     | 0                  | 0                      | -63                |  |
| <b>Adjusted as of 06/30/2015*</b> | <b>23,764</b>      | <b>137,120</b>         | <b>-137,515</b>    |  |

|                                |               |               |                |  |
|--------------------------------|---------------|---------------|----------------|--|
| <b>As of 01/01/2016</b>        | <b>23,764</b> | <b>68,967</b> | <b>-62,096</b> |  |
| Comprehensive Income           | 0             | 0             | -9,192         |  |
| Acquisition of minority shares | 0             | 0             | 0              |  |
| <b>As of 06/30/2016</b>        | <b>23,764</b> | <b>68,967</b> | <b>-71,288</b> |  |

\* adjusted prior-year figures due to a change in measurement methods for investment properties

|  | Consolidated equity of<br>the majority shareholders<br>k€ | Non controlling interests<br>k€ | Total consolidated<br>equity<br>k€ |
|--|---|---------------------------------|------------------------------------|
|  | <b>23,352</b>   | <b>-3</b>                       | <b>23,349</b>                      |
|  | 80  | -12                             | 68                                 |
|  | 0   | 5                               | 5                                  |
|  | <b>23,432</b>   | <b>-10</b>                      | <b>23,422</b>                      |
|  | -63   | 0                               | -63                                |
|  | <b>23,369</b>   | <b>-10</b>                      | <b>23,359</b>                      |
|  | <b>30,635</b>   | <b>320</b>                      | <b>30,955</b>                      |
|  | -9,192  | 6                               | -9,186                             |
|  | 0   | -331                            | -331                               |
|  | <b>21,443</b>   | <b>-5</b>                       | <b>21,438</b>                      |

# Consolidated Cash Flow Statement

## from 1 January to 30 June 2016

|  | 01/01/ - 06/30/2016<br>k€ | 01/01/ - 06/30/2015*<br>k€ |
|--|---------------------------|----------------------------|
| <b>Consolidated result before income taxes</b>   | <b>-13,664</b>            | <b>146</b>                 |
| Adjustments for the reconciliation from Consolidated result before income taxes to Cash flows from operating activities              |                           |                            |
| Depreciations / amortisation / impairment charges  | 703                       | 685                        |
| Valuation allowances (+) / write-ups (-)   | -2                        | 23                         |
| Financial results  | 10,170                    | 7,784                      |
| Other non-cash expenses / income   | 0                         | -50                        |
| Decrease (+) and increase (-) in properties held for sale and other inventories  | -42,183                   | 2,105                      |
| Decrease (+) and increase (-) in accounts receivable from the sale of property and of other accounts receivable and financial assets | 6,297                     | 62,241                     |
| Increase (+) and decrease (-) in trade accounts payable and other current liabilities  | 9,776                     | -47,130                    |
| Increase (+) and decrease (-) in other provisions  | -411                      | -657                       |
| Income taxes paid (-) / refunded (+)   | -2,421                    | -942                       |
| <b>Cash flows from operating activities</b>  | <b>-31,735</b>            | <b>24,206</b>              |
| Acquisition of intangible assets   | -4                        | 0                          |
| Acquisition of investment properties   | -1,703                    | 0                          |
| Acquisition of property, plant and equipment   | -107                      | -345                       |
| Payments from the sale of property, plant and equipment  | 10                        | 0                          |
| Payments from the sale/ for the acquisition of financial assets  | -331                      | 0                          |
| Corporate acquisitions according to IFRS 3 less cash acquired  | 0                         | 1,511                      |
| Acquisitions of subsidiaries and associates  | 50                        | 0                          |
| Interest received  | 1                         | 38                         |
| <b>Cash flows from financing activities</b>  | <b>-2,083</b>             | <b>1,204</b>               |
| Net payments from taking out of financial liabilities  | 49,422                    | 11,816                     |
| Repayments of financial liabilities  | -22,548                   | -37,268                    |
| Interest paid  | -1,022                    | -3,116                     |
| <b>Cash flows from financing activities</b>  | <b>25,852</b>             | <b>-28,568</b>             |
| <b>Change in cash</b>  | <b>-7,966</b>             | <b>-3,159</b>              |
| <b>Cash at the beginning of the accounting period</b>  | <b>17,119</b>             | <b>17,003</b>              |
| <b>Cash at the end of the accounting period</b>  | <b>9,153</b>              | <b>13,844</b>              |

