HALF-YEAR FINANCIAL REPORT AS OF JUNE 30, 2021

GATEWAY
REAL ESTATE

AT A GLANCE

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KEY FINANCIAL INDICATORS

in € thousand

Financial performance indicators	01/01–06/30/2021	01/01–06/30/2020
Revenue	14,877	35,163
Gross profit	85,119	105,586
EBIT adjusted	51,489	28,379
EBT	37,949	13,265
Consolidated profit	37,467	7,749
Earnings per share in €	0.20	0.04
Financial position and liquidity ratios	**06/30/2021**	**12/31/2020**
Total assets	1,153,176	1,117,626
Equity	395,312	359,820
Equity ratio	34.3%	32.2%
Cash and cash equivalents	28,175	50,549
Net financial debt	498,503	565,960
Leverage ratio (net financial debt/EBIT adjusted LTM)	3.0	4.0
Portfolio indicators	**06/30/2021**	**12/31/2020**
Average gross development volume (GDV) in € billion	5	5
Number of projects (as of end of June)	7	21

For technical reasons, rounding differences may occur in tables and references compared to the mathematically precise values.

OVERVIEW OVER THE FIRST SIX MONTHS

GATEWAY
achieves **strongly positive results**
in the first half of 2021

Consolidated profit
increases to

€37.5 million

in the first half of 2021

Gross development volume (GDV)
amounts to

€5 billion

as of June 30, 2021

Earnings per share
amount to

€0.20

in the first half of 2021

EBIT adjusted
reaches

€51.5 million

in the first half of 2021

Forecast for 2021:
EBIT adjusted of

€95–110 million

AND EBT OF

€70–80 million

ABOUT US

GATEWAY REAL ESTATE AG, TOGETHER WITH ITS SUBSIDIARIES, IS ONE OF THE LEADING LISTED DEVELOPERS OF RESIDENTIAL REAL ESTATE AND URBAN QUARTERS IN GERMANY, USING RESOURCE-SAVING WOODEN CONSTRUCTION METHODS. THE FOCUS OF OUR REAL ESTATE DEVELOPMENT ACTIVITIES IS ON SUSTAINABILITY AND RESPONSIBLE USE OF RESOURCES. OUR AIM IS TO MINIMIZE DETRIMENTAL EFFECTS ON THE ENVIRONMENT BY FOLLOWING A GREEN BUILDING APPROACH. THUS, WE MAKE A SIGNIFICANT CONTRIBUTION TO REDUCING THE CARBON DIOXIDE CONCENTRATION IN THE EARTH'S ATMOSPHERE.

WE DEVELOP SUSTAINABLE AND MODERN LIVING QUARTERS USING A WOODEN CONSTRUCTION METHOD ACROSS GERMANY, PRIMARILY IN THE TOP 9 CITIES AND SELECTED HIGH-GROWTH REGIONS.

WE ARE COMMITTED TO THE HIGHEST LEVEL OF PROFESSIONALISM AND SUSTAINABILITY IN PROJECT DEVELOPMENT AND TO DELIVERING TAILOR-MADE RISK-OPTIMIZED SOLUTIONS, AND CAN RELY ON AN EXPERIENCED MANAGEMENT TEAM. A CHALLENGING AND SUSTAINABLE PROJECT DEVELOPMENT THAT IS IN LINE WITH MARKET NEEDS REQUIRES AN INTENSE COLLABORATION OF SPECIALISTS THAT COMPLEMENT AND INSPIRE EACH OTHER. IN TERMS OF DEVELOPMENT, WE COVER THE ENTIRE VALUE CHAIN FROM THE ACQUISITION OF LAND AND PROJECTS THROUGH DEVELOPMENT AND CONSTRUCTION TO THE SALE OF THE PROPERTIES.

CONTENT

LETTER OF THE MANAGEMENT BOARD

Dear Shareholders, Ladies and Gentlemen,

The COVID-19 pandemic continues to dominate the current situation of both business and social life. Despite increasing full immunization among the population through COVID-19 vaccination, the pandemic is still ongoing with more aggressive variants of the virus, such as the Delta variant, and the number of new infections has been rising again in Germany since mid-July 2021.

We are satisfied with the result of the past first half of 2021. After the adjustment of our strategy in 2020, with an increasing focus on the development of residential real estate, we managed to sell all shares in the subsidiary Development Partner, which specializes in the development of commercial properties, as well as the shares in three additional commercial project developments at the beginning of the year. Moreover, two further large project developments and one residential project development were acquired in the first half of 2021, as well as a further urban district development after the half-year reporting date. GATEWAY acquired the Blüherpark site in Dresden and the Cologne Deutz site in the first quarter of 2021, and another urban quarter development project in Leipzig in July 2021. The residential project development in Chemnitz was acquired in the first quarter. Our gross development volume (GDV) amounts to more than €6 billion when taking into account the urban quarter development project in Leipzig acquired in July as well as our additional attractive pipeline.

In all of our project developments, we place special emphasis to the issue of sustainability. Resource-saving and energy-efficient construction methods are essential to our understanding of project development. The natural and renewable building material “wood” has a very special significance in this context: using wood in construction leads to a strong reduction of the CO_2 impact on the atmosphere and a long-term storage of CO_2. In doing so, we make a significant contribution to climate protection. On top of that, we seek to receive a Gold Certificate from the German Society for Sustainable Construction (DGNB) for each of our properties and quarters. On the one hand, this represents a compelling value proposition for our rental and marketing activities, and on the other hand, it serves as a third-party confirmation based on a professional audit that our sustainability efforts are successful and lead to a very substantial reduction of the carbon footprint.

EBIT adjusted, which is a key financial indicator for us and represents operating profit plus the result from investments accounted for using the equity method, amounted to a total of €51.5 million in the first six months of 2021, while earnings before taxes (EBT) amounted to €37.9 million as of the end of June 2021. Consolidated profit (earnings after tax) amounted to €37.5 million, corresponding to earnings per share of €0.20.

Group equity rose to €395.3 million, and the LTV, including near-cash receivables, was 54.1 percent. Taking into account hidden reserves in relation to our development properties held as current assets, the LTV would be reduced to at least 42.5 percent based on prudent estimates.

For the fiscal year 2021, we continue to expect an adjusted EBIT of €95–110 million and consolidated earnings before taxes (EBT) of €70–80 million.

Dear shareholders, the Annual General Meeting of Gateway Real Estate AG was held on August 25, 2021, i.e. after the reporting date. Due to the coronavirus pandemic, the Annual General Meeting was held as a virtual meeting for the second time. We regret that direct exchange through personal dialog unfortunately was not possible once again. That said, we are all the more pleased that all the resolution proposals made by the Management Board and the Supervisory Board were adopted by a large majority of the Annual General Meeting. We are grateful for your trust and look forward to a sustainable and successful cooperation with you.

Berlin, September 30, 2021

Tobias Meibom

Stefan Witjes

THE GATEWAY SHARE

DEVELOPMENT OF THE STOCK MARKETS

The first half of 2021 was characterized in large parts by a significant upswing on the international stock markets, thus representing, for many indices, a successful continuation of the recovery effects from the final quarter of 2020. However, a closer analysis of the various industries reveals large sector differences; a differentiated picture between the first and second quarters also becomes apparent. In the broadly diversified indices, the positive momentum already prevailed in the first quarter of 2021, supported, among other things, by advancing vaccination campaigns around the globe and the re-opening trends in the economy, which were reinforced further in the second quarter and even resulted in new highs. Accordingly, the German blue-chip index DAX increased by approximately 13 percent in the first six months 2021, reaching a new all-time high of 15,802.7 points (daily high) on June 14. In the case of company shares that, in a broader sense, can be assigned to the travel and tourism sector, the picture was completely different in the same period. Optimism and euphoria about a possibly foreseeable end to the pandemic was maintained only through February and just into early March in this sector, until reports of new coronavirus mutations – most recently the more infectious Delta variant – subsequently caused sentiment to become somber and prices to fall again.

Equities of real estate companies also followed their own rules in the first half of 2021 and suffered from shifts at the beginning of the year. Between January and March 2021, real estate stocks, which had been in demand as safe havens in the coronavirus year 2020, had to take a back seat in favor of other sectors that were perceived as stronger beneficiaries of a possible end to the pandemic. The FTSE EPRA Nareit Germany Index, for example, lost more than seven percent in the first quarter, but started an impressive rally in mid-May and recovered almost the entire loss in the course of the second quarter. At the end of the first half of the year, the real estate index was only down less than 0.1 percent. The FTSE EPRA Nareit Europe Index was even more successful, also starting the year 2021 on a losing streak, but managing a turnaround from April onwards to close the first six months of 2021 with a gain of almost 7.3 percent.

Looking at German residential real estate equities, the first half of 2021 was dominated by a number of major individual events affecting the stock markets. The ruling by the German Federal Constitutional Court in April, pursuant to which the Berlin rental cap violates the constitution and is therefore null and void, eased the situation for portfolio holder companies operating in Berlin. On May 24, 2021, the two DAX-listed companies Vonovia and Deutsche Wohnen announced that they had reached an agreement to combine the two companies by way of a public takeover offer by Vonovia to the shareholders of Deutsche Wohnen.

PERFORMANCE OF THE GATEWAY SHARES

The Gateway Real Estate AG share started trading in 2021 at a price of €3.06 and was able to demonstrate stability during the above-mentioned phase of weakness among German real estate stocks in the first quarter, closing the first three months even with a slight gain. This positive development continued at the beginning of the second quarter, and on April 13, the share price climbed to its high for the first half of 2021 with a Xetra closing price of €3.50. This upward trend could not be maintained for the remainder of the reporting period. At the beginning of May, Gateway entered another period of weakness causing the share price to hover almost entirely below the 3-euro threshold. Gateway closed the first half of 2021 ended June 30 with a (Xetra) closing price of €2.78. In comparison to the prior-year end (closing price on December 30, 2020: €2.98), this represents a decline in the price of the Gateway share of 6.7 percent for the first six months.

Gateway's market capitalization amounts to approximately €519 million as of the reporting date June 30, 2021.

ANNUAL GENERAL MEETING

The Annual General Meeting of Gateway Real Estate AG was held on August 25, 2021, i.e. after the reporting date. Due to the coronavirus pandemic, the Annual General Meeting 2021 was held as a virtual meeting for the second time. All resolution proposals made by the Management Board and the Supervisory Board were approved by a large majority of the Annual General Meeting. This included the proposal as regards the appropriation of profits for the fiscal year 2020, which will be carried forward to new account in its entirety and is intended to be invested in the Company's further growth. Further resolutions of the Annual General Meeting concerned, among other things, the formal approval of the actions of the Management Board and the Supervisory Board for the fiscal year 2020, new appointments to the Supervisory Board as well as the election of the auditor for the annual financial statements and the consolidated financial statements for the fiscal year 2021, which resulted in the appointment of Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Nuremberg, Germany.

Further information and details on the voting results of the Ordinary Annual General Meeting 2021 can be found on the Company's website under:
https://www.gateway-re.de/en/investor-relations/annual-general-meeting/annual-general-meeting-2021/

SHAREHOLDER STRUCTURE

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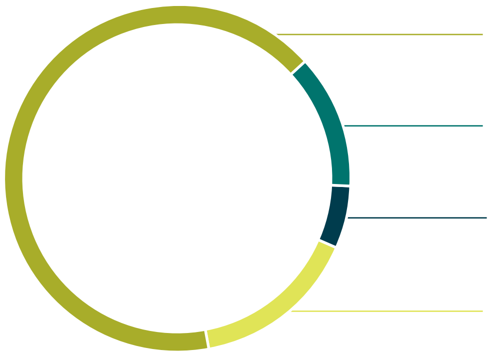
SHAREHOLDER STRUCTURE AS OF JUNE 30, 2021



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SHARE INFORMATION

ISIN/WKN	DE000A0JJTG7 / A0JJTG
Number of shares	186,764.040
Share capital	€186,764,040.00
Ticker symbol	GTY
Market segment	Regulated market (Prime Standard)
Subsector	Real estate
Trading venues	XETRA, Frankfurt am Main, Duesseldorf, Munich, Berlin, Hamburg, Stuttgart
Designated Sponsor	Credit Suisse
Opening price (January 4, 2021)	€3.06
Closing price (June 30, 2021)	€2.78
Highest price in the period (April 13, 2021)	€3.50
Lowest price in the period (June 22, 2021)	€2.58
Market capitalization (June 30, 2021)	€519.2 million

INTERIM GROUP MANAGEMENT REPORT

1. FUNDAMENTAL INFORMATION ON THE GROUP AND STRATEGY

Gateway Real Estate AG (in the following also referred to as "GATEWAY", "Company" or "Group", in each case referring to the GATEWAY Group as a whole) is a leading listed developer of residential real estate in Germany with a market capitalization of more than €519 million (as of June 30, 2021). Established in 2006, GATEWAY and its subsidiaries can look back on extensive expertise in the German real estate market and are currently developing real estate, including the city quarter development in Leipzig acquired in July, with a gross development volume (GDV) of approximately €6 billion.

In this context, GATEWAY focuses on Germany's Top 7 cities – Berlin, Duesseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart – as well as on selected high-growth areas and covers all of the important steps in the value creation chain of a development project with its own in-house teams. In all of its project developments, GATEWAY pursues the strategy of generating attractive margins and, at the same time, minimizing the project development risk by means of a detailed process management. In fiscal year 2020, the Management Board and the Supervisory Board jointly decided to build residential real estate in future also for the Company's own portfolio (build-to-hold). In the context of this extended corporate strategy, GATEWAY increasingly seeks to develop residential real estate for long-term holding and administration to generate sustainable rental revenues. Accordingly, the Standing Assets and Residential Properties Development segments will be expanded further in the medium term. As set out in an ad hoc release dated February 3, 2021, GATEWAY sold all of its shares in Development Partner AG and three further project companies, thus discontinuing all of its business activities in the Commercial Properties Development segment in order to focus, in future, entirely on residential properties.

GATEWAY regularly carries out sensitivity analyses in connection with the calculation and supervision of projects, in which the effects of potential increases in construction costs are examined and suitable countermeasures taken to offset them are reviewed. Upon purchase, all our projects are generally evaluated and analyzed on an individual basis. In order to facilitate a close cost control and management, a regular internal meeting is held each month for each project, with the Management Board also being involved in each case. In connection with all sales of real estate and development projects, the Management Board, in turn, has to liaise with the Real Estate Committee, which consists of two members of the Supervisory Board and must grant its approval for the transaction.

When acquiring new plots of land, GATEWAY focuses on space where there are no finally approved zoning or land use plans. This enables GATEWAY to leverage potential value thanks to its long-standing expertise in the process of obtaining planning permissions and to actively determine the planning process for developments early on. GATEWAY's focus as regards land purchases is always on real estate development rather than the speculative resale of undeveloped sites. Accordingly, GATEWAY also lives up to its corporate social responsibility by newly constructing much needed residential space in Germany's metropolitan growth regions.

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

GATEWAY continues the existing standing asset business of commercial real estate in order to diversify risks.

2. BUSINESS DEVELOPMENT

The first half of 2021 saw the implementation of the expanded corporate strategy, which had been resolved in the fiscal year 2020; in future, the Company will increasingly seek to develop residential real estate. In February 2021, for example, GATEWAY sold all of its shares in Development Partner AG and three additional project companies, thus completely discontinuing its activities in the Commercial Properties Development segment. Also in February 2021, GATEWAY acquired two residential development properties in Cologne and Dresden. During the remainder of the first half, the Company also managed to acquire additional residential development sites in Chemnitz.

3. ECONOMIC FRAMEWORK

MARKET ENVIRONMENT/ MACROECONOMIC SITUATION

CURRENT DEVELOPMENT

The COVID-19 pandemic led to the largest economic downturn worldwide since the banking and financial crisis of 2008/2009. Hopes regarding a quick return to normality now rest upon the development of an effective vaccine. That said, access to vaccines is an important prerequisite for immunizing the population and easing or even avoiding renewed lockdown measures.

According to Eurostat estimates, the gross domestic product in the EU increased by a seasonally adjusted 1.9% in the second quarter of 2021 compared with the previous quarter. Compared with the prior-year quarter, seasonally adjusted growth was even 13.2%.

In Germany, the Federal Statistical Office recorded a 1.5% increase in gross domestic product (GDP) in the second quarter of 2021 compared with the previous quarter, adjusted for price, seasonal and calendar effects. The main contributor to this positive development was higher private and government consumer spending.

To mitigate the economic impact of the COVID-19 pandemic, governments around the world have launched aid packages. The European finance ministers initiated a solidarity package worth €540 billion. The German government provided grants in the amount of €353.3 billion and guarantees totaling €819.7 billion.

The most recent slowdown in the progress of the vaccination campaign in Germany and other countries as well as the spread of the virus variants called Delta and Lambda currently constitute the major risks to economic recovery, both nationally and internationally.

FORECAST

According to the International Monetary Fund, the global economy is expected to grow by 6.0% in 2021 and somewhat less strongly by 4.9% in 2022. Growth is being driven primarily by major economies such as China and the USA.

As a result of the improved situation regarding public health and the associated easing measures, the economic forecast for the European Union is better than what was expected in spring. Overall, the GDP in the EU states is projected to increase by 4.8% in 2021 and by 4.5% in 2022.

German economic institutes are also optimistic about the future. While the ifo Institute expects economic growth in Germany of 3.3% in 2021 and 4.3% in 2022, the German Economic Institute in Cologne (IW Cologne) is somewhat more cautious, still forecasts growth of 3.0% for 2021 and 4.0% for 2022.

SOCIODEMOGRAPHIC DEVELOPMENT

At the end of 2020, 83.2 million people lived in Germany, which is a decrease of around 12,000 people compared to the previous year. This represents the first decline in the population since 2011. Between 2011 and 2019, the population was increasing steadily from 80.3 million to 83.2 million. The reasons for the renewed decline were, on the one hand, lower net immigration from abroad attributable to the restrictions imposed to combat the coronavirus pandemic and, on the other hand, higher death rates compared with the number of births.

The western German states (excluding Berlin) recorded an overall increase in population of 24,000 people (+0.04%), whereas a decrease of 30,000 people (–0.2%) was registered for the eastern German states (excluding Berlin).

The largest absolute increase in population was seen in Bavaria (+15,000), followed by Lower Saxony (+10,000) and Brandenburg (+9,000). North-Rhine Westphalia saw the largest decline (–22,000).

The measures to contain the coronavirus have a stronger effect on the A cities than on the other regions of Germany in terms of population development. The previously significantly stronger growth momentum in the A cities weakened due to the lack of inward migration from abroad, bringing it into line with the overall German trend. The A city population decreased by about 3,750 people to 10,283,963 between 2019 and 2020, representing a decrease by 0.04% (2019: +0.6%). The rate of decrease for Germany as a whole was 0.01%.

Three of the seven A cities saw their respective population decline in 2020: Stuttgart (–1.0%), Cologne (–0.3%) and Duesseldorf (–0.2%). Contrary to the general trend, Hamburg (0.3%), Munich (0.1%), Frankfurt am Main (0.0%) and Berlin (0.0%) recorded a population increase in 2020, albeit significantly lower than in previous years.

According to the current population forecast by the German Federal Office for Building and Regional Planning, the number of inhabitants in Germany is expected to fall to 82,875,000 by 2030, representing a decrease by 0.3%. The projection is much more positive for the A cities, which are expected to grow by around 6.2% or 635,000 people to 10,920,000.

Leipzig, one of Gateway's focus cities, recorded the strongest population growth among the cities under review. The number of inhabitants rose by 0.6% to 605,407 people. The big city in Saxony is expected to grow by almost 40,000 people by 2030.

In Gateway's focus city of Augsburg, the number of inhabitants slightly declined at a rate of 0.2% in 2020. Its population is projected to grow by 6.1%, or slightly more than 18,000 people, by 2028.

Gateway's focus city of Dresden also saw population declining somewhat by 0.2% between 2019 and 2020. According to the forecast of population development, population is expected to increase by 1.9% or nearly 11,000 people by 2030.

The long-standing trend of urbanization has been largely fueled by immigration from abroad in recent years. However, restrictions on international mobility to contain the coronavirus dampened international migration, at least in the short term. However, experts do not expect COVID-19 to slow down urbanization in the medium to long term. Researchers at empirica even argue that immigration to Germany from southern European countries, whose economies have been hit hard by the crisis, will again increase significantly, similar to the situation after the financial and banking crisis of 2008/2009.

ECONOMIC DEVELOPMENT IN GERMANY AND IN GATEWAY'S FOCUS CITIES

As more and more lockdown measures are being eased, the German economy is picking up speed again. GDP grew by 1.5% in the second quarter of 2021 compared with the previous quarter, adjusted for price, seasonal and calendar effects. Compared with the second quarter of the previous year, which was particularly affected by lockdown measures, price- and calendar-adjusted growth was as high as 9.2%. Nevertheless, German economic output has not yet returned to pre-crisis levels. Compared to the second quarter of 2019, GDP was still down by 3.1%.

The recovery of the German economy in the second quarter of 2021 was mainly driven by higher private and government consumer spending. Sales figures have increased significantly in the retail and tourism sectors following the removal of many restrictions. However, supply bottlenecks in the construction, mechanical engineering and manufacturing sectors slowed production. So far, the coronavirus crisis has not resulted in a wave of insolvencies. Quite the contrary: the long-standing trend of falling insolvency figures is continuing, thanks in part to government support and the suspension of the obligation to file for insolvency.

Foreign trade expanded again at the end of the first half of 2021. In June, the export volume was €118.7 billion, 23.6% higher than in the same month a year earlier. Imports also picked up strongly again and, at a volume of €102.4 billion, even managed to increase by 27.0% compared to June 2020. The trade balance at the end of the first half of 2021 shows a surplus of €96.6 billion.

The economic forecast of the German Council of Economic Experts assumes that economic growth in Germany will gain momentum as the measures introduced to contain the pandemic yield success, for example through an advancing vaccination campaign. Based on these assumptions, GDP is expected to increase by 3.1% in 2021 and by 4.0% in 2022. Analysts at the ifo Institute are somewhat more optimistic and project growth to amount to 3.3% for 2021 and 4.3% for 2022.

According to the Federal Statistical Office, the inflation rate was 2.3% in June 2021 compared to the same month last year. After rising steadily since the beginning of 2021, inflation slowed down somewhat for the first time in June. In particular, the high rate of energy price inflation, special effects such as the introduction of the CO_2 tax and the low prices for energy products in the previous year 2020 resulted in a relatively high inflation. In the European Union, the annual inflation rate was 2.2% in June, down from 2.3% in May, and after 0.8% in June 2020. High energy costs are also the main driver of inflation in the EU.

The serious consequences of the COVID-19 pandemic for the German labor market are fading more and thanks to the increase in the vaccination rate and the easing of the lockdown measures. After rising steadily since 2009, the number of employees subject to social security contributions thus far reached its peak of 33.82 million in February 2020, shortly before the outbreak of the pandemic in Germany. Within three months, the number fell by almost 440,000 employees subject to social security contributions and reached its temporary low of 33.38 million in May. Since then, it has been recovering and steadily approaching pre-crisis levels. In May 2021, there was a total of 33.78 million people subject to social security contributions.

In terms of employment, Gateway's focus cities (the seven A cities plus Augsburg, Leipzig, and Dresden) fared somewhat worse through the COVID-19 crisis than the Federal Republic as a whole. While the number of employees subject to social security contributions in Germany was 0.1% lower in December 2020 than in the previous year, the decline in Gateway's focus cities was 0.3%.

On a seasonally adjusted basis, unemployment fell significantly in June 2021 compared with the same month a year earlier. The effect of COVID-19 on the labor market is diminishing, but remains substantial. An estimate by the German Federal Employment Agency assumes that the number of unemployed decreased by around 239,000 people in June 2021 due to the pandemic situation. This effect reached its peak (640,000 people) in June 2020.

The overall unemployment rate for Germany was 5.7% in June 2021, 0.5 percentage points lower than a year earlier, although still 0.8 percentage points higher than in June 2019.

In the seven A cities and Gateway's focus cities of Leipzig, Augsburg and Dresden, the unemployment rate also fell considerably in line with the nationwide trend. The decline was particularly sharp in Berlin and Leipzig, with both cities recording a drop of 0.7 percentage points, respectively. In contrast, the decrease was only 0.1 percentage points in Cologne. Despite some significant reductions in unemployment, none of the A cities or Gateway's focus cities have been able so far to reach their pre-crisis levels of June 2019. Dresden is closest to the 2019 figure, with a deviation of 0.5 percentage points.

DEVELOPMENT OF REAL ESTATE MARKETS

The transaction volume on the real estate market in the first half of 2021 was €34.09 billion, down €8.3 billion on the first half of 2020. While the deficit in the first quarter of 2021 was €11.34 billion, volumes started to recover as early as in the second quarter of 2021, surpassing the prior-year level with a transaction volume of €3.01 billion.

Nevertheless, the players in the market remain cautious. There are several reasons for this, and not all of them are directly related to the coronavirus: the development of office space demand with regard to the significance of working from home, the future function of city centers as local supply centers, the influence of ESG guidelines on real estate values, and regulatory intervention on the part of policymakers.

RESIDENTIAL REAL ESTATE MARKET

In 2020, a total of 306,376 residential units were completed in Germany, an increase of 13,374 or 4.6% over the previous year. This represents the highest number of completions since 2001. The construction backlog, i.e. the number of residential units approved but not yet completed, rose to just under 780,000 units, the highest level since 1998. From January to May 2021, permits were issued for the construction of 157,937 housing units, representing an increase of 11.3% compared to the same period in 2020.

The German Building Site Mobilization Act, which was passed by the German parliament on May 7, 2021 and came into force on June 23, 2021, is intended to speed up the processes for creating residential units through amendments to the Building Code and the Land Use Ordinance.

According to the vacancy index of CBRE-empirica, the vacancy rate in the German residential market at the end of 2019 was 2.8% or 603,000 residential units. This figure did not decrease for the first time in 13 years. At 6.1%, the vacancy rate in eastern Germany (excluding Berlin) is still well above the figure for western German states (2.2%). The difference between growth and shrinking regions is even greater. While vacancy rates in growth regions continue to decline and stand at 1.9%, the trend in shrinking regions continues to point upwards with a rate of 8.6%.

According to the vdp index, the price for owner-occupied residential space in Germany rose by 80% between the first quarter of 2010 and the second quarter of 2021. The increase is even higher at 117% in the seven A cities. Between 2011 and 2019, the growth momentum in the A cities was considerably higher than in Germany as a whole. This relationship has reversed since the beginning of 2019. Since the outbreak of the COVID-19 pandemic, the price increase for owner-occupied housing has accelerated. Demand for home ownership in Germany's metropolitan areas seems to have increased, rather than decreased, due to the pandemic. Year-on-year growth was around 9.0% in the A cities, while it was 10.9% in Germany as a whole. Among the A cities, Cologne and Berlin show the strongest performance in the first half of 2021, growing 6.4% and 6.0%, respectively.

The weak momentum in new contract rents, which began before the spread of COVID-19, remained in the first half of 2021. The increase in the A cities is 1.4%, the increase for Germany as a whole amounts to 1.7%. Among the A cities, the strongest rental growth (2.1%) was recorded in Berlin. In this context, it is likely that this is a catch-up effect due to the repeal of the rental cap by the Federal Constitutional Court.