\* adjusted prior-year figures due to a change in measurement methods for investment properties

# Selected Explanatory Notes

## to the condensed Consolidated Interim Financial Statements as of 30 June 2016

ISARIA Wohnbau AG (hereinafter also 'company', 'ISARIA' or in conjunction with its subsidiaries and joint ventures 'ISARIA Wohnbau group') is a listed corporation under German law. Shares of the company are listed on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard). ISARIA Wohnbau AG is the group's parent company. It is registered with Local Court of Munich under registration number HRB 187909. The company's registered office is Leopoldstraße 8, 80802 Munich, Germany.

The condensed consolidated financial statements (hereinafter also referred to as just the 'consolidated interim financial statements') are presented in euros (€), as all of the group's transactions are based on this currency and the euro is thus the group's functional currency. Unless otherwise indicated, all figures are expressed in thousands of euros (k€). We wish to point out that commercial rounding may result in slight discrepancies when rounded sums and percentages are used. This applies also to the totals and subtotals reported in the consolidated interim financial statements as well as within separate tables.

The consolidated statement of comprehensive income is prepared according to the aggregate cost method. The fiscal year used by ISARIA Wohnbau AG and its subsidiaries and joint venture companies included in the consolidated interim financial statements corresponds to the calendar year. The consolidated interim financial statements and the consolidated interim group management report have neither been audited nor subjected to a review by an auditor.

The ISARIA Wohnbau group is a project developer for residential properties. The group buys plots of land in attractive locations via independent special purpose entities/subsidiaries, plans residential properties in these locations, constructs these and then sells them. The business activities of ISARIA Wohnbau group include the divisions *New Construction* of residential property and *Revitalisation* of existing properties. The latter includes changing former commercial properties into residential properties under the *APP.ARTMENTS* brand.

The company's business model is to sell all apartments and houses that it has constructed. In order to deploy the funds invested in the projects as profitably as possible, the Executive Board permanently reviews the phases in which the best, risk-optimised realisation result can be achieved. The normal case is the turnkey-ready sale of single properties to private investors or owner-occupiers. In certain cases, it may also be meaningful to sell the projects before or after completion of the construction rights development. During the review, it could also prove to be beneficial to retain the property as an investment property. For example, when holding obligatory subsidised residential building projects or commercial properties temporarily in the portfolio promises a better financial result in the future. The prerequisite for recognition as an investment property is that the (currently favourable) primary interest rate situation must allow for sufficient surpluses from the management of the property to provide a proper return on equity and that this equity is not necessarily required for current assets. This can be ensured, for example, with new financial products from the group's own financing platform. Overall, investment properties can continually generate rental income to offset the comparatively volatile project development business. In the case of investment proper-

01

Business  
Operations

ties, basically, these are also evaluated on an ongoing basis with respect to the options for restructuring and utilisation.

The company and its special-purpose entities were originally active exclusively in the strong growth area of greater Munich, and for years has been one of the market leaders there. However this position can only be upheld by making ongoing acquisitions and it cannot be expanded in a reasonable manner. Given this background, 2014 ISARIA Wohnbau took the strategic decision to expand its activities geographically and to include Hamburg as a second location. This is also in view of the fact that price levels in this city, which is next largest in terms of its size, are much lower than in Munich – while population growth is also strong and private households have comparable spending power. In 2014, the company acquired two projects and opened up an office in Hamburg. The company's headquarters, with all of the central departments, will continue to be in Munich.

ISARIA Wohnbau has its own financing platform within the group with One Group GmbH, Hamburg and its subsidiaries (hereinafter referred to as 'One Group'). The business activities of One Group mostly comprise conceiving, structuring and issuing project development funds for residential construction projects in Germany. In ISARIA Wohnbau's locations these funds invest exclusively in its projects. In other locations investments can also be made in external projects.

One Group is run as a sub-group within the ISARIA Wohnbau group. The earnings of this sub-group are shown in the separate segment *One Group*.

## 02

### Principles for preparing the interim financial statements

The consolidated interim financial statements for the period from January 1 to June 30, 2016 have been prepared in accordance with IAS 34 'Interim Reporting' as condensed consolidated interim financial statements. These consolidated interim financial statements do not include all of the information required for financial statements for a full fiscal year, and should be read in connection with the consolidated financial statements as of December 31, 2015.

The investment properties in ISARIA Wohnbau group since the middle of the fiscal year 2015 are no longer estimated at acquisition or production cost less depreciation and impairment losses, but at their fair value (new valuation model according to IAS 40). The fair value method is now used for the accounting provides more reliable, more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance and cash flows to the cost method previously used. Due to the retrospective application of this voluntary change in the valuation policy for the financial properties, the figures of previous years were adjusted according to IAS 8. In the consolidated statement of comprehensive income of the corresponding period of the previous year, depreciation decreased due to the voluntary change in accounting policy from k€ 829 (corresponding period of the previous year reported) by k€ 144 to k€ 685 and income from the appreciation of tangible fixed assets decreased from k€207 to €0. Because of these adjustments, the consolidated comprehensive income of the corresponding period of the previous year decreased from k€ 68 to k€ 5. The retrospective adjustments are presented in accordance with the change in the group's equity. For further details concerning the impact on the financial year 2015, please refer to the 2015 annual report.



The accounting and valuation methods used to prepare the consolidated interim financial statements correspond to the methods used in the last consolidated financial statements as of December 31, 2015.

The consolidated interim financial statements as of June 30, 2016 were prepared in accordance with International Financial Reporting Standards (IFRS) applicable in the European Union. All applicable mandatory standards were accounted for; there was no early application of voluntary standards. There was no impact on the accounting methods and the presentation of the financial position and results of operations from first-time application of the standards and interpretations.

As of June 30, 2016, the consolidated interim financial statements comprise, in addition to ISARIA Wohnbau AG, 42 subsidiaries (December 31, 2015: 37) and unchanged three joint ventures carried at equity.

03

Changes to the consolidated group

### Newly founded companies and/ot acquisitions

The following new companies were founded and/or acquired in the ongoing fiscal year 2016:

- ISARIA Objekt Graumannsweg GmbH & Co. KG, Munich
- ISARIA Objekt Graumannsweg Komplementär GmbH, Munich
- ISARIA south one GmbH & Co. KG, Munich
- ISARIA Tower Beteiligungs GmbH, Munich
- ISARIA Tübinger Straße Beteiligungs GmbH, Munich
- ISARIA Hörgensweg Beteiligungs GmbH, Munich

On June 30, 2016, the companies are included in the consolidated financial statements of ISARIA AG for the first time by way of full consolidation

### Intragroup merger

With contract from June 16, 2016, ISARIA GmbH & Co. Objekt Metropolis KG, München was retroactively merged with JK Wohnbau GmbH & Co. Objekt Maistraße KG, Munich as of January 1, 2016. The effects resulting from the merger were eliminated as an intragroup trans-action.

### Transfer of the benefits and obligations for the plot of land for the *Tower* project development

On January 4, 2016, upon payment of the final purchase price instalment, we assumed the benefits and obligations for the plot of land for the *Tower* project development. It will thus now be possible to commence the first construction operations for this large project development in Munich.

04

Significant business transactions

## Repayment and acceptance of new bonds and loans

At the end of January 2016, as scheduled, the last bond of k€ 10,000 was repaid to the Stratos Fund. A loan from a group-external mezzanine capital lender in the amount of € 15.0 million was accepted in June 2016. This loan has a duration of 12 months and a nominal interest rate of 8.5% p.a. This loan was accepted in order to refinance a project development which had previously been financed through ProReal Deutschland Fonds 2.

## Repayment of the ProReal Deutschland Fonds 2

At the end of March 2016, the decision was made to liquidate and return to investors the ProReal Deutschland Fonds 2 issued by One Group at the end of 2012 with € 25.4 million in raised capital – at the end of the scheduled project duration of June 30, 2016. Before it was planned to draw the option of extending by one year. In comparison to the currently distributed fund ProReal Deutschland Fonds 4 this fund has had significantly higher payout rates to investors. The group's financial expenses will continue to improve with the repayment of this fund. Financially, this decision initially results in an additional one-off expense of the financial expenses during the reporting period due to a present value adjustment of fund liabilities in the amount of k€ 1,940. However, this one-off expense is off-set by future payments to investors saved in the amount of k€ 2,147. The actual repayment was made after the balance sheet date in July 2016. The liquidity outflow was partially offset through the acceptance of the loan described above.