According to the forecast model of the German Economic Institute in Cologne (IW Cologne), more than 260,000 new apartments will be needed annually across Germany in the period from 2021 and 2025, and around 245,000 units per year from 2026. Although the number of completions has increased significantly in recent years, it considerably fell short of the annual demand of 341,700 apartments between 2016 and 2020, as calculated by IW Cologne. This led to a calculated deficit of just under 260,000 residential units. Between 2016 and 2019, the accumulated deficit for the seven A cities was around 72,000 apartments. Hamburg has the highest rate with 84% coverage of demand, while in Stuttgart only 52% of the required apartments were completed.

Coverage also remains on a very low level in Gateway's other focus cities of Leipzig and Augsburg. Between 2016 and 2019, 8,060 properties were completed in Leipzig; this represents a coverage of 48%, i.e. less than half of the projected demand for apartments. The coverage rate is somewhat higher in Dresden (55%) and Augsburg (64%). However, there is also a shortage of just above 7,500 apartments in Dresden and of more than 2,500 in Augsburg.

The still relatively young temporary housing asset class, which includes student flats, serviced apartments, aparthotels, and micro apartments, was significantly impacted by the COVID-19 pandemic in some cases. The occupancy rate of serviced apartments temporarily fell below the 50% mark, but at least proved to be more robust than the traditional hotel industry. In contrast, occupancy rates for residential concepts remained in the range above 90%. The temporary housing segment is thus caught between the strongly affected accommodation sector and the residential market, which emerged from the crisis virtually unharmed. Particularly against the backdrop of the scarce supply of housing in Germany's metropolitan areas, major cities and university cities, temporary housing offers remain an option that is met with high demand – especially as soon as the volume of business travel increases again and national and international students resume their face-to-face lectures. In the long term, therefore, many factors speak for a positive development of the temporary housing asset class. In the short term, competition in this market segment is likely to become tougher as growing supply meets at least a temporary drop in demand. Therefore, investors are also acting more cautiously. The transaction volume was €750 million in 2020, down 43% on the year before. This, however, is attributable to the low level of sales in the first three months of 2020. In the fourth quarter of 2020 and the first quarter of 2021 alone, the transaction volume was €670 million.

OFFICE MARKET

According to a JLL study, an amount of around €9.9 billion was invested in the German office market in the first half of 2021, 5.3% more than in the same period last year. This corresponds to a share of 29% of the total transaction volume, after 22% in the first half of 2020. Thus, office properties remain the second most popular asset class after residential real estate. The seven A cities also show resilience as the transaction volume remains almost constant with a minus of only 3%.

The office real estate market proved to be extremely robust during the coronavirus crisis. There was no slump, as witnessed in previous economic crises. This was attributable to the government measures introduced to support companies, above all short-time working allowances and bridging assistance, which cushioned negative cyclical effects and stabilized demand. As a result, rents on the office market have continued to rise although space take-up has fallen significantly. There are diverging forecasts for the development of office space demand after the crisis. An analysis by IW Cologne shows that large companies in particular are planning to reduce space. Whether a higher prevalence of working from home will result in a significant decline in office space demand is difficult to predict, but market experts doubt it. One argument against this is that companies still need to maintain office space for regular operations and may even need to create additional communication space to promote exchange among employees in light of alternative work models. As part of a forecast on the long-term development of demand for office space, Deutsche Bank Research takes the view that the office will remain the linchpin of economic life. Even in a pessimistic scenario, office demand will decline by a maximum of 10% by 2030 compared to pre-crisis levels.

In the seven A cities, too, the persisting uncertainty on the market has impeded a more dynamic leasing activity for office space in the first half of 2021. Space take-up amounts to a total of 1.31 million sqm, 1% below the first half of 2020. The office space vacancy rate increased significantly to somewhat more than 4 million sqm. This represents an increase of slightly more than 1 million sqm or 35% compared to the first half of 2020. In the course of this development, the vacancy rate across all seven A cities increased over the first quarter by 40 basis points to 4.3% as of the end of the first half of 2021, but is still at a moderate level. In line with that, prime rents also remained stable. There was even a slight increase in Berlin and Hamburg. Overall, prime rents increased by 0.9% based on a 12-month comparison.

RETAIL MARKET

Despite the restrictions to contain the coronavirus, annual retail sales increased by at least 3.9% in 2020 compared to 2019. In the first half of 2021, retail sales rose by 1.6% year-on-year on a price-adjusted basis. The internet and mail order sector recorded the strongest gains (26.1%). In contrast, sales of textiles, clothing, footwear and leather goods (–26.2%) and furnishings, household appliances and building materials (–11.9%) were significantly lower than in the first half of 2020. However, these retail segments, which were particularly affected by the store closures, showed significant sales increases in June as reopenings progressed.

It is not yet possible to predict how sustainable the sales increases in online retailing, particularly in the fashion sector, will be. This is because, according to GfK market data, total sales in the fashion segment (both brick-and-mortar and online), were always down when brick-and-mortar stores were closed. As soon as the stores reopened, the figures started to rise again. This means that consumers did not switch to online retailers for their purchases during lockdown on a one-for-one basis. At the same time, sales in online fashion retail fell as soon as brick-and-mortar retail reopened.

Higher inflation and fears of a fourth wave of infections are putting some pressure on the brightening consumer sentiment. While the consumer climate index was still at a 10-year high of 58.4 points in June 2021, the index lost 3.8 points as of July, but still reached a very high level of 54.6 points. Consumers thus continue to see the German economy on the upswing.

According to JLL, a total of 211,000 sqm of retail space was leased in the first half of 2021. Thus, pre-pandemic levels from the year 2019 were not achieved, but compared to the half-year figure from the crisis year 2020, this represents an increase of around 11%. In the seven A cities, space take-up increased by 6.6% from 562,000 sqm to 599,000 sqm. The largest take-up was recorded in Berlin (17,100 sqm of leased space).

According to Colliers, investment volumes in the retail investment market totaled €2.7 billion in the first half of 2021, which is 43% below the 5-year average. While retail stores and shopping centers have suffered greatly from the COVID-19 pandemic, specialty retail parks and specialty stores continue to perform well and account for more than half of the investment volume.

The declining space take-up has not failed to leave its mark on rents. Prime rents are falling in all seven A cities, but so far only to a moderate degree. The largest decline was recorded in Frankfurt am Main where rents fell 6.5%.

According to the vdp index, new contract rents in the retail sector continue to decline. In the second quarter of 2021, the indicator slipped by 1.6 percentage points compared with the prior-year quarter. Compared with the previous quarter, the decrease was 1.0 percentage points. The trend of falling new contract rents in the retail sector, which began in the fourth quarter of 2017, is thus continuing. An additional impact arising due to the COVID-19 pandemic has not been observed so far.

Compared with the first half of 2020, the gross prime yields for commercial properties in prime locations in the seven A cities remained largely stable. Only Hamburg, Munich and Berlin recorded slight increases of around one basis point. Compared with the first half of 2019, an increase in prime yields can be seen in all A cities, with the exception of Frankfurt am Main and Stuttgart.

4. FINANCIAL POSITION, CASH FLOWS, AND FINANCIAL PERFORMANCE

FINANCIAL POSITION

The financial position in the first half of 2021 continues to be characterized by the successful implementation of the strategy adjustment and the focus on the residential sector. Accordingly, the acquisition of the two large residential development sites in Cologne and Dresden in the first three months resulted in the almost full elimination of the accounting effects from the sale of the subsidiaries of the Commercial Properties Development segment on the financial position as of June 30, 2021. In addition, a land purchase in Chemnitz was completed in the further course of the second quarter.

Accordingly, GATEWAY Group's total assets slightly increased from €1,117.6 million as of December 31, 2020 by €35.6 million to a total of €1,153.2 million as of June 30, 2021.

On the assets side, the increase was primarily attributable to non-current assets which rose by €39.3 million and totaled €297.0 million. Current assets declined slightly by 0.4% or €3.8 million to €856.2 million, thus being somewhat below the previous year's level.

The growth of non-current assets mainly results from the non-current portion of the existing loan receivables (including interest) of €63.3 million due from the disposed companies of the Commercial Properties Development segment. This was offset by the disposal of the pro rata share in goodwill in the amount of €24.0 million and the disposals of the investments accounted for using the equity method in the amount of €7.1 million.

The value of the investment properties held by the Group amounted to €201.0 million as of the reporting date. The increase by €16.1 million primarily results from a standing asset in Duisburg, which was included in the consolidated financial statements of Gateway Real Estate AG by way of full consolidation for the first time due to the acquisition of additional shares in the company Duisburg EKZ 20 Objekt GmbH in the first quarter of 2021.

In terms of current assets, the total carrying amount of inventories fell from €667.0 million by €587.5 million due to deconsolidation measures. However, this was offset by the increase in inventories attributable to the three acquired development projects in Cologne, Dresden and Chemnitz and ongoing developments, resulting in an overall decrease of €140.7 million as of June 30, 2021.

At the same time, current other financial assets also increased by €166.6 million, which mainly involves claims arising under shareholder loans remaining in the selling entities. €19.3 million of the original claims were already repaid during the second quarter of 2021.

As a result of the completed sale of a property in Hamburg, which was already reported under non-current assets held for sale and was measured at fair value, this item decreased by €15.8 million to €38.4 million.

Since the sales proceeds received were fully used to repay debt and to carry out further acquisitions, the balance of cash and cash equivalents amounted to €28.2 million as of June 30, 2021, a decline by €22.4 million. Deconsolidation measures accounted for €22.7 million of that amount.

In terms of liabilities, the Group's non-current liabilities amounted to 450.1 million as of the reporting date (December 31, 2020: €197.2 million); the major portion of that amount is attributable to non-current financial liabilities in the amount of 413.5 million (December 31, 2020: €146.3 million). The substantial increase by 182.5% results from the newly acquired project companies (€224.1 million) and the assumed financing of the standing asset (€5.0 million). As a result of successful loan extensions and the exchange of the bond in the amount of €102.0 million that expired in the first half of the year, non-current financial liabilities increased even more significantly than at the end of the first quarter. At the same time, deconsolidation measures led to an amount of €74.8 million being derecognized from the consolidated statement of financial position.

Current liabilities totaled 307.7 million as of June 30, 2021 (December 31, 2020: €560.6 million). The largest portion of that amount (€191.1 million) refers to trade payables (December 31, 2020: €68.6 million). The significant increase by €122.5 million results from the liabilities in the amount of €63.0 million in connection with the purchase price for acquired land assumed as part of the acquisition of the project company in Cologne and from the outstanding liabilities for the purchase of shares in Borussia Development GmbH in the amount of €70.9 million.

In addition, current financial liabilities account for €104.7 million (December 31, 2020: €459.7 million). They declined primarily due to the sale of the Commercial Properties Development segment by €356.0 million and due to repayments. Moreover, the extension of a short-term bond until 2025 led to a reclassification of an amount of €102.0 million to non-current liabilities. This is offset by the financings in the amount of €79.6 million assumed within the context of the newly acquired project companies.

The GATEWAY Group's equity as of June 30, 2021 amounted to €395.3 million (December 31, 2020: €359.8 million). The increase is primarily the result of the positive consolidated total comprehensive income in the amount of €37.5 million. Accordingly, the Group's equity ratio rose from 32.2% at the end of the prior year to now 34.3% as of June 30, 2021.

CASH FLOWS

The cash inflows and outflows in the first half of 2021 overall led to a decrease in cash as of June 30, 2021, primarily caused by cash flows from financing activities due to repayments of loans as well as by cash and cash equivalents disposed in connection with the sale of the Commercial Properties Development segment. At the same time, there were cash inflows in connection with payments of purchase price installments that were recorded as part of the cash flows from investing activities.

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CONDENSED CASH FLOW STATEMENT

in € thousand	01/01–06/30/2021	01/01–06/30/2020
Cash flows from operating activities	–31,575	–24,717
Cash flows from investing activities	41,807	–1,031
Cash flows from financing activities	–32,606	–150,831
Net decrease/increase in cash and cash equivalents	**–22,374**	**–176,579**
Cash and cash equivalents as of 01/01	50,549	216,045
Cash and cash equivalents as of the end of the period	28,175	39,466

The negative cash flows from operating activities increased by €6.9 million compared to the prior-year period and amounted to €–31.6 million in the first half of the fiscal year 2021. The negative development compared to the prior-year period is due to the outflow of cash and cash equivalents resulting from the acquisition of a development project and the increase in inventories by €24.1 million (H1 2020: €71.6 million), which was attributable, among other things, to further construction activities in connection with project developments. Moreover, inflows from purchase price payments in relation to forward sales entered into in relation to three development projects were recognized in the amount of €67.9 million in the first half of 2020.

The positive cash flows from investing activities of €41.8 million (H1 2020: €–1.0 million) resulted primarily from the inflows from the purchase price installments from the sale of the Commercial Properties Development segment, net of cash and cash equivalents acquired and disposed in the amount of €39.9 million. The total also includes the funds from a first repayment of a shareholder loan in the amount of €19.3 million in the second quarter of 2021, which remained in the selling company.

The negative cash flows from financing activities in the amount of €32.6 million (H1 2021: €–150.8 million) is primarily due to the repayment of loans of €44.7 million. This was offset by new borrowings in connection with the acquisition of properties and the financing of construction activities in a total amount of €12.4 million. The net decrease resulting from the cash flows in the first half of 2021 described above totaled €22.4 million, resulting in a reduction of cash and cash equivalents to €28.2 million as of June 30, 2021. As of the previous reporting date (December 31, 2020), cash and cash equivalents had amounted to €50.5 million.

FINANCIAL PERFORMANCE

The successful disposal of the Commercial Properties Development segment in February 2021 as well as the deconsolidation of the related companies conducted in March 2021 had a positive effect on the Group's financial performance. Following the strategic decision to discontinue all of the segment's activities, the transaction met the criteria set out in IFRS 5 for a presentation as a discontinued operation. Accordingly, presentation was also adjusted for the prior year quarter, and all expense and income items were reported separately in the statement of profit or loss.