## Takeover offer and delisting

In Lone Star, the company has found an investor with whom it will collaborate in the coming years to accelerate the company's growth. As part of this partnership the company supports the takeover offer by LSREF4 ARIA Beteiligungs GmbH & Co. KG ('LSREF4'), an affiliate of Lone Star Real Estate Fund IV (U.S.), L.P. and Lone Star Real Estate Fund IV (Bermuda), L.P., to the shareholders of the company with the objective of acquiring a majority shareholding in the company. LSREF4 announced its intention of a public takeover of ISARIA on June 17, 2016 as part of a publication pursuant to section 10 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz [WpÜG]). The publication of the documentation covering the public takeover offer, with the objective of acquiring all outstanding shares in ISARIA Wohnbau, occurred after the reporting period on July 28, 2016.

The company had already completed an agreement with the bidding company in June, on the basis of which LSREF4 would support a possible capital increase in the amount of half of ISARIA's share capital, i.e. 11,882,000 shares at a price of € 4.50 per share, in such a way that it would acquire all shares not subject to subscription rights exercised by shareholders. Furthermore, the company envisages an exit from the stock exchange (delisting) as part of the acquisition of a majority shareholding by LSREF4.

## Corporate restructuring

In order to safeguard existing tax loss carry forwards for ISARIA Wohnbau AG and other group companies, diverse corporate restructuring were undertaken – predominantly through the transformation of companies with the previous legal form ‘GmbH’ (‘Companies with Limited Liability’) into ‘Kommanditgesellschaften’ (‘Limited Partnerships’), and through the fusion of companies with considerable hidden reserves with companies with significant loss carry forwards. This restructuring was implemented – and came into effect – in part in June and in July 2016. Notarial costs and property transfer tax in the amount totalling k€ 291 was primarily incurred as a result, which was accounted for as expenses in the consolidated interim financial statements as of June 30, 2016.

## Acquisition of properties

The notarial certification of two property acquisitions in Munich as part of share purchase agreements of two special purpose entities was completed in June 2016; these are still subject to confidentiality and remain under suspensive conditions, which the company still anticipates to occur only partially in 2016. The company also acquired a plot of land on Graumannsweg in Hamburg in June 2016. These three acquisitions have a total sales volume of almost € 240 million for roughly 600 residential units.

The cash flow statement shows how the group’s cash has changed in the course of the period under review through inflows and outflows of funds. A distinction is made between cash flows from current business activities, investment activities, and financing activities. The cash in the cash flow statement exclusively comprises the freely available cash. If this is added to the cash with restricted availability in the amount of k€ 24,392 (previous year: k€ 16.336), this results in the cash disclosed on the balance sheet.

## 05 Consolidated cash flow statement

## T 01 | Segment reporting

| in k€   | New<br>Construction | Revita-<br>lisation | One Group | Other | Consolidation/<br>Reconciliation | Group   |
|---|---------------------|---------------------|-----------|-------|----------------------------------|---------|
| Sales revenue - external  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 4,143               | 130                 | 2,499     | 1,333 | 0                                | 8,105   |
| 01/01/ - 06/30/2015   | 29,076              | 6,390               | 358       | 1,471 | 0                                | 37,295  |
| Sales revenue - internal  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 0                   | 0                   | 0         | 0     | 0                                | 0       |
| 01/01/ - 06/30/2015   | 0                   | 0                   | 75        | 0     | -75                              | 0       |
| Change in inventories   |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 9,127               | 34,036              | -1,859    | 193   | 0                                | 41,496  |
| 01/01/ - 06/30/2015   | 44,889              | -1,225              | 715       | 0     | 0                                | 44,379  |
| Gross profit  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 13,269              | 34,167              | 640       | 1,526 | 0                                | 49,601  |
| 01/01/ - 06/30/2015   | 73,965              | 5,165               | 1,148     | 1,471 | -75                              | 81,674  |
| Depreciations   |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | -103                | 0                   | -595      | -5    | 0                                | -703    |
| 01/01/ - 06/30/2015*  | -68                 | 0                   | -612      | -5    | 0                                | -685    |
| EBIT  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | -5,815              | 3,632               | -1,351    | 61    | -21                              | -3,494  |
| 01/01/ - 06/30/2015*  | 5,517               | 3,123               | -296      | -110  | -304                             | 7,930   |
| Financial income  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | -237                | 102                 | 5,944     | 4     | -5,809                           | 4       |
| 01/01/ - 06/30/2015   | 40                  | 0                   | 5,179     | 0     | -5,137                           | 82      |
| Financial expenses  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | -3,365              | -4,054              | -8,638    | 9     | 5,809                            | -10,238 |
| 01/01/ - 06/30/2015   | -5,594              | -2,556              | -5,071    | -10   | 5,137                            | -8,094  |
| Result of associates accounted for using the equity method              |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 65                  | 0                   | 0         | 0     | 0                                | 65      |
| 01/01/ - 06/30/2015   | 228                 | 0                   | 0         | 0     | 0                                | 228     |
| Income tax expenses (-) / income (+)                                    |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 4,418               | -126                | 187       | -2    | 0                                | 4,478   |
| 01/01/ - 06/30/2015   | -33                 | 5                   | -113      | 0     | 0                                | -141    |
| Result after taxes on income  |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | -4,934              | -447                | -3,858    | 73    | -21                              | -9,186  |
| 01/01/ - 06/30/2015*  | 159                 | 572                 | -302      | -120  | -304                             | 5       |
| Valuation allowances (-) / write-ups (+) on inventories and receivables |                     |                     |           |       |                                  |         |
| 01/01/ - 06/30/2016   | 2                   | 0                   | 0         | 0     | 0                                | 2       |
| 01/01/ - 06/30/2015   | -23                 | 0                   | 0         | 0     | 0                                | -23     |

\* adjusted prior-year figures due to a change in measurement methods for investment properties

With regard to contingent liabilities and other financial obligations please refer to the presentation in the notes to the consolidated financial statements for fiscal year 2015. With the exception of an outstanding purchase price payment of k€ 14.000 made in January 2016, contingent liabilities and other financial liabilities as of June 30, 2016 remain largely unchanged.

The following table shows by measurement category according to IAS 39 the carrying amounts and fair values for the financial assets and liabilities recognised in the consolidated financial statements:

T 02 | Carrying amounts and fair values

|   | Assessment<br>category as<br>per IAS 39 | 06/30/2016<br>Carrying<br>amount<br>k€ | 06/30/2016<br>Fair Value<br>k€ | 12/31/2015<br>Carrying<br>amount<br>k€ | 12/31/2015<br>Fair Value<br>k€ |
|---|---|--|--------------------------------|--|--------------------------------|
| <b>Assets</b>   |   |  |                                |  |                                |
| Accounts receivable<br>from the sale of property  | LaR                                     | 3,872                                  | 3,872                          | 6,207                                  | 6,207                          |
| Other accounts receivable<br>and financial assets   | LaR                                     | 6,756                                  | 6,756                          | 7,135                                  | 7,135                          |
| Cash  | LaR                                     | 33,545                                 | 33,545                         | 32,011                                 | 32,011                         |
| <b>Liabilities</b>  |   |  |                                |  |                                |
| Compensation liabilities<br>to shareholders in general<br>partnership   | FLAC                                    | 129,688                                | 134,731                        | 110,964                                | 118,753                        |
| Financial liabilities from<br>silent participations,<br>shareholder loans and other<br>forms of capital provision | FLAC                                    | 14,032                                 | 14,032                         | 10,000                                 | 10,000                         |
| Financial liabilities to banks  | FLAC                                    | 97,799                                 | 97,962                         | 84,603                                 | 84,737                         |
| Trade accounts payable  | FLAC                                    | 10,100                                 | 10,100                         | 7,043                                  | 7,043                          |
| Other financial liabilities   | FLAC                                    | 797                                    | 797                            | 1,152                                  | 1,152                          |

Depending on how financial instruments are categorised, they are subsequently measured either at fair value or at amortised cost using the effective interest rate method. Fair value is determined according to the following measurement steps:

07

Contingent liabilities  
and other financial  
obligations

08

Additional notes  
concerning financial  
instruments

## 09

### Material transactions with related parties

- Step 1: prices quoted on active markets (and adopted without change) for identical assets or liabilities
- Step 2: input factors that are not the quoted prices considered in Step 1 but which can be observed either directly or indirectly (i.e., as derived from prices) for the asset or liability
- Step 3: factors for measuring the asset or liability not based on observable market data (non-observable input factors)

At present, all fair values measured for financial instruments are based on information factors and input factors as described for Step 2 above.