In the first quarter of 2021, a positive result from deconsolidation in the amount of €42.2 million was reported under other operating income of the discontinued operation. The current results of the subsidiaries, which remained fully consolidated until March 2021, are also included in the consolidated statement of comprehensive income and reported in separate columns.

The acquisition of the two large residential development sites in Cologne and Dresden had no significant influence on financial performance since both projects were realized through the acquisition of company shares. Due to the tight timeframe for reporting, adjustments may still be made in the context of these transactions. At present, we do not expect such adjustments to have any material effect on financial position, financial performance, and cash flows.

Revenue decreased to now €14.9 million, compared with a total of €35.2 million in the previous year. Of that amount, €10.3 million (H1 2020: €32.9 million) attributable to the discontinued operation, which is allocated to the Commercial Properties Development segment in the amount of €4.9 million (H1 2020: €29.4 million) and to the Residential Properties Development segment in the amount of €5.4 million (H1 2020: €3.6 million). The revenue generated by the discontinued operation in the first half of 2021 mainly result from further work toward completion in relation to the three forward sale agreements in the amount of €9.2 million. The remaining revenue was mainly generated from lettings in the project companies. In the prior period, the Group had recognized revenue of €30.3 million in connection with a forward deal newly entered into as part of a development project in Duesseldorf and the further work toward completion of two existing projects.

Revenue of the continuing operation primarily results from lettings in the amount of €4.6 million (H1 2020: €2.3 million).

Gross profit amounted to €85.1 million (H1 2020: €105.6 million), which, in addition to the revenues mentioned above, comprises changes in inventories of finished goods and work in progress of €27.1 million (H1 2020: €67.8 million) – largely consisting of capitalized construction costs and construction period interest – and other operating income in a total amount of €43.1 million (H1 2020: €2.6 million).

The strategic adjustment implemented successfully in the first quarter and the re-focus on the two segments of Residential Properties Development and Standing Assets initially lead to a lower gross profit compared to the prior-year period since forward deals have not yet been concluded for the newly acquired projects.

In the reporting period, the costs for raw materials and consumables used decreased by €55.7 million over the prior-year period to €24.1 million and mainly consist of the construction costs of the inventory properties (€15.7 million), acquisition costs for land (€5.5 million) as well as management costs for the rented properties (€3.0 million).

In the first half of 2021, the employee benefits expense declined by €1.0 million to €3.9 million. Fair value changes in investment properties and valuation of properties held as inventory amounted to €–1.4 million. Other operating expenses amounted to €3.6 million (H1 2020: €7.4 million) and are primarily attributable to legal and consulting costs as well as accounting and closing costs. In the prior period, the figure included the expenses for a compensation payment in the amount of €1.9 million. In the first half of 2021, GATEWAY achieved an overall operating profit of €51.5 million (H1 2020: €28.5 million). Of that amount, €45.7 million refer to the discontinued operation.

Net finance costs in the first half of 2021 amounted to €–13.5 million (H1 2020: €–15.2 million) and include finance costs of €–16.9 million (H1 2020: €–15.8 million). Finance costs are partially offset by finance income in the amount of €3.4 million (H1 2020: €1.0 million), mainly resulting from receivables under vendor notes.

Earnings before tax (EBT) amounted to €37.9 million (H1 2020: €13.3 million). After deducting income taxes of €0.5 million (H1 2020: €5.5 million), consolidated profit for the first half of 2021 amounted to €37.5 million (H1 2020: €7.7 million). This corresponds to basic earnings per share of €0.20 (H1 2020: €0.04) and diluted earnings per share of €0.20 (H1 2020: €0.04). EBIT adjusted amounted to €51.5 million (H1 2020: €28.4 million).

5. REPORT ON RISKS AND OPPORTUNITIES

The risks which Gateway Real Estate AG is exposed to within the framework of its business activities, as well as the opportunities arising for the Company were described in detail in the 2020 Annual Report on pages 51–56. In this context, the Group's risk management system was explained, property-specific and company-specific risks were presented, and their respective probability of occurrence as well as their potential financial effects were classified based on a risk classification.

The potential effects resulting from the COVID-19 pandemic were also taken into account. In the meantime, about 60% of the total population in Germany has been fully vaccinated against the novel coronavirus and about 65% have received at least one vaccine dose. The vaccination rate is expected to rise further in the coming weeks, although the momentum is assumed to decelerate. At the same time, experts fear a faster spread of the virus among the unvaccinated population due to the growing dominance of the so-called Delta variant of the virus, which is considered more contagious compared to the originally dominating virus variant. The apparent successes in pandemic control therefore continue to be exposed to serious risks. Consequently, there continues to be no reason for a fundamental reassessment of the situation. Against this backdrop, GATEWAY does not see any significant changes in risks and the associated assessment based on the risk classification compared with the statements given in the 2020 Annual Report. We, therefore, refer to the discussion in the Group management report for the fiscal year from January 1 to December 31, 2020.

As regards the opportunities for the Group, GATEWAY refers to the fact that a substantial slowdown of the economy and also recessionary trends, as could be observed following the COVID-19 pandemic, also offers new opportunities in the procurement market in terms of property and land acquisition. The financial difficulties of other companies may open up opportunities to acquire properties in particularly attractive locations or subject to particularly good terms. For further details, we refer to the report on opportunities in the 2020 Annual Report on pages 55–56.

6. REPORT ON EXPECTED DEVELOPMENTS

OUTLOOK FOR THE GATEWAY GROUP

In its 2020 Annual Report, GATEWAY communicated a qualified forecast for the fiscal year 2021. Accordingly, the Management Board expects an adjusted EBIT of €95–110 million and consolidated earnings before taxes (EBT) of €70–80 million for the fiscal year 2021. The main drivers for business development are the sale of the entire commercial property portfolio in the first quarter of 2021 as well as future planned sales in the context of forward sale transactions in the Residential Properties Development segment. In view of the business development in the first half of 2021, the Management Board confirms this forecast.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

IFRS CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FROM JANUARY 1 TO JUNE 30, 2021

ASSETS

in € thousand	Note	06/30/2021	12/31/2020
Non-current assets			
Intangible assets and goodwill	6.1	16,144	40,429
Property, plant and equipment		859	3,501
Investment properties	6.2	201,035	184,920
Investments accounted for using the equity method	6.3	28	7,130
Other non-current financial assets	6.5	69,054	8,817
Other non-current non-financial assets	6.5	2,492	2,562
Deferred tax assets		7,355	10,285
		296,967	**257,644**
Current assets			
Inventories	6.4	526,261	666,985
Trade receivables		1,693	1,431
Income tax receivables		3,502	3,616
Other financial assets	6.5	195,164	28,525
Other non-financial assets	6.5	63,014	54,726
Cash and cash equivalents	6.6	28,175	50,549
Non-current assets held for sale	6.7	38,400	54,150
		856,209	**859,982**
		1,153,176	**1,117,626**

EQUITY AND LIABILITIES

in € thousand	Note	06/30/2021	12/31/2020
Equity			
Subscribed capital	6.8	186,764	186,764
Reserves	6.8	–389,131	–389,131
Retained earnings	6.8	595,134	557,411
Non-controlling interests	6.8	2,545	4,776
		395,312	**359,820**
Non-current liabilities			
Non-current financial liabilities	6.9	413,452	146,342
Deferred tax liabilities		35,332	47,836
Other non-current financial liabilities	6.10	1,346	3,009
		450,130	**197,187**
Current liabilities			
Other current provisions		0	452
Current financial liabilities	6.9	104,699	459,652
Income tax liabilities		4,229	7,127
Trade payables	6.10	191,131	68,649
Other financial liabilities	6.10	7,180	7,506
Other non-financial liabilities	6.10	495	17,233
		307,734	**560,619**
		1,153,176	**1,117,626**

IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FROM JANUARY 1 TO JUNE 30, 2021

		01/01–06/30/2021			01/01–06/30/2020		
in € thousand	Note	Continuing operations	Discon-tinued operations	Total	Continuing operations	Discon-tinued operations	Total
Revenue	6.11	4,625	10,252	14,877	2,259	32,904	35,163
Changes in inventories of finished goods and work in progress	6.12	16,535	10,597	27,132	40,815	26,979	67,794
Other operating income	6.14	667	42,443	43,110	2,381	248	2,629
Gross profit		**21,827**	**63,292**	**85,119**	**45,455**	**60,131**	**105,586**
Raw materials and consumables used	6.13	–8,957	–15,125	–24,082	–41,147	–38,622	–79,769
Employee benefits expense		–2,239	–1,677	–3,916	–1,670	–3,253	–4,923
Fair value changes in investment properties and valuation of properties held as inventory and in non-current assets held for sale		–1,353	0	–1,353	15,410	0	15,410
Depreciation and amortization expense		–656	–34	–690	–112	–275	–387
Other operating expenses	6.14	–2,870	–719	–3,589	–4,664	–2,773	–7,437
Operating profit		**5,752**	**45,737**	**51,489**	**13,272**	**15,208**	**28,480**
Profit or loss from investments accounted for using the equity method, after taxes		0	0	0	4	–105	–101
Finance income		3,440	–87	3,353	318	707	1,025
Finance costs		–12,138	–4,755	–16,893	–3,781	–12,028	–15,809
Other finance costs, net		0	0	0	–48	–282	–330
Net finance costs	6.15	**–8,698**	**–4,842**	**–13,540**	**–3,507**	**–11,708**	**–15,215**
Profit before tax		**–2,946**	**40,895**	**37,949**	**9,765**	**3,500**	**13,265**
Income tax expense	6.16	36	–518	–482	–4,319	–1,197	–5,516
Profit for the period		**–2,910**	**40,377**	**37,467**	**5,446**	**2,303**	**7,749**
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		**–2,910**	**40,377**	**37,467**	**5,446**	**2,303**	**7,749**
Attributable to equity holders of the parent company		–2,772	40,495	37,723	5,414	2,114	7,528
Attributable to non-controlling interests		–138	–118	–256	32	189	221
Earnings per share (basic)	6.17	–0.02	0.22	0.20	0.03	0.01	0.04
Earnings per share (diluted)	6.17	–0.02	0.22	0.20	0.03	0.01	0.04

IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FROM APRIL 1 TO JUNE 30, 2021

in € thousand	Note	04/01–06/30/2021 Continuing operations	04/01–06/30/2021 Discontinued operations	04/01–06/30/2021 Total	04/01–06/30/2020 Continuing operations	04/01–06/30/2020 Discontinued operations	04/01–06/30/2020 Total
Revenue		2,296	0	2,296	1,218	6,721	7,939
Changes in inventories of finished goods and work in progress		12,433	0	12,433	150	16,338	16,488
Other operating income		543	0	543	909	425	1,334
Gross profit		**15,272**	**0**	**15,272**	**2,277**	**23,484**	**25,761**
Raw materials and consumables used		–7,407	0	–7,407	83	–14,193	–14,110
Employee benefits expense		–1,317	0	–1,317	–834	–1,726	–2,560
Fair value changes in investment properties and valuation of properties held as inventory and in non-current assets held for sale		208	0	208	–490	0	–490
Depreciation and amortization expense		–95	0	–95	–60	–124	–184
Other operating expenses		–1,369	0	–1,369	–903	–1,778	–2,681
Operating profit		**5,292**	**0**	**5,292**	**73**	**5,663**	**5,736**
Profit or loss from investments accounted for using the equity method, after taxes		0	0	0	22	–47	–25
Finance income		2,605	0	2,605	223	345	568
Finance costs		–7,766	0	–7,766	–2,347	–3,374	–5,721
Other finance costs, net		0	0	0	23	–353	–330
Net finance costs		**–5,161**	**0**	**–5,161**	**–2,079**	**–3,429**	**–5,508**
Profit before tax		**131**	**0**	**131**	**–2,006**	**2,234**	**228**
Income tax expense		32	0	32	84	–860	–776
Profit for the period		**163**	**0**	**163**	**–1,922**	**1,374**	**–548**
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		**163**	**0**	**163**	**–1,922**	**1,374**	**–548**
Attributable to equity holders of the parent company		136	0	136	–1,593	1,349	–244
Attributable to non-controlling interests		27	0	27	–329	25	–304
Earnings per share (basic)		0.00	0.00	0.00	–0.01	0.01	0.00
Earnings per share (diluted)		0.00	0.00	0.00	–0.01	0.01	0.00

IFRS CONSOLIDATED STATEMENT OF CASH FLOWS

FROM JANUARY 1 TO JUNE 30, 2021

in € thousand	Note	01/01–06/30/2021	01/01–06/30/2020
Cash flows from operating activities			
Total comprehensive income for the period		37,467	7,749
Adjustments for:			
Amortization of intangible assets		49	14
Depreciation of property, plant and equipment		641	373
Changes in fair value of investment properties and valuation of properties held as inventory	6.2	1,234	–2,277
Changes in fair value of non-current assets held for sale (properties)	6.7	119	–13,133
Distributions received from investments accounted for using the equity method		1,120	1,693
Impairment on trade receivables		–102	–190
Other non-cash expenses/income		–464	514
Tax expenses	6.16	482	5,516
Profit or loss from the sale of property, plant and equipment		–3	0
Profit or loss from the sale of fully-consolidated subsidiaries		–42,107	0
Net finance costs	6.15	13,540	14,784
Profit or loss from investments accounted for using the equity method	6.3	0	101
Other finance costs, net		0	330
Changes in:			
Inventories		–24,030	–71,613
Trade receivables and other receivables		–2,865	–6,973
Other financial assets		–2,813	42,765
Non-financial assets		–10,093	–3,850
Trade payables and other payables		4,450	8,528
Non-financial liabilities		1,949	4,212
Other provisions as well as assets and provisions for employee benefits		–12	–863
Changes in other financial liabilities		–5,204	0
Assets and liabilities held for sale		4,250	0
Interest paid		–8,367	–9,001
Income taxes received		117	8
Income taxes paid		–933	–3,404
Cash flows from operating activities		**–31,575**	**–24,717**
Cash flows from investing activities			
Payments for investments in investment properties		–175	0
Purchase of intangible assets		–144	–67
Purchase of property, plant and equipment		–110	–59
Payments for additions to consolidation group less cash and cash equivalents acquired		2,487	0
Sale of consolidated companies less cash and cash equivalents transferred		39,868	0
Cash outflows for investments in properties held for sale (IFRS 5)		–119	–1,068
Interest received		0	163
Cash inflows from the sale of other financial assets		0	15,050
Purchase of other financial assets		0	–15,050
Cash flows from investing activities		**41,807**	**–1,031**
Cash flows from financing activities			
Cash inflows from new (financial) loans		12,406	55,507
Payments for lease liabilities		–256	–290
Other equity-related measures		0	0
Repayments of loans		–44,756	–149,689
Transaction costs for loans and borrowings		0	–20
Dividends paid to shareholders of the parent company		0	–56,029
Fees for financial liabilities not utilized		0	–310
Cash flows from financing activities		**–32,606**	**–150,831**
Net change in cash and cash equivalents		**–22,374**	**–176,579**
Cash and cash equivalents as of 01/01	6.6	50,549	216,045
Cash and cash equivalents as of the end of the period	6.6	**28,175**	**39,466**

IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM JANUARY 1 TO JUNE 30, 2021

		Equity attributable to equity holders of the parent company					
in € thousand	Note	Subscribed capital	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of 01/01/2020		**186,764**	**–22,804**	**156,778**	**320,738**	**5,253**	**325,991**
Profit/loss	6.8	0	0	7,528	7,528	221	7,749
Dividend payment	6.8	0	0	–56,029	–56,029	0	–56,029
Balance as of 06/30/2020		**186,764**	**–22,804**	**108,277**	**272,237**	**5,474**	**277,711**
Balance as of 01/01/2021		**186,764**	**–389,131**	**557,411**	**355,044**	**4,776**	**359,820**
Profit/loss	6.8	0	0	37,723	37,723	–256	37,467
Change in the scope of consolidation/disposal of shares	6.8	0	0	0	0	–1,975	–1,975
Balance as of 06/30/2021		**186,764**	**–389,131**	**595,134**	**392,767**	**2,545**	**395,312**

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2021

1. REPORTING ENTITY

Gateway Real Estate AG (also referred to hereinafter as "GATEWAY", the "Company" or the "Enterprise") and its subsidiaries specialize in the development and subsequent sale of residential properties as well as the construction and long-term rental of residential properties for their own portfolio (build-to-hold). In the reporting year, commercial properties also were developed and sold via the subsidiary Development Partner AG, which was sold in the first quarter of 2021.

GATEWAY, which is registered in the commercial register of the Frankfurt am Main local court under the number 93304, has its registered office in Frankfurt am Main, Germany. The address of the principal place of business has been Hardenbergstraße 28a, 10623 Berlin, Germany, since 2021.

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

The interim consolidated financial statements as of June 30, 2021 were prepared by the Management Board on September 30, 2021 and released for publication.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 GENERAL INFORMATION

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

The interim consolidated financial statements do not comprise all disclosures required for consolidated financial statements in accordance with IFRS and should therefore be read in conjunction with the consolidated financial statements as of December 31, 2020. These consolidated financial statements represent the basis for the present interim financial statements.

As a result of the full disposal of the Commercial Properties Development segment and its activities in the first half of 2021, the transaction was classified and presented as a discontinued operation in accordance with IFRS 5.

A discontinued operation is a component of the Group's business whose operations and cash flows can be clearly distinguished from the rest of the Group and that

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

A business is classified as a discontinued operation upon disposal or, if earlier, once the criteria for a classification as held for sale are met. In the case at hand, classification was made upon disposal and derecognition during the first quarter of 2021.

When a business is classified as a discontinued operation, the statement of comprehensive income of the comparative year is adjusted as if the business had been sold at the beginning of the comparative year. The cash inflows and outflows from the discontinued operation are presented separately from the cash inflows and outflows from continuing operations in the consolidated statement of cash flows. Previous year's figures are reported on a like-for-like basis.

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

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

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

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

The interim consolidated financial statements are to be read in conjunction with the audited and published IFRS consolidated financial statements as of December 31, 2020 and the notes included therein. The accounting policies used by the Group for the present interim consolidated financial statements generally correspond to the policies applied in the 2020 consolidated financial statements.

2.2 FINANCIAL REPORTING RULES

A. Standards, interpretations and amendments required to be aaplied for the first time in the reporting year

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Standard	Content	Mandatory first-time application for fiscal years beginning on or after
Amendments to IFRS 4	"Insurance Contracts": Postponement of IFRS 9; Interest Rate Benchmark Reform – Phase 2	01/01/2021
Amendments to IFRS 7	"Financial Instruments: Disclosures": Interest Rate Benchmark Reform – Phase 2	01/01/2021
Amendments to IFRS 9	"Financial Instruments": Interest Rate Benchmark Reform – Phase 2	01/01/2021
Amendments to IFRS 16	"Leases": Interest Rate Benchmark Reform – Phase 2	01/01/2021
Amendments to IAS 39	"Financial Instruments: Recognition and Measurement": Interest Rate Benchmark Reform – Phase 2	01/01/2021

The application of these newly applied financial reporting standards will have no material effects on the consolidated financial statements.

B. Standards and interpretations not applied (issued, but not yet required to be applied or partly not to be applied in the EU)

The International Accounting Standard Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have issued further standards and interpretations that are not yet required to be applied for the fiscal year 2021 or that have yet to be endorsed by the EU.

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Standard amendment	Content	Mandatory first-time application for fiscal years beginning on or after
Standards already endorsed by the EU, but not yet required to be applied		
Amendments to IFRS 3	Business Combinations: Reference to the Conceptual Framework 2018	01/01/2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	01/01/2022
Amendments to IAS 37	Provisions: Onerous Contracts – Cost of Fulfilling a Contract	01/01/2022
Standards not yet endorsed by the EU and not yet required to be applied		
IFRS 17	Insurance Contracts	01/01/2023
Amendments to IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	01/01/2023
Amendments to IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	01/01/2023
Amendments to IAS 12	Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	01/01/2023
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021	04/01/2021

It is intended to apply these standards when they are required to be applied for the first time. The effects of the standards already adopted by the EU, but not yet required to be applied, and of the amendments not yet adopted by the EU are currently being reviewed. However, the Company does not expect any material effects on the consolidated financial statements.

2.3 SIGNIFICANT CHANGES IN THE SCOPE OF CONSOLIDATION

A. Disposal of the Commercial Properties Development segment

Within the context of the strategic realignment and the focus on the Residential Properties Development segment, the agreement on the purchase and transfer of shares dated February 3, 2021 was executed effective March 16, 2021 and all of the shares held in Development Partner AG, Duesseldorf, as well as 51% of the shares in each of the project companies Revaler Straße 32 PE GmbH, Berlin, Storkower Straße 140 PE GmbH, Berlin and Storkower Straße 142–146 PE GmbH, Berlin were disposed. This resulted in the deconsolidation of the entire Commercial Properties Development segment. The accounting effects resulting from the disposal and the classification as a discontinued operation in accordance with IFRS 5 are presented in Note 2.4.

B. Acquisition of residential development projects in Cologne and Dresden

Based on a share purchase agreement dated February 17, 2021, all of the shares in Borussia Development GmbH (previously Gerch Invest GmbH) were acquired from the related company SN Beteiligungen Holding AG, Switzerland. With an equity interest of 89.9%, Gateway Real Estate AG has been the indirect controlling shareholder of Borussia Dresden Quartiere am Blüherpark (previously Gerchgroup Dresden Quartiere am Blüherpark) 1–12 UGs, Borussia Dresden Investment UG and Borussia Dresden Einkaufs GbR as well as of Borussia Köln Deutz Quartiere (previously Gerchgroup Köln Deutz Quartiere) 1–21, Borussia Köln Deutz Quartiere Erschließungs UG and Borussia Köln DQ Einkaufs GbR since that date and consolidated these companies for the first time as of February 18, 2021.

The purchase price allocation remains provisional as of June 30, 2021.

C. Purchase of land in Chemnitz

By way of a land purchase agreement dated March 9, 2021, the subsidiary Gateway Achtzehnte GmbH, which previously had not been consolidated for reasons of immateriality, acquired several plots of land in Chemnitz for a total amount of approximately €4.4 million. Apartments are planned to be constructed on these sites and resold subsequently.

D. Purchase of additional shares in Duisburg shopping center

Based on a share purchase agreement effective January 1, 2021, the Company acquired another 39.9% of the shares in Duisburg EKZ 20 Objekt GmbH as well as a loan receivable. Duisburg EKZ 20 Objekt GmbH has been fully consolidated since January 1, 2021 as a result of the respective controlling influence of Gateway Real Estate AG. Previously, the 50% stake was accounted for as an investment accounted for using the equity method. The purchase price and the loan receivable amount to a total of approximately €11.1 million and was paid by offsetting loan receivables.

E. Sale of Gateway Asset Management GmbH

Based on a share purchase agreement dated June 30, 2021, all of the shares of Gateway Asset Management GmbH were sold to the related company Development Partner AG. Initially, the provisional purchase price amounts to €25 thousand and is determined finally on the basis of a closing balance sheet.

F. Acquisition of additional shares in So SoHo Sullivan GmbH & Co. KG for the SoHo Mannheim project development

Based on a share purchase agreement dated May 19, 2021, an additional 40% of the shares in So SoHo Sullivan GmbH & Co. KG, which previously had not been accounted for using the equity method for reasons of immateriality, were acquired for a purchase price of €7.1 million. The company has a land purchase agreement that has been certificated by a notary public, but has not been fully executed and will be included in the Group as a fully consolidated subsidiary for the first time in the first half.

2.4 DISCONTINUED OPERATION

The disposal of the Commercial Properties Development segment met the criteria set out in IFRS 5 for classification as a discontinued operation in the first quarter of 2021. The Commercial Properties Development segment was not classified as a discontinued operation in the previous year. In accordance with IFRS 5, the presentation of the discontinued operation for the prior year was adjusted, with all expense and income items being presented in separate columns in the statement of profit or loss.

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DISPOSED ASSETS AND LIABILITIES OF THE DISCONTINUED OPERATION

in € million	
Intangible assets	24.3
Property, plant and equipment	2.0
Investments accounted for using the equity method	7.1
Deferred tax assets	3.9
Inventories	587.2
Trade receivables	2.9
Income tax receivables	0.1
Other financial and non-financial assets	29.7
Cash and cash equivalents	22.7
Assets of the disposal group	**679.9**
Non-controlling interests	2.5
Other provisions	0.4
Financial liabilities	370.4
Deferred tax liabilities	11.8
Other financial and non-financial liabilities	24.1
Income tax liabilities	4.3
Trade payables	15.0
Liabilities of the disposal group	**428.5**
Net assets	**251.4**

Upon the closing of the transaction on March 16, 2021, the assets and liabilities of the discontinued operation were disposed.

Net gain from the sale of the discontinued operation:

The consideration amounts to €293.6 million and consists of a purchase price component of €104.6 million as well as receivables remaining within the Group of €189.0 million which have to be repaid in future periods. The Group has received cash funds from this transaction in the amount of €19.3 million in the first half of 2021.

Based on the purchase price of €104.6 million and the net assets disposed in the amount of €251.4 million, plus the receivables remaining within the Group in the amount of €189.0 million, the resulting deconsolidation gain (excluding transaction costs of €0.3 million) amounts to €42.2 million. This deconsolidation gain is attributable to shareholders of Gateway Real Estate AG only since there are no non-controlling interests in the selling companies, and it is reported under other operating income.

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CASH OUTFLOWS/INFLOWS FROM THE DISCONTINUED OPERATION:

in € thousand	01/01–06/30/2021	01/01–06/30/2020
Cash outflows from operating activities	–6,710	28,212
Cash outflows from investing activities	–147	–44
Cash inflows from financing activities	3,219	–31,181
Net cash outflow from discontinued operation	**–3,638**	**–3,013**

3. ADDITIONAL DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

3.1 PRINCIPLES OF FINANCIAL RISK MANAGEMENT

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

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

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

3.2 CAPITAL MANAGEMENT

The Group regularly reviews its capital structure in connection with ensuring its debt servicing capability, operating liquidity as well as the compliance of regulatory requirements within the context of the preparation of annual and interim financial statements. Adjustments may be implemented through capital increases or changes to the financing. In this context, the Company seeks to achieve a capital structure that reflects business risk.

As a listed corporation, the Group is subject to the minimum requirements applicable to stock corporations.