ISARIA Wohnbau group's related parties are unchanged compared to the consolidated financial statements as of December 31, 2015, therefore please also refer to the presentation in the notes to the consolidated financial statements for fiscal year 2015.

The following transactions were performed between the ISARIA Wohnbau group and related parties during the period under review:

#### T 03 | Transactions with related parties

|  | Revenue<br>01/01/ -<br>06/30/2016<br>k€ | Expenses<br>01/01/ -<br>06/30/2016<br>k€ | Accounts<br>receivable<br>06/30/2016<br>k€ | Liabilities<br>06/30/2016<br>k€ |
|--|---|--|--|---------------------------------|
| JK-COR companies                         | 66                                      | 0  | 0  | 81                              |
| Waltherstraße Komplementär               | 704                                     | 0  | 0  | 0                               |
| Executive Board and<br>Supervisory Board | 5                                       | 610                                      | 0  | 0                               |
| <b>Total</b>                             | <b>775</b>                              | <b>610</b>                               | <b>0</b>                                   | <b>81</b>                       |

|  | 01/01/ -<br>06/30/2015<br>T€ | 01/01/ -<br>06/30/2015<br>T€ | 12/31/2015<br>T€ | 12/31/2015<br>T€ |
|--|------------------------------|------------------------------|------------------|------------------|
| JK-COR companies                         | 228                          | 0                            | 0                | 81               |
| Waltherstraße Komplementär               | 0                            | 0                            | 0                | 704              |
| Executive Board and<br>Supervisory Board | 0                            | 732                          | 0                | 0                |
| <b>Total</b>                             | <b>228</b>                   | <b>732</b>                   | <b>0</b>         | <b>785</b>       |

On average there were 60 employees in the first six months of fiscal year 2016.

|                     | 06/30/2016 | 12/31/2015 |
|---------------------|------------|------------|
| Number of employees | 60         | 62         |

As of July 6, 2016, the company has acquired the majority of shares in a company which holds a plot with an existing building on the Gustav-Heinemann-Ring in Munich. The sale price is due by August 31, 2016. ISARIA Wohnbau has already received the commitment of the bank which had previously provided the financing for the acceptance of the existing loan financing of over € 7.0 million. The project has a calculated sales volume of approximately € 30.0 million.

The company made the decision after the reporting date to dispose of the project *Wohnpark Nord* – in its current building law status – at a significant increase in value to a local project developer and portfolio manager. The registration of sale was made on July 14, 2016. The transfer of benefits and obligations was completed in August 2016.

The scheduled repayment of the ProReal Deutschland Fonds 2 in the amount totalling € 26.8 million was made at the end of July 2016. The necessary funds originated from reinvestments by investors into the ProReal Deutschland Fonds 4 as well as from the liquid funds of previous investments in the projects of ISARIA Wohnbau that were freed up or rescheduled.

On July 28, 2016, Lone Star published its voluntary takeover bid of ISARIA Wohnbau AG, which it had announced to the shareholders on June 17, 2016. The acceptance period began on this day, during which the ISARIA shareholders were able to tender their shares at the price of € 4.50 in cash per share. The four-week acceptance period ends on August 25, 2016. Within this period, 91.36% of the shareholders accepted this offer. The statutory further acceptance period runs from August 31 to September 13, 2016. On expiry of this further acceptance period the offer can no longer be accepted.

With the agreement of the Supervisory Board on August 2, 2016, the Executive Board has passed the following resolution on the basis of its authorisation permitted under section 3, para 4 of the company's Articles of Association:

- a) The company's share capital shall be increased from its current level of € 23,764,000.00, by € 11,882,000.00, to € 35,646,000.00 through the issuance of 11,882,000 new bearer shares with a pro rata amount of the share capital of € 1.00 each (the 'new shares') against cash deposits. The new shares will be issued from January 1, 2016 with full dividend rights.

- b) The new shares will be offered to the shareholders of the company by way of subscription. The subscription ratio shall be 2:1, i.e. two old shares entitle a subscription to one new share.
- c) The subscription price will be € 4.50.
- d) The subscription deadline shall be 14 calendar days. It shall begin on August 4, 2016 and run up to and including August 17, 2016.