The equity ratio at the end of the year is presented in the table below:

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EQUITY RATIO

in € thousand	06/30/2021	12/31/2020
Equity	395,312	359,820
Total assets	1,153,176	1,117,626
Equity ratio (in %)	34.3	32.2

3.3 CLASSES OF FINANCIAL INSTRUMENTS IN ACCORDANCE WITH IFRS 7

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

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FINANCIAL ASSETS

						06/30/2021
	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC		
Financial assets measured at fair value						
Equity investments	2,582	0	0	0	2,582	3
Embedded derivatives	1,219	0	0	0	1,219	3
Total	**3,801**	**0**	**0**	**0**	**3,801**	
Financial assets not measured at fair value						
Trade receivables	0	0	1,693	0	1,693	
Other receivables	0	0	8,920	0	8,920	
Contract assets	0	0	471	0	471	
Loans	0	0	250,943	0	250,974	2
Security deposits for leased office space	0	0	58	0	58	
Cash and cash equivalents	0	0	28,175	0	28,175	
Total	**0**	**0**	**290,260**	**0**	**290,291**	
Total financial assets	**3,801**	**0**	**290,260**	**0**	**294,092**	

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FINANCIAL LIABILITIES

				06/30/2021
	Carrying amount in € thousand		Fair value in € thousand	Level of fair value hierarchy
	Mandatorily at FVtPL	Financial liabilities – AmC		
Financial liabilities measured at fair value				
Liabilities, non-controlling interests	853	0	853	3
Total	**853**	**0**	**853**	
Financial liabilities not measured at fair value				
Liabilities to banks	0	180,567	184,011	2
Liabilities to related companies	0	36,030	36,030	2
Liabilities under corporate bonds to related parties	0	2,436	2,436	2
Liabilities to third parties from exchange-listed corporate bonds	0	198,041	199,629	1
Loan liabilities to third parties	0	101,076	102,293	2
Trade payables	0	191,131	192,729	2
Other financial liabilities	0	6,533	6,533	
Lease liabilities	0	778	n/a	
Contract liabilities	0	363	363	
Total	**0**	**716,955**	**724,024**	
Total financial liabilities	**853**	**716,955***	**724,877**	

* With the exception of lease liabilities that are separate from the classification in accordance with IFRS 9, the total of the category 'other financial liabilities – AmC' amounts to €716,177 thousand.

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FINANCIAL ASSETS

	Carrying amount in € thousand				Fair value in € thousand	Level of fair value hierarchy
						12/31/2020
	Mandatorily at FVtPL	Financial assets – FVtOCI	Financial assets – AmC	Financial liabilities – AmC		
Financial assets measured at fair value						
Equity investments	2,637	0	0	0	2,637	3
Embedded derivatives	2,435	0	0	0	2,435	3
Total	**5,072**	**0**	**0**	**0**	**5,072**	
Financial assets not measured at fair value						
Trade receivables	0	0	1,431	0	1,431	
Other receivables		0	15,565	0	15,565	
Contract assets	0	0	4,096	0	4,096	
Loans	0	0	12,501	0	12,501	
Security deposits for leased office space	0	0	107	0	107	
Cash and cash equivalents		0	50,549	0	50,549	
Total	**0**	**0**	**84,249**	**0**	**84,249**	
Total financial assets	**5,072**	**0**	**84,249**	**0**	**89,321**	

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FINANCIAL LIABILITIES

	Carrying amount in € thousand		Fair value in € thousand	Level of fair value hierarchy
				12/31/2020
	Mandatorily at FVtPL	Financial liabilities – AmC		
Financial liabilities measured at fair value				
Liabilities, non-controlling interests	834	0	834	3
Total	**834**	**0**	**834**	
Financial liabilities not measured at fair value				
Liabilities to banks	0	222,011	219,382	2
Liabilities to related companies	0	49,250	49,250	2
Liabilities under corporate bonds to related parties	0	38,194	43,176	2
Liabilities to third parties from exchange-listed corporate bonds	0	99,945	101,308	1
Loan liabilities to third parties	0	196,595	198,787	2
Trade payables	0	68,649	68,649	
Other financial liabilities	0	2,388	2,388	
Lease liabilities	0	2,802	n/a	
Contract liabilities	0	4,491	4,491	
Total	**0**	**684,325**	**687,431**	
Total financial liabilities	**834**	**684,325**	**688,265**	

* With the exception of lease liabilities that are separate from the classification in accordance with IFRS 9, the total of the category 'other financial liabilities – AmC' amounts to €681,523 thousand.

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

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

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

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

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

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

Interest rates and default intensities are simulated in order to assess the advantages of exercising the termination options. The inputs of the valuation model are risk-free interest rates (based on the EUR swap curve), the volatility as well as the credit spread. Since credit spreads are not directly observable in the market, the embedded termination options have to be allocated to Level 3 of the fair vale hierarchy.

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

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

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

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

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in € thousand	**Derivative financial instruments**	**Derivative financial instruments**
Balance as of 01/01/2020	**2,002**	**2,996**
Gains (losses) recognized in finance costs	433	–359
Additions	0	0
Balance as of 12/31/2020	**2,435**	**2,637**
Gains (losses) recognized in finance costs	30	0
Additions	1,189	0
Disposals	–2,435	–55
Balance as of 06/30/2021	**1,219**	**2,582**

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

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	Profit or loss	
in € thousand	**Increase**	**Decrease**
Balance as of 06/30/2021		
Anticipated fair market refinancing rate (1% change)	–226	147
Balance as of 12/31/2020		
Anticipated fair market refinancing rate (1% change)	–177	181

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

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

- With respect to the properties held by the Group, the Management Board must decide at every reporting date whether they should be held on a long-term basis to earn rentals or for capital appreciation or both or for sale. Depending on this decision, the properties are accounted for as land with unfinished and finished buildings intended for sale (inventories) or as non-current assets intended for sale, in accordance with the principles for investment properties, and measured at (amortized) cost or fair value, depending on the classification. We refer to Notes 6.2 and 6.7.

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

- In accordance with IAS 34 in conjunction with IAS 12, the income tax expense is determined as of the end of the quarter on the basis of the best estimate of the weighted average income tax rate expected for the full fiscal year 2021. The tax rate projected for the full year is determined on the basis of the currently applicable corporate planning, taking into account various assumptions and estimates. Accordingly, there are uncertainties related to the interpretation of tax regulations. In addition, the utilization of deferred tax assets requires future tax results, unless deferred tax liabilities of at least the same amount are also attributable to a tax unit. Therefore, differences between the actual results and our assumptions as well as future changes in our estimates can occur, which may lead to changes of the taxable profit in future periods. We refer to Note 6.16.

- Various assumptions need to be made with respect to other provisions, including for example with respect to occurrence probabilities and the utilization amounts of provisions for litigation risks. All information available at the time of preparing the financial statements was considered for this purpose. As of the reporting date, there are no other provisions recognized in the financial statements (previous year: €0.4 million). The measurement of the provisions takes into account knowledge of the current state of the litigation as well as the assessment of the Management Board.

- There is scope for discretion in determining the time and amount of revenue recognition in accordance with the principles of IFRS 15. If a binding sales contract already exists for a property under development, revenue recognition based on a time period in accordance with the estimated stage of completion can also be considered in addition to revenue recognition based on a specific point in time. This applies accordingly to revenue recognition for undertakings included in the financial statements using the equity method. We refer to Notes 6.3 and 6.11.

- The fair value of derivative financial instruments is estimated on the basis of an option price model recognized for this type of transaction, in the form of a Hull-White model.

5. SEGMENT REPORT

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

There is no reporting of results on the basis of geographical regions because all of the Group's activities are conducted in Germany.

In order to increasingly focus on the development of residential real estate for long-term holding, administration and selling, the Management Board in consultation with the Supervisory Board resolved to expand the corporate strategy and realigned the Company's business areas.

As a consequence, GATEWAY has two reportable business areas – Standing Assets and Residential Properties Development – since the beginning of the fiscal year 2021. The Commercial Properties Development segment was classified as a discontinued operation in the first half of 2021 and no longer represents a reportable segment.

In the Residential Properties Development segment, three development projects were acquired in the first half in Cologne, Dresden and Chemnitz. This is also the reason for the significant increase of segment assets to €620.0 million and of segment liabilities to €538.8 million.

Segment disclosures were presented on a like-for-like basis for the prior period.

The individual segments are described in the following:

- **Standing Assets:** This segment covers a profitable and diverse portfolio of existing properties. The segment revenues consist primarily of rental income from the investment properties. Since fiscal year 2020, this segment also includes residential properties developed for the Company's own portfolio (build-to-hold).

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

In the previous periods, the Residential Properties Development segment, which was discontinued in 2021, was defined as follows: The development activities for commercial properties are combined in the Commercial Properties Development segment. The objective of this segment is to develop attractive and high-quality office buildings with modern architecture and flexible usage formats. Geographically, these activities are concentrated on the Top 7 cities in Germany (i.e. Berlin, Cologne, Duesseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart) and on selected metropolitan areas such as Nuremberg.

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

The major effects shown in this column result from the elimination of intra-group balances as well as of expenses and income. The elimination of intra-group balances regarding segment assets mainly results in the consolidation of receivables (85,544 thousand) of the Standing Assets segment due from the Residential Property Development segment. The consolidation of the liabilities (€85,544 thousand) matching the receivables is the main effect as regards segment liabilities. The elimination of income from equity investments results in the consolidation of income from a distribution (€950 thousand) of the Standing Assets segment; this income is reported in net finance costs.

Revenue from third parties (external revenue) is generated exclusively in Germany; 32.9% of this revenue is attributable to the discontinued Commercial Properties Development segment, 24.9% to the Standing Asset segment and 42.2% to the Residential Properties Development segment. The Residential Properties Development segment also includes revenue of €5.4 million attributable to the discontinued operation as well as the revenue from the discontinued Commercial Properties Development segment in connection with further work toward completion in relation to the three forward sale agreements concluded in the previous year. Revenue of the continuing operations refers to interim rental of development projects. Revenue from third parties in the Standing Assets segment mainly refers to rental revenue from investment properties held as financial investments and held for sale.

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

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

—

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
					06/30/2021
Revenue from third parties (external revenue)	3,698	4,891	6,288	0	14,877
thereof discontinued operations	0	4,891	5,361	0	10,252
Intersegment revenue (internal revenue)	341	46	0	–387	0
thereof discontinued operations	0	46	0	–46	0
Revenue	**4,039**	**4,937**	**6,288**	**–387**	**14,877**
thereof discontinued operations	0	4,937	5,361	–46	10,252
Segment result (operating profit)	–3,554	45,526	11,305	–1,788	51,489
thereof discontinued operations	0	45,526	107	104	45,737
Net finance costs	–1,021	–4,031	–8,488	0	–13,540
Profit before tax	–4,575	41,495	2,817	–1,788	37,949

—

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
					06/30/2020
Revenue from third parties (external revenue)	1,404	30,174	3,585	0	35,163
thereof discontinued operations	0	29,319	3,585	0	32,904
Intersegment revenue (internal revenue)	148	91	0	–239	0
thereof discontinued operations	0	91	0	–91	0
Revenue	**1,552**	**30,265**	**3,585**	**–239**	**35,163**
thereof discontinued operations	0	29,410	3,585	–91	32,904
Segment result (operating profit)	11,495	16,579	406	0	28,480
thereof discontinued operations	0	15,286	–78	0	15,208
Net finance costs	17,024	–15,424	–859	–15,956	–15,215
Profit before tax	28,519	1,155	–453	–15,956	13,265

Additionally, the goodwill in the amount of €23,973 thousand allocated to the Commercial Properties Development segment was deconsolidated within the context of its disposal.

—

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
					06/30/2021
Segment assets	622,092	0	620,018	–88,934	1,153,176
Segment liabilities	304,683	0	538,755	–85,574	757,864

—

in € thousand	Standing Assets	Commercial Properties Development	Residential Properties Development	Consolidation	Group
					12/31/2020
Segment assets	554,788	662,988	172,913	–273,063	1,117,626
Segment liabilities	272,202	591,978	161,933	–268,307	757,806

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

6.1 INTANGIBLE ASSETS

Intangible assets can be broken down as follows:

—

in € thousand	06/30/2021	12/31/2020
Goodwill	15,908	39,881
Other intangible assets	236	548
Total	**16,144**	**40,429**

The goodwill in the amount of €23,973 thousand allocated to the Commercial Properties Development segment was deconsolidated within the context of its disposal. The goodwill arising as part of the reverse acquisition in 2018 breaks down as follows:

— €6,119 thousand are allocated to the group of CGUs "Standing Assets"; and
— €9,789 thousand are allocated to the group of CGUs "Residential Properties Development".

6.2 INVESTMENT PROPERTIES

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

—

in € thousand	
Balance as of 12/31/2020	**184,920**
Additions	17,349
Changes in market value	–1,234
Balance as of 06/30/2021	**201,035**

Additions comprise the property acquired as part of the purchase of the shares in Duisburg EKZ 20 Objekt GmbH. As a result of the intention to hold this property over a long term to earn rentals, it was classified as an investment property in accordance with IAS 40 and measured at fair value.

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

—

in € thousand	06/30/2021	06/30/2020
Rental revenues	1,908	311
Revenues from operating costs	704	66
Revenues from cost charges to others and building cost subsidies*	35	42
Administration costs (operating costs, maintenance, administration, etc.)	–1,074	–169
Total	**1,573**	**250**

* Not presented in the prior year.

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

The fair values of the properties are based on an appraisal as of December 31, 2020. Accordingly, the determination of the fair values was generally based on Level 3 input factors, i.e., factors not based on observable market data (unobservable input factors).

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

—

in € thousand	Associates	Joint ventures	Total
Balance as of 12/31/2020	**1,064**	**6,066**	**7,130**
Additions	0	0	0
Disposals	0	0	0
Result from investments accounted for using the equity method (Q2)	0	0	0
Disposal from deconsolidation	0	–6,038	–6,038
Other effects	–1,064	0	–1,064
Balance as of 06/30/2021	**0**	**28**	**28**

The investments in the following joint ventures, with a combined carrying amount of €6,038 thousand, were derecognized in the context of the disposal of the discontinued Commercial Properties Development segment:

— Projektentwicklung Am Barmbeker Bahnhof in Hamburg Beteiligungsgesellschaft mbH & Co. KG
— Projektentwicklung Weender Straße in Göttingen GmbH & Co. KG
— Projektentwicklung Weender Straße in Göttingen Verwaltungsgesellschaft mbH
— Projektgesellschaft Abraham-Lincoln-Straße in Wiesbaden Beteiligungsgesellschaft mbH & Co. KG
— Immobiliengesellschaft Hutfiltern in Braunschweig GmbH.

Prior to the disposal, there was a payout from the associated company Venloer Straße in Köln S.à r.l. to PE Venloer Straße in Köln Beteiligungsgesellschaft mbH in the amount of €1,120 thousand. The distribution was charged outside profit or loss against investments in associates and is included in other effects.

6.4 INVENTORIES

The Group's inventories as of the reporting date consisted of the capitalized construction costs (including construction period interest) of inventory properties, which are measured at the lower of amortized cost or net realizable value in accordance with IAS 2. Construction period interest in the amount of €12,430 thousand was capitalized as part of the construction costs in the first half of 2021.

The total carrying amount of all inventory properties as of June 30, 2021 was €526,261 thousand. As of March 16, 2021, inventories in the amount of €588,060 thousand were disposed as part of the disposal of the Commercial Properties Development segment. This is offset by the addition resulting from the purchase of the project developments Borussia Dresden & Köln as of February 17, 2021 in the amount of €420,630 thousand. Inventory properties as of the reporting date mainly consist of the project development Borussia Dresden Blüherpark (€96,795 thousand), of the project development Borussia Köln Deutz Quartiere (€334,424 thousand), of SKE Immo Sulzbach GmbH (S.à r.l.) (€56,826 thousand) and of Beteiligungsgesellschaft Berlin-Heinersdorf 18 GmbH (€33,779 thousand).

The development of inventories is presented in the table below:

—

in € thousand	06/30/2021	12/31/2020
Projektentwicklung Borussia Köln Deutz Quartiere	334,424	0
Projektentwicklung Borussia Dresden Blüherpark	96,795	0
SKE Immo Sulzbach GmbH (S.à r.l.)	56,826	56,073
Beteiligungsgesellschaft Berlin-Heinersdorf 18 GmbH	33,779	33,475
Gateway Achtzehnte GmbH	4,437	0
Immobilienbeteiligungsgesellschaft am Kennedydamm in Düsseldorf mbH	0	82,045
Projektentwicklung Breite Gasse in Nürnberg GmbH	0	93,680
Projektentwicklung Rudolfplatz in Köln GmbH	0	2,635
Projektentwicklung Brotstraße in Trier GmbH	0	4,240
Projektentwicklung Uerdinger Straße in Düsseldorf Residential GmbH	0	5,129
Projektentwicklung Michaelkirchstraße	0	61,355
Projektentwicklung Technologiecampus Großraum Stuttgart GmbH	0	21,914
Projektentwicklung Mediaspree in Berlin GmbH	0	74,687
Projektentwicklung Campus Park München	0	67,166
Projektentwicklung Neufahrn	0	25,888
SoHo Mannheim	0	32
Revaler Straße 32 PE GmbH	0	73,694
Storkower Straße 140 PE GmbH	0	16,981
Storkower Straße 142–146 PE GmbH & Co. KG	0	47,991
Total	**526,261**	**666,985**

6.5 OTHER ASSETS

Other assets mainly comprise the following items:

—

in € thousand	06/30/2021	12/31/2020
Other financial assets:		
Loans – at amortized cost	250,943	12,501
thereof to related parties	220,478	4,320
Other receivables – at amortized cost	8,945	15,160
thereof to related parties	4,261	9,124
Equity investments – measured at FVtPL	2,582	3,043
Embedded derivatives	1,219	2,435
Contract assets	471	4,096
Security deposits	58	107
	264,218	**37,342**
thereof non-current	69,054	8,817
thereof current	195,164	28,525
Other non-financial assets:		
Other assets*	62,481	52,361
thereof to related parties	5	5
Prepaid expenses	323	373
Value added tax credits	160	1,903
Tenant incentives	2,542	2,651
	65,506	**57,288**
thereof non-current	2,492	2,562
thereof current	63,014	54,726

* In the previous year, this item included operating costs of €105 thousand. In the current year, the amounts are reported as contract assets under other financial assets since revenue is recognized over time in accordance with IFRS 15.

The significant increase in other financial assets by €226,876 thousand compared to the prior year is mainly attributable to the disposal of the Commercial Properties Development segment in the first quarter. The consideration given is composed of the receivables remaining within the Group in the amount of currently €178,766 thousand and unsettled purchase price receivables of €61,633 thousand.

The increase in other non-financial assets of €8,218 thousand is largely attributable to the entitlement to transfer real estate from a land purchase agreement that has been certificated by a notary public, but has not yet been fully executed; this entitlement is reported under other assets. The amount of the entitlement increased in the first half due to the purchase of shares in So SoHo Sullivan GmbH & Co. KG for €7,050 thousand as well as interest eligible to be capitalized in the amount of €3,030 thousand.

6.6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly consisted of overnight bank deposits and amounted to €28,175 thousand as of June 30, 2021 (December 31, 2020: €50,549 thousand).

6.7 ASSETS HELD FOR SALE

The assets held for sale changed as follows:

—

in € thousand	
Balance as of 12/31/2020	**54,150**
Addition	119
Disposal	–15,750
Change in market value	–119
Balance as of 06/30/2021	**38,400**

On April 21, 2021, the final purchase price installment for the property of Gateway Vierte GmbH, Frankfurt am Main, was paid and the purchase agreement was executed. The property, which already had been measured at the selling price of €15,750 thousand in previous years, was recognized as a disposal.

The measurement of the remaining property of Gateway Fünfte GmbH, Frankfurt am Main, was made in line with the procedure followed for investment properties and is based on the fair value as of December 31, 2020 as determined by an independent expert.

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

—

in € thousand	06/30/2021	06/30/2020
Rental revenues	443	441
Revenues from operating costs	113	105
Revenues from cost charges to others and building cost subsidies	98	94
Administration costs (operating costs, maintenance, administration, etc.)	–522	–466
Total	**132**	**174**

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

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

6.8 EQUITY

As of June 30, 2021, the share capital is unchanged at €186,764,040 and is divided into 186,764,040 no-par-value bearer shares with a notional value in the share capital of €1 per share.

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

6.9 FINANCIAL LIABILITIES

Financial liabilities break down as follows:

—

in € thousand	06/30/2021	12/31/2020
Non-current financial liabilities		
Liabilities to third parties from bonds	198,042	47
Liabilities to banks	117,782	73,737
Liabilities to third parties	97,628	72,558
	413,452	**146,342**
Current financial liabilities		
Liabilities to banks	62,785	148,274
Liabilities to related parties	36,030	49,250
Liabilities to third parties	3,448	124,037
Liabilities to third parties from bonds	2,436	99,897
Liabilities to related parties from bonds	0	38,194
	104,699	**459,652**
Total	**518,151**	**605,994**

The rise in non-current financial liabilities by €267,110 thousand chiefly results from project finance assumed and continued as part of the purchase of Projektentwicklung Borussia Dresden Blüherpark (€25,049 thousand) and Projektentwicklung Borussia Köln Deutz Quartiere (€199,021 thousand).

Furthermore, the exchange of the bond of Gateway Real Estate AG that expired in the first half of the year (€97,323 thousand) led to a further increase in non-current financial liabilities. This was offset by the disposal and the resulting deconsolidation of the Commercial Properties Development segment that led to a reduction in non-current financial liabilities of €74,829 thousand.

The current financial liabilities have a remaining term of up to 12 months. They primarily include the current portion of the liabilities in connection with the acquisition of properties or the financing of development projects. The terms of the non-current financial liabilities in the amount of €437,873 thousand are longer than one year.

The decrease in current financial liabilities mainly results from the disposal of the Commercial Properties Development segment in the first quarter (€286,979 thousand) and from the abovementioned adjustment of maturities resulting from the effected exchange (€97,323 thousand). This was offset by the additions of project financings in the context of the purchase.

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

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

6.10 TRADE PAYABLES AND OTHER PAYABLES

Trade payables in the amount of €191,131 thousand (previous year: €68,649 thousand) mainly comprises an entitlement to transfer real estate (€53,126 thousand) as well as the outstanding liabilities from the land purchase price assumed as part of the acquisition of the project company in Cologne in the amount of €63.0 million and the outstanding liabilities of €70.9 million from the purchase of shares in Borussia Development GmbH.

As of the reporting date, the other financial liabilities break down as follows:

—

OTHER FINANCIAL LIABILITIES

in € thousand	06/30/2021	12/31/2020
Lease liabilities	778	2,802
Contract liabilities	363	4,491
Liabilities, non-controlling interests	853	834
Security deposits received	74	82
Other	6,458	2,306
thereof to related parties	0	2
	8,526	**10,515**
thereof non-current	1,346	3,009
thereof current	7,180	7,506

The reduction in lease liabilities and contract liabilities is due to the disposal of leased assets and forward sales in the context of the disposal of the Commercial Properties Development segment in the first quarter.

The item "Other" includes a liability from the retention of a purchase price in connection with a project site in the amount of €1,500 thousand acquired in the previous year as well as an indemnity obligation of €3,434 thousand.

As of the reporting date, the other current non-financial liabilities break down as follows:

—

OTHER NON-FINANCIAL LIABILITIES

in € thousand	06/30/2021	12/31/2020
Liabilities for personnel	110	2,136
Liabilities from other taxes	9	3,012
VAT liabilities	41	49
Advance payments received	0	11,757
Deferred income	80	234
Other	255	45
thereof to related parties	0	0
	495	**17,233**
thereof non-current	0	0
thereof current	495	17,233

The year-on-year decrease in the item "Advance payments received" is mainly the result of the passing of possession (benefits and obligations) in relation to the property of Gateway Vierte GmbH in Hamburg during the reporting period. The advance payments made by the buyer in the amount of €11,500 thousand were derecognized subsequently.

6.11 REVENUE

The Group generated revenue of €14,877 thousand in the period from January 1 to June 30, 2021. GATEWAY mainly generates revenues from the rental of investment properties and inventory properties, the sale of inventory properties, and the provision of services. Operating cost settlements and building subsidies received are other income sources. Specifically, revenues break down as follows:

—

in € thousand	Q1–Q2 2021	Q1–Q2 2020
Rental revenues in accordance with IFRS 16		
Rental revenues from investment properties	1,908	311
Rental revenues on inventory properties	1,826	3,120
Rental revenues from IFRS 5 properties	443	441
Rental revenues from sub-letting	2	12
	4,179	**3,884**
Rental revenues in accordance with IFRS 15		
Revenues from the sale of inventory properties	9,154	29,582
Revenues from operating costs	865	741
Revenues from services	433	389
Revenues from cost charges to others and building cost subsidies	133	95
Revenues from operating costs of IFRS 5 properties	113	105
Other	0	367
	10,698	**31,279**
thereof over time	10,565	15,307
thereof at a point in time	133	15,972
Total	**14,877**	**35,163**

Of the overall revenue, €10,698 thousand fall under the scope of IFRS 15 and €4,179 thousand fall under the scope of IFRS 16. With respect to revenue under the scope of IFRS 15, with the exception of revenues from services (management services agreements), forward sales and operating costs, revenue is recognized at a certain point in time.

The reduction in revenue compared to the previous year is largely attributable to the disposal of the Commercial Properties Development segment in the first quarter and the associated decline in revenue recognized over time from forward sales.

6.12 CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS

The changes in inventories of finished goods and work in progress relate to the capitalized production costs for the inventory properties, which include €12,430 thousand (June 30, 2020: €9,779 thousands) in capitalized interest on borrowed capital. The major changes in inventories arise from the projects Borussia Köln (€9,473 thousand), Borussia Dresden (€1,567 thousand), Gateway Achtzehnte GmbH (€4,437 thousand) and Storkower Straße 142–146 PE GmbH (€2,404 thousand).

The changes in inventories in the previous period were positively affected by the purchase of project sites for the companies Augskor 1–3 GmbH in the amount of €37,158 thousand. Another reason for the lower changes in inventories is the impact from the disposal of the Commercial Properties Development segment.

—

in € thousand	Q1–Q2 2021	Q1–Q2 2020
Increase in inventory due to purchase of properties, construction activity and capitalization of interest on borrowed capital	27,132	67,794
Total	**27,132**	**67,794**

6.13 RAW MATERIALS AND CONSUMABLES USED

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

—

in € thousand	Q1–Q2 2021	Q1–Q2 2020
Land	5,464	50,690
Construction costs	9,452	12,003
Project development costs	5,158	13,719
Other ancillary construction costs*	1,055	1,602
Administration costs	2,953	1,755
Total	**24,082**	**79,769**

* In the prior-year period: Other construction costs

In line with the changes in inventories, the major impact on the relative decrease in expenses for raw materials and consumables used came from the land purchase in Augsburg carried out in 2020.

6.14 OTHER OPERATING INCOME AND EXPENSES

Other operating income includes the following amounts:

—

in € thousand	Q1–Q2 2021	Q1–Q2 2020*
Income from deconsolidation	42,239	431
Income from the reduction of liabilities	464	2
Income from insurance benefits	182	332
Income from the reversal of specific valuation allowances	140	190
Income from the reversal of provisions	0	599
Income from purchase price adjustments	0	678
Other	85	397
Total	**43,110**	**2,629**

* Sub-classification adjusted compared to the previous year: 1. Gains from the disposal of financial investments: Proceeds from the sale of investments accounted for using the equity method / 2. Other: Costs charged to others, Other in-kind benefits charged, motor vehicles, Reimbursements relating to Expenditure Compensation Act, and Other.

Income from deconsolidation results from the disposal of companies as part of the disposal of the Commercial Properties Development segment as of March 16, 2021.