Due to the agreement between the company and Lone Star dated June 17, 2016, the capital increase was fully subscribed. Only 3.7% of existing shareholders utilised the offer. The resulting gross proceeds before costs and commissions or fees stand at € 53.5 million. The company intends to utilise the net proceeds from offering new shares in the amount of approximately € 20.0 million to finance the previously notarised acquisition of plots, the respective sales prices of which are not yet due. Furthermore, the company intends to use up to a further € 20.0 million as its own funds, the verification of which is necessary for a loan financing by banks for the properties located in the *Kapstadtring* in Hamburg and *Hansastraße* in Munich. This should enable the realisation of both construction projects currently held in the portfolio, and which were reclassified under fixed assets in the 2015 financial year. Any additional proceeds are to be used for the financing of further acquisitions which, in part, have already been identified and which are currently under negotiation.

Following extensive negotiations with the state capital Munich, the company was able to complete a long-term rental contract in August 2016 governing the renting of a property located on Elsenheimerstraße by the City of Munich. The rental contract shall begin on August 15, 2016; the annual net base rents amounts to € 1.85 million. Henceforth the sale of the property is now planned.

In coordination with the new major shareholder, the company's Executive Board submitted an application at August 19, 2016 for the revocation of the admission of all ISARIA shares to be traded on the Frankfurt stock exchange (delisting). This application was accepted on August 25, 2016. The revocation will become effective at the end of August 30, 2016. The ISARIA shares then will no longer be traded on a stock exchange.

Apart from that, at the date that this consolidated interim financial statements were prepared, the company was not aware of any further material events that occurred after the balance sheet date and which have a material impact on the group's business growth.

Munich, August 30, 2016



Michael Haupt  
Spokesman of the  
Executive Board / CEO



Jan von Lewinski  
Member of the  
Executive Board / COO



# Responsibility Statement of the Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and financial results of the group, and the group Management Report includes a fair review of the development and performance of the business and the position group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Munich, August 30, 2016



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Michael Haupt  
Spokesman of the  
Executive Board / CEO



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Jan von Lewinski  
Member of the  
Executive Board / COO

# Imprint

## Published by

ISARIA Wohnbau AG  
Leopoldstraße 8  
80802 München  
Germany

Telephone: +49 89 – 38 99 84 - 0  
Telefax: +49 89 – 38 99 84 - 780  
E-Mail: [info@isaria.ag](mailto:info@isaria.ag)  
[www.isaria.ag](http://www.isaria.ag)

## Executive Board

Michael Haupt (Spokesman), Jan von Lewinski

## Responsible Supervision Authority

Gewerbeamt Munich, KVR Munich, Ruppertstr. 19, 80466 Munich, Germany  
HRB München 187909  
USt-IdNr.: DE 16 92 57 375

## Design

ISARIA Wohnbau AG

## Layout und Production

LIEBREICH Medienproduktion

## Photos

Illustration pesch partner architekten stadtplaner GmbH

The interim report for the second quarter 2016 is a translation of the German version.  
The German version of this interim report is legally binding.

## Forward-looking Statements and Forecasts

This interim report contains statements referring to the future. Forward-looking statements are statements which are not based on historical events and facts. These statements are based on assumptions, forecasts and evaluations of future developments by the management board. These assumptions, forecasts and evaluations were made on the basis of all the information which is available at the current time. If the assumptions of future developments used in the statements and evaluations do not materialise, the actual results might deviate from the current expectations. The Executive Board and the company do not accept any liability with regard to the actual materialisation of the forward-looking statements. The Executive Board and the company do not accept any obligation to continue any statements or adjust such to future events and developments over and above the legal requirements. This interim report and the information contained herein do not form an offer for the sale or an offer to buy or subscribe securities of ISARIA Wohnbau AG within the Federal Republic of Germany or in any other country. In the United States, the shares of ISARIA Wohnbau AG may only be sold or offered for sale after prior registration or, without prior registration, on the basis of an exemption from the registration requirement according to the provisions of the 1933 US Securities Act in its currently valid version. ISARIA Wohnbau AG does not intend to carry out a public offer of shares in the United States.



[www.isaria.ag](http://www.isaria.ag)