Other operating expenses include the following amounts:

—

in € thousand	Q1–Q2 2021	Q1–Q2 2020*
Legal and consulting expenses	1,028	1,272
Accounting, financial statements and auditing expenses	488	1,087
Expenses for insurance, premiums and dues	403	130
Selling expenses	266	637
Non-deductible input tax	252	86
IT expenses	213	215
Payment transaction costs and other financing expenses	205	74
Deconsolidation expense	132	0
Other project development costs that cannot be capitalized	100	1,099
Travel expenses	93	454
Non-lease component in accordance with IFRS 16 (lessee)	73	75
Remuneration of the Supervisory Board	65	65
Other tax expenses	47	90
Specific valuation allowances and bad debt losses	38	124
Expenses compensation payment for silent partnerships	0	1,923
Other	186	106
Total	**3,589**	**7,437**

* Sub-classification adjusted compared to the previous year mainly as follows: 1. Other project development costs that cannot be capitalized: Purchased services and Other project development costs / 2. Payment transaction costs: Other financing expenses / 3. Selling expenses: Costs for termination of purchase contract, Selling expenses for properties, Advertising expenses property, and Leasing expenses / 4. Travel expenses: Advertising, travel and motor vehicle expenses / 5. Other: Prior-period expenses, Continuing education expenses, Space costs, and Other.

6.15 NET FINANCE COSTS

Net finance costs can be broken down as follows:

in € thousand	Q1–Q2 2021	Q1–Q2 2020
Finance income	3,353	1,025
Profit or loss from investments accounted for using the equity method, after taxes	0	–101
Third party profit or loss shares	0	–330
Interest expenses for leases	–21	–21
Finance costs	–16,872	–15,788
Total	**–13,540**	**–15,215**

The finance costs predominantly result from borrowings to finance the development projects as well as standing assets. An amount of €12,430 thousand of these interest expenses was capitalized (see Note 6.12). The profit and loss shares in companies accounted for using the equity method are explained in Note 6.3.

6.16 INCOME TAX EXPENSE

The income tax expense for the first half of 2021 amounted to €482 thousand (H1 2020: €5,516 thousand). The effective tax rate of 1.3% was mainly influenced by the tax-exempt disposal of company shares. The effective tax rate for the first half of 2020 was 61.6%.

6.17 EARNINGS PER SHARE

Basic and diluted earnings per share are as follows:

in €	Q1–Q2 2021	Q1–Q2 2020
Earnings per share	**0.20**	**0.04**

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

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

ATTRIBUTION OF PROFIT TO COMMON SHAREHOLDERS

in € thousand	Q1–Q2 2021	Q1–Q2 2020
Profit attributable to owners of the parent company	37,723	7,528
Profit attributable to holders of common shares	37,723	7,528

in thousands of shares	Q1–Q2 2021	Q1–Q2 2020
	186,764	186,764

6.18 RELATED PARTY TRANSACTIONS

A. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

SN Beteiligungen Holding AG, Switzerland, (a company related to Norbert Ketterer, Rüschlikon, Switzerland; in the following also referred to as "SNBH") held the majority of the voting rights in the Company in the period from January 1, 2020 to May 7, 2020 and constituted the Company's controlling party for the same period. On May 7, 2020, SNBH sold all of its shares in the Company to Norbert Ketterer. In this context, Norbert Ketterer notified the Company that his share of voting rights in Gateway Real Estate AG on May 7, 2020 amounted to 66.24% (123,712,159 voting rights), with 66.19% or 123,616,650 of the voting rights being directly held and 0.05% or 9,550 of the voting rights representing voting rights attributed to him. Since May 7, 2020, Norbert Ketterer personally is the controlling majority shareholder and the controlling company within the meaning of Section 312 AktG.

B. RELATED PARTY TRANSACTIONS

Based on share purchase agreements dated July 25, 2019, a stake of 5.1% each in Gateway Vierte GmbH and Gateway Fünfte GmbH was sold to the related company YN Beteiligung Holding AG, Switzerland. The purchase prices of €0.8 million and €1.8 million were deferred. The interest rate for the deferral is 9%.

The company YN Beteiligungen Holding AG, Switzerland, is a company controlled by Yannick Patrick Heller. In accordance with IAS 24, Mr. Keller can be considered a related party of the Chairman of the Supervisory Board.

C. TRANSACTIONS BETWEEN THE COMPANY AND SN BETEILIGUNGEN HOLDING AG

The loan liability between Gateway Real Estate AG and SN Beteiligung Holding AG, Switzerland, in the amount of €40.0 million, plus interest in the amount of €1.5 million, as well as €2.2 million of the liability for the project EKZ Duisburg, as described on page 128 of the 2020 Annual Report, were paid on March 17, 2021.

Within the context of the capital increase made in the fiscal year 2019, related costs in the amount of €1.3 million were charged to SN Beteiligungen Holding AG. The receivables remain outstanding as of June 30, 2021.

D. TRANSFER OF SHARES BY RELATED COMPANIES IN THE FISCAL YEAR

Disposal of the Commercial Properties Development segment

All of the shares held in Development Partner AG, Duesseldorf, as well as 51% of the shares in each of the project companies Revaler Straße 32 PE GmbH, Berlin, Storkower Straße 140 PE GmbH, Berlin and Storkower Straße 142–146 PE GmbH, Berlin, were disposed based on an agreement on the purchase and transfer of shares dated February 3, 2021. The acquirers are, at equal shares, IMFARR Beteiligungs GmbH and YN Beteiligungen Holding AG. The share purchase agreement was effected on March 16, 2021, and led to a deconsolidation of the entire segment. The purchase price for the shares, 50% of which is attributable to YN Beteiligungen Holding AG, Switzerland, totaled €103.7 million and was increased by €0.9 million to €104.6 million due to contractual terms. As of the closing date, a total of €39.6 million of the purchase price was paid. The remaining purchase prices of €65.0 million are deferred until December 31, 2021, and interest is charged at a rate of 4.25%. The receivables, including interest, due from YN Beteiligungen Holding AG, Switzerland, total €30.8 million as of June 30, 2021.

Claims from shareholder loans with a carrying amount of €175.3 million as of June 30, 2021 were not part of the sale of shares and remain with the GATEWAY Group.

As a result of the 50% control exercised by the related company YN Beteiligungen Holding AG, Switzerland, these loans also have to be classified as related party transactions. The shareholder loans break down as follows as of June 30, 2021:

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Borrower/related company	Amount in € thousand	Interest rate in %	Outstanding amount as of 06/30/2021 in € thousand	End of contract term
Storkower Str. 142–146 PE GmbH, Berlin	27,153	4.25	31,495	12/31/2023
Storkower Str. 140 PE GmbH, Berlin	4,530	4.25	4,756	12/31/2023
Revaler Str. 32 PE GmbH, Berlin	19,900	4.25	27,043	12/31/2023
Development Partner AG, Duesseldorf	8,048	4.25	8,547	12/31/2021
Development Partner AG, Duesseldorf	960	2.00	1,006	12/31/2021
Development Partner AG, Duesseldorf	13,154	4.25	13,993	12/31/2021
Development Partner AG, Duesseldorf	6,592	4.25	6,732	12/31/2021
Development Partner AG, Duesseldorf	–904	4.25	–904	12/31/2021
Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	8,501	4.25	9,029	12/31/2021
Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	535	4.25	550	12/31/2021
Gewerbepark Neufahrn Projektentwicklungs-GmbH, Kitzbühel, Austria	50	4.25	53	12/31/2021
Projektentwicklung Campus Park München, Duesseldorf	1,175	4.25	1,437	12/31/2021
Projektentwicklung Campus Park München, Duesseldorf	2,380	4.25	2,466	12/31/2021
Projektentwicklung Michaelkirchstraße in Berlin Beteiligungsgesellschaft mbH, Duesseldorf	31,000	4.25	32,870	12/31/2021
Projektentwicklung Media Spree in Berlin GmbH, Duesseldorf	18,000	4.25	0	06/24/2021
Projektentwicklung Technologiecampus Großraum Stuttgart GmbH, Duesseldorf	3,980	2.00	4,189	12/31/2021
Projektentwicklung Breite Gasse in Nürnberg GmbH, Duesseldorf	34,000	4.25	35,504	12/31/2021

In addition, there is a liability to DP AG resulting from the still existing reimbursement claim towards the tax authorities in relation to capital gains taxes in the amount of €3.4 million.

In June 2021, the shareholder loan from the disposal of the Commercial Properties Development segment, plus interest accrued up to that point, in relation to Projektentwicklung Media Spree in Berlin GmbH, Berlin, was repaid in the amount of €19.3 million.

Acquisition of Borussia Development GmbH

Based on a share purchase agreement dated February 17, 2021, all of the shares in Borussia Development GmbH (previously Gerch Invest GmbH) were acquired from the related company SN Beteiligungen Holding AG, Switzerland. With an equity interest of 89.9%, Gateway Real Estate AG has been the indirect controlling shareholder of Borussia Dresden Quartiere am Blüherpark (previously Gerchgroup Dresden Quartiere am Blüherpark) 1–12 UGs, Borussia Dresden Investment UG and Borussia Dresden Einkaufs GbR as well as of Borussia Köln Deutz Quartiere (previously Gerchgroup Köln Deutz Quartiere) 1–21, Borussia Köln Deutz Quartiere Erschließungs UG and Borussia Köln DQ Einkaufs GbR since that date and consolidated these companies for the first time as of February 18, 2021.

A purchase price of €70 million was agreed for the acquisition of the residential development projects; the purchase price is deferred until December 30, 2021 (interest: 4.25%). As of June 30, 2021, the liability, including accrued interest, amounts to €71.1 million. Furthermore, additional purchase prices were agreed which will be charged if certain construction stages of the acquired projects are resold with a profit margin defined in the contract. The additional purchase prices amount to a maximum total of €50 million, plus accrued interest, if applicable.

As part of the transaction, the following project-related loan receivables to the related company SN Beteiligungen Holding AG, Switzerland, were assumed:

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Borrower	Project	Amount in € thousand	Interest rate in %	Outstanding amount as of 06/30/2021 in € thousand	End of contract term
Borussia Development GmbH, Duesseldorf	Cologne Deutz	1,992	10.00	2,209	12/31/2021
Borussia Development GmbH, Duesseldorf	Cologne Deutz	4,109	10.00	4,779	12/31/2021
Borussia Development GmbH, Duesseldorf	Dresden	8,606	10.00	9,213	12/31/2021
Borussia Development GmbH, Duesseldorf	Dresden	1,341	10.00	1,512	12/31/2021
Borussia Development GmbH, Duesseldorf	Cavallo Duesseldorf	5,500	10.00	7,498	12/31/2021
Borussia Development GmbH, Duesseldorf	Cavallo Duesseldorf	1,951	10.00	2,425	12/31/2021

Moreover, the project financing for the Cavallo Duesseldorf project was passed through to the non-Group companies Borussia Düsseldorf Cavallo 1 UG haftungsbeschränkt, Duesseldorf, and Borussia Düsseldorf Cavallo 2 UG haftungsbeschränkt at an interest rate of 10.5%. The loan receivable as of June 30, 2021 was €9.026 million. Both companies are controlled by SN Beteiligungen Holding AG, Switzerland, and are therefore classified as related parties.

Sale of Gateway Asset Management GmbH

Based on a share purchase agreement dated June 30, 2021, all of the shares of Gateway Asset Management GmbH were sold to the related company Development Partner AG. Initially, the provisional purchase price amounts to €25 thousand and is determined finally on the basis of a closing balance sheet. The company Development Partner AG is classified as a related party within the meaning of IAS 24 as it is 50% controlled by YN Beteiligungen Holding AG, Switzerland.

6.19 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Purchase of project development in Leipzig
Gateway has acquired land for predominantly residential development using resource-saving wooden construction methods in Leipzig. To this end, on July 8, 2021, the Company concluded a purchase agreement with IMFARR Beteiligungs GmbH ("IMFARR") and the related company SN Beteiligungen Holding AG ("SNBH") for the acquisition of their shares (IMFARR 50% each, SNBH 39.9% each, together 89.9% each) in Virtus Sechsundzwanzig Beteiligungs GmbH and Baufeld 23 Entwicklungs GmbH.

The purchase price amounts to approx. €54,000 with simultaneous assumption of the proportionate net loan liabilities in the amount of approx. €210 million. The respective property offers potential for the development of a total of around 320,000 sqm of floor space.

The closing of the share purchase is still subject to conditions precedent and is scheduled for the first quarter of 2022 at the latest.

On June 30, 2021, Gateway granted loans in the amount of €925 thousand, €4,498 thousand and €5,468 thousand, respectively, due April 30, 2022, to Virtus Sechsundzwanzig Beteiligungs GmbH and its companies Leipzig 416 Management GmbH and Leipzig GmbH. The current interest for the three loans in a total amount of €10,891 thousand is 4.25% p.a. The loans were disbursed on July 9, 2021.

Development of shareholder loans from the disposal of the Commercial Properties Development segment
In the period from September 10 to September 13, 2021, the shareholder loan from the disposal of the Commercial Properties Development segment granted to Projektentwicklung Michaelkirchstraße in Berlin Beteiligungsgesellschaft mbH, Duesseldorf, plus interest accrued up to that point, was repaid in the amount of €33.1 million.

At the same time, the shareholder loan to Development Partner AG, Duesseldorf was increased by €7.8 million.

Repayment of loan liabilities to SN Beteiligungen Holding AG, Switzerland
The loan liability mentioned on page 129 of the 2020 Annual Report to SN Beteiligungen Holding AG, Switzerland, in the amount of €8.3 million dated August 13, 2020 was fully repaid in a total amount of €8.5 million, plus interest accrued up to that point, on March 17 and September 13, 2021.

Furthermore, the liability from the share purchase of Borussia Development GmbH (formerly Gerch Invest GmbH) on February 17, 2021 was repaid in an amount of €8.6 million after a payment made on September 13, 2021.

RESPONSIBILITY STATEMENT

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

Berlin, September 30, 2021

Tobias Meibom

Stefan Witjes

INFORMATION ON THE REVIEW

The interim consolidated financial statements and the interim management report of the Group have been neither reviewed nor audited pursuant to Section 318 of the German Commercial Code (Handelsgesetzbuch; HGB).

FINANCIAL CALENDAR

November 22–24, 2021	Deutsches Eigenkapitalforum
November 30, 2021	Publication of quarterly statement (publication date Q3)

